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Part V, "The Far East", includes detailed historical treatment of following subjects:

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SURVEY OF
INTERNATIONAL AFFAIRS
1932

SURVEY OF INTERNATIONAL AFFAIRS 1932

BY

ARNOLD J. TOYNBEE

Director of Studies in the Royal Institute of International Affairs
Research Professor of International History in the University of London
(both on the Sir Daniel Stevenson Foundation)

ASSISTED BY

V. M. BOULTER

Instructed ships shall sail to rich commerce,
  By which remotest regions are allied;
Which makes one city of the universe,
  Where some may gain and all may be supplied.

DRYDEN: *Annus Mirabilis.*

Cedet et ipse mari vector, nec nautica pinus
Mutabit merces: omnis feret omnia tellus.

VERGIL: *Eclogue* iv. 38–9.

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PREFATORY NOTE

In the history of a world-malady which was working itself out convulsively in a succession of paroxysms, the calendar year 1932 covered an interval of relative quiescence and torpidity between the extraordinary preceding year 1931 and the extraordinary succeeding year 1933. There were no events in this year of such dynamic force as the explosions of fanatical nationalism in Japan and Germany or the dramatic departures of the Pound and the Dollar from the gold standard.

Accordingly, it has been possible in this volume to return to the usual method of this series and to concentrate again upon the external relations of different countries with one another, instead of going deeply into the internal affairs of the countries that were playing the leading rôles. On the other hand, it has not been possible to compress the narrative of the events of this year into the usual number of pages; since the international transactions of 1932 were as voluminous as they were inconclusive (and every historian knows that it requires more words to do justice to a transaction which has ended in nothing than to summarize the history of negotiations which have led up to some definite and decisive action).

In 1932, the World Economic Crisis and the Far Eastern Crisis were presenting problems, without evoking solutions, from January to December without a break, and the World Disarmament Conference opened in February. In consequence, the year's activity in the field of international affairs was almost comparable in volume and intensity to the activity during the years of the War and the Peace Conference.

The history of the World Economic Crisis has been dealt with in this volume, as in the two preceding volumes, by Mr. H. V. Hodson. The history of German Reparations and Inter-Ally Debts has been brought up to date by Mr. R. J. Stopford; and the extremely complicated history of East-European Reparations has been carried to its conclusion by Mr. Jules Menken.

It has also been thought desirable to bring up to date the history of North-European relations in general and of German-Polish relations in particular. The latter, which were last dealt with in the second volume of the *Survey for 1925*, consist of a mass of complicated detail which it is not easy to present intelligibly in the form of annals. In the present volume, these German-Polish relations are surveyed over a seven-years' span; and on this time-scale it is perhaps less difficult to discern the relative proportions of the various transactions that fall to be recorded in this Part.

ARNOLD J. TOYNBEE.
September 1933.

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PART II. REPARATIONS AND WAR DEBTS

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PART I

THE WORLD CRISIS

(i) Introduction

In the midst of a great crisis in human affairs, the history of the year 1932 seemed colourless and sluggish by comparison with the sensational and catastrophic events that had gone before in 1931 and that were to follow after in 1933. And, since the human sense of catastrophe is relative and the human capacity for sensation is limited, this year 1932 made the impression of a comparatively dull year upon the minds of those who lived through it—though doubtless it would have made a wholly different impression upon the minds of these men's fathers if the events of this year could have been miraculously forestalled and malignly inserted into the annals of the nineteenth century by some sleight of hand on the part of the Time Spirit.

And, indeed, though these events of 1932 made an impression of dullness upon the minds of contemporaries, this was the dullness of the sickbed or the treadmill and not the dullness of the Garden of Eden.

In this year 1932 public affairs in general were in that state of laborious stagnation that had been the state of the Reparations Question from the coming into force of the Versailles Treaty down to the invasion of the Ruhr by the French and Belgian Armies.[1] While the question of Reparations and Inter-Ally Debts (now irretrievably welded together) was being held in a state of suspended animation by the currency of the Hoover Moratorium, the question of Disarmament was being buried alive in the pigeon-holes of the expert commissions, and the question of effectively asserting the post-war collective system of security against Japanese aggression was being postponed—with an ingenuity that was still more deliberate and still more perverse—until every possibility of conciliation had been exhausted by Great Powers which had long ago made up their minds that they would not let a situation arise in which the sanctions provided in Article 16 of the Covenant of the League of Nations would become legally applicable. As for the World Economic Crisis, Mankind—or, rather, the responsible authorities in the sixty or seventy fully self-governing states between which the Human Race was partitioned at the time—made the impression of a desperately sick man who doggedly refuses to listen to his doctor's orders on the

[1] See the *Survey for 1920–3*, Part II, section (iv).

ground that he has just managed, in spite of his wilfulness, to survive the latest paroxysm of his disorder, while he sedulously squanders his reprieve in dosing himself with quack medicines pending the inevitable onset of the next—and possibly the final—fit.

At this moment of quasi-delirious folly, when the dissolution of the existing World Economic Order seemed to be at hand, the professional economists were babbling—not of green fields, but of a suburban life of quite unprecedented wealth and leisure which was to be ground out miraculously, for the children of the Industrial Revolution, by the 'dark satanic mills' that had sprung up over the face of the Earth from Manchester to Bombay and from Sheffield to Pittsburg and Magnitogorsk.

The economists had sometimes committed themselves to the doctrine that this dream of an earthly paradise (or garden-city) would be translated into fact on the day when Man succeeded in reducing himself to the spiritual stature of a pure and simple *Homo economicus*. But the truth was, of course, exactly the contrary. The fabulous material wealth and leisure which, in theory, was brought within Man's grasp by the practical application of the many inventions of the Machine Age could only be harvested in practice by a Communion of Saints to whom this incidental consequence of their state of grace would have been as worthless for its own sake as it would have been easy to attain for just that reason. The potential riches of Industrialism were offered to the living generation of Mankind on the same condition on which, in the ancient fable, the riches of Tarshish and Ophir had been offered to King Solomon; and this condition was the gift of an understanding heart to discern between good and bad.[1] In the jargon of a latter-day technology, the unsolved problem which was withholding the glittering fruit from Tantalus's greedy grasp was 'the problem of distribution'; and the problem of distribution was a problem which *Homo economicus*, in his nakedness, was constitutionally incapable of solving. In the simpler language of Humanity and Divinity, to solve the problem of distribution meant eradicating that 'lie in the soul' which was maintaining disastrous moral barriers between nation and nation and between class and class.

In A.D. 1932 it was patent that the potential gift of an undreamed-of wealth and leisure could only be grasped by Man at the price of an undreamed-of fraternity and solidarity between every man and all his fellow human-beings; and this was a price which the living generation of Mankind seemed morally incompetent to pay. The

[1] 1 Kings iii. 9.

living generation, like Peter at Joppa, was seeing in a trance the vision of a great sheet let down from Heaven by four corners, which contained all the abundance of Physical Nature; and, like Peter, this generation was hearing a voice that seemed to invite them to take their fill. Would they answer, as Peter had answered, that they would rather reject God's bounty than renounce, as the price of receiving it, those cherished barriers of caste and race by which they loved to divide themselves from their brothers? In 1932 the final, irrevocable answer was perhaps not yet declared; but the magic sheet had now been let down the traditional three times, and it was manifest that, if it were rejected once again, it might be drawn up this time for ever into Heaven.

(ii) Tariffs and Exchange Control: the Struggle to Escape. By H. V. Hodson.

(a) Introductory

1931 was the year of financial crisis. From the collapse of the Credit-Anstalt in May to the relinquishment of the Gold Standard by Great Britain four months later, the world was subjected to a series of disasters, in the field of finance and foreign exchange, which entirely prevented any commercial recovery, and indeed accelerated the decline of production and the drying-up of international trade. But by the end of the year the thunder of these explosions had died away and only the echoes reverberated still. The banking system of Germany had been restored to solvency if not to strength. Artificial supports of one kind or another were propping up the financial systems of Central and Eastern Europe so that no further spectacular collapse was threatened. The pound sterling had reached what appeared at that time, at least, to be a natural level, and a fairly well-defined group of currencies had attached themselves to it, in distinction not only from the few remaining Gold Standard countries, and the countries which maintained their exchanges nominally at parity with gold by all kinds of restrictive devices, but also from those whose money was out of fixed or *de facto* relation either with sterling or with gold.[1]

The extraordinary 'toughness' of the capitalist system had been tested and proved. In spite of all those shocks, the main structure of the system still stood, supported though it was by every kind of

[1] See the *Survey for 1931*, p. 237, for a classification of the world's currencies in April 1932. Between that date and the end of 1932, Siam, Peru and South Africa abandoned the Gold Standard; and Rumania and Persia introduced foreign exchange restrictions which rendered the Gold Standard ineffective.

makeshift scaffolding, and partially supplanted as it was in many countries by further and further encroachment of government activity into the former field of private enterprise in production, trade, and banking. Its condition, as was said of affairs in Austria at the time, was 'always grave but never serious'. Firms and individuals, aided by the decline of costs either through legislative action or through more natural processes, and spurred on by the normal incentives of capitalist trade and industry, were still finding means of curtailing their losses or of making profits, while most Governments were facing their fiscal problems with determination and reducing their deficits, even though scarcely any of them could achieve surpluses. 1932, indeed, may be described as the first year of attempt, by national and international action, to escape from the world economic crisis. The attempt had been far from successful at the end of the year, and an observer regarding the enormous and still swelling army of unemployed, the miserable trickle of international trade, the failure to settle international political problems, the disturbing fluctuations of international exchanges, the vast height of tariff barriers and the unmitigated strangulation of trade and finance by direct control of the exchanges, all of which characterized the latter days of 1932, might have been inclined to scoff at such a description of the year. But equally no one who recalled the Lausanne settlement, the relaxation of monetary conditions, the definite assault on the War Debts problem, the eager preparations for the World Economic Conference, the Austrian loan agreement, the attempt (whether well or ill advised) at Ottawa to revivify trade within the British Commonwealth, and the attack by the Stresa Conference and the League's Financial Committee on the problem of exchange blockade in Europe, could deny altogether that the attempt had been made.

(*b*) The Universal Tariff War

With scarcely an exception, tariffs were rising throughout the world in 1932. In Australia, with the advantage of exchange depreciation, the Government in office was pledged to cut down the tremendous protective tariff associated with the name of Mr. Scullin; but even there little effective reduction was achieved before the end of the year. In the United States, the Democratic Party, officially pledged to reduction of the Hawley-Smoot tariff, already held the balance of power in Congress, and the presidential election held out the promise of better things to come, but the only significant alteration of the American tariff in 1932 was the addition of high import duties on copper, lumber, and oil, in the course of the passage of the

Tax Bill—this with the aid of Democratic votes. The most notable addition to the tariffs of the world was, of course, the British Import Duties Act. After a brief experiment with a temporary tariff, concentrated on certain luxuries or non-essential goods and in many cases intended to be practically prohibitive, Great Britain stepped on the 1st March, 1932, into the ranks of the moderate tariff countries of the world. A general 10 per cent. tariff (subject to certain exceptions, mostly staple foodstuffs and raw materials) was to be augmented by a series of more or less protective duties on manufactured goods, ranging up to a total duty of 33⅓ per cent. *ad valorem*, on the initiative of an independent tariff board with wide terms of reference adverting to the 'advisability in the national interest of restricting imports into the United Kingdom'. None of these duties was to apply to imports from other parts of the British Commonwealth, but this provision was of minor importance in relation to manufactured goods. As the year wore on, more and more duties were added by successive recommendations of the tariff committee.

It is impossible to compute how far the imposition of the British tariff was responsible for subsequent increases of tariffs elsewhere, and indeed this is no place for such a speculative discussion, but that event can definitely be described as an episode in the universal tariff war that was raging throughout this phase of the world crisis. In the first place, the popular demand for a tariff in Great Britain was influenced, beyond question, by the growth of tariffs on British goods entering foreign countries, and by the feeling not only that a free trade policy was incompatible with such restriction of British exports, but also that a tariff was necessary as a bargaining instrument to secure the reduction of foreign duties. In the second place, the depression was certainly deepened (if not caused) by the sudden reduction of international lending, which compelled debtor countries to achieve outward balances of trade, partly by stimulating exports and partly by restricting imports; if, then, further obstacles were to be opposed to their exports by creditor countries, they had no alternative but to enhance their restrictions upon imports. In the third place, in certain instances there is evidence of definite retaliation.

It was, no doubt, accidental though it was unmistakable that the British tariff pressed particularly hardly on German products. A table published by the *Economist*,[1] based on 1930 import figures, showed that whereas in 1930 over 89 per cent. of imports from Germany came in free of duty, after the ratification of the Ottawa schedules 24·2 per cent. of such imports would be subject to 10 per cent. duty, 49·7 per

[1] Supplement to the issue of the 22nd October, 1932.

cent. to duties ranging from 11 to 20 per cent. *ad valorem*, and 10·9 per cent. to duties exceeding 20 per cent. *ad valorem*, leaving only 4·5 per cent. of the imports free of tax. These figures for Germany may be compared with the following for imports from all foreign countries: in 1930, free 83 per cent. and taxed 17 per cent.; after Ottawa, free 25·2 per cent.; subject to 10 per cent. duty, 28·3 per cent.; subject to 11–20 per cent. duty, 21·8 per cent.; subject to over 20 per cent. duty, 7·7 per cent. The achievement of an outward balance of trade by Germany—sufficient to pay her obligations for interest and long-term capital amortisation, though it left nothing over for Reparations—was one of the most remarkable features of international economic life in the first three years of the slump. In 1929 Germany's imports totalled over £670,000,000, exceeding her exports by £40,000,000. Yet in 1930 her exports, at £610,000,000, exceeded her imports by £80,000,000, and in the following year the outward balance had been increased to £140,000,000, in spite of a reduction of exports to only £485,000,000.[1] As a result, however, of the growth of tariffs elsewhere and the depreciation of exchanges against the mark, along with the general decline of international trade, this balance showed signs of serious diminution before 1931 was out, and the British tariff further gravely aggravated Germany's difficulties.[2]

Therefore it was not surprising to find the German Government referring to the British duties when they replied to an official protest against the restrictions laid upon imports of British coal into Germany by means of the quota system. As late as 1931, imports of British coal and coke into Germany had totalled 3,900,000 tons, including some 850,000 tons delivered in free port areas for bunkers, this category not being subject to quota regulation; under the quota order of March 1932 imports within the quota scheme were to be reduced from 3,100,000 tons to 1,500,000 tons in the year 1932. The system of quota regulation in the coal trade was of old standing in Germany, and it was not against the principle of it that the British Government were protesting, but against alleged violation of most-favoured-nation rights assured to Great Britain under the Anglo-German commercial treaty of 1924; it was claimed that the quotas allotted to other countries had not been proportionately reduced because Germany had special agreements with them relating to reciprocal quotas.

[1] Except where otherwise stated, all conversions from foreign currencies in this chapter have been calculated at gold parity.

[2] Germany's exports fell in 1932 to £281,000,000 (gold), and her surplus of exports over imports to £53,000,000.

Later it became known that there was also in existence a document not taking the form of a treaty, but containing a unilateral undertaking on behalf of the German Government not to alter for the worse their regulation of the coal trade during the currency of the Anglo-German trade treaty. The reply of the German Government to the British protests was to the effect that the whole basis of the treaty had been fundamentally altered by the imposition of the British tariff; they requested a discussion of the latter duties in so far as these bore specially hardly on German exports, by way of verbal negotiations as the treaty provided; but the British Government, while accepting the principle of arbitration on the quota issue, refused to allow their tariff policy to be called in question. This attitude was modified after the Ottawa Conference, and during December 1932 discussions took place in Berlin between delegations representing the British and German Governments concerning on the one hand the British tariff on certain articles of special interest to German trade, and on the other the German quota on British coal. Only a preliminary exchange of views was completed by the end of the year, but later a limited agreement embodying mutual concessions was initialled and duly ratified, not without protest from those British industries whose measure of protection had been thereby curtailed.

The coal quota was not by any means the only addition to existing restrictions on trade imposed by the German Government during 1932, nor the only one to arouse international antagonism. In January a decree was promulgated empowering the Government in cases of urgent necessity to impose a compensating surcharge on goods coming from countries whose exchanges had fallen below gold parity, and to impose increased customs duties on goods coming from countries with which Germany had no commercial treaty or from which Germany did not receive most-favoured-nation treatment. The primary object of the decree was apparently to stop abnormal imports of butter from Denmark, who had been given a considerable advantage in the German market by the depreciation of the krone. This action aroused deep resentment in Denmark, but it was not until October that a new tariff was imposed by the Danish Government, involving large increases of duties upon foodstuffs as well as industrial articles, especially silk and rayon and manufactured clothing, and frequently changing *ad valorem* into specific duties—the protective effect of the former (as many another country found) having progressively diminished as the general level of prices fell. While this tariff was felt sharply by German exporters, its declared purpose was simply to right Denmark's failing balance of trade. In February 1933 another round of this bout between the two countries was begun. The Reich Government (in which Herr Hugenberg was Minister for Food and Agriculture and for Economic Affairs) raised the protective duties on live stock, meat, and lard, in many cases to at least double their former level. The new duties were to come into operation on the 15th February, upon the expiry of the German-Swedish trade treaty, in which Germany had forsworn any increase of the duty on lard beyond Rm. 10 per 100 kgs., whereas under the new dispensation it was to be Rm. 50. Apart from their effect on other countries, these drastic measures threatened to reduce Danish exports to Germany to a mere fraction of their former value, and in retaliation the Danish authorities responsible for the allotment of foreign exchange proceeded equally drastically to prune Germany's exports to Denmark.

The chief countries affected by Germany's new 'super-tariff' against countries with whom she had no commercial treaty were Canada and Poland, with the latter of whom Germany had for long been engaged in a devastating tariff war. With Canada, negotiations for the conclusion of a treaty were soon begun, and eventually met with success. On the 1st September, again, the German Government further increased the duties payable on many industrial and agricultural products. These changes appeared to be directed principally against British goods, for duties on many categories of textiles and clothing, being British specialities, were raised considerably, some of them trebled. Other imports to suffer were American machinery and important Czechoslovak products. A month later, in response to persistent agrarian agitation, a score of import quotas was imposed on agricultural products, including butter, lard, bacon, and many market-gardening products. In February 1933 the Reich Government added to the restrictions already mentioned (including the raised duties on live stock, meat, and lard), a series of measures designed to eliminate all German imports of cereals except such as were balanced by an equivalent export of cereals. By this time industrial and financial interests were seriously alarmed by the bad will, and in some cases explicit retaliation, engendered abroad by these restrictions; indeed, the conflict of interest between town and country, as manifested in these issues of tariffs and quotas, had become one of the most vital internal issues that any German Government had to face.

The quota system was widely used by France, too, as a means of protection for her industry and agriculture, and of arresting the steady change of her external balance of commodity trade from a

surplus to a deficit, which had been going on ever since 1928. During 1932 the system was widely extended. In the course of an unofficial exchange of protests initiated by the British Chambers of Commerce, the British tariff and propaganda in Great Britain against the purchase of foreign goods were mentioned as contributory reasons for the reduction of France's imports by quotas. In a public statement explaining the system, Monsieur Rollin, Minister of Commerce in the Tardieu Government, said that to have increased tariffs alone would have been useless, for in the period of a crisis no tariff wall, unless fantastically high, could prevent the movement of enormous accumulated stocks. Moreover, nearly three-quarters of France's tariff duties had been consolidated under commercial agreements between 1927 and 1928, and the Government could not alter them. It was soon found, however, that the effect of restrictive quotas was a great rise in the cost of living, indeed occasionally acute shortage of certain goods, including some foodstuffs, besides the retaliatory measures of other countries; and from the 1st July the system was relaxed, in preparation, it was officially said, 'for a progressive return to a greater liberty of international exchange'. The majority of the quotas were enlarged, the increase of the coal quota being of special advantage to Great Britain. On the other hand, the navigation laws of the eighteenth century were recalled by the decision of the French Government to compel French importers of coal, as from the 1st September, to ship 50 per cent. of their coal in French bottoms.

At the beginning of June 1932 the Economic Committee of the League of Nations reported[1] that since the beginning of 1930 practically every country had remoulded its customs tariff on a more or less extensive scale, or had increased its import duties on particular products; and that in the past few months alone, for example, Belgium, Denmark, Estonia, Italy, Latvia, Lithuania, the Netherlands, Poland, Portugal, Rumania, Sweden, Bolivia, Brazil, Siam, the Union of South Africa and—'most striking development of all'—the United Kingdom, had increased their duties in some cases on important categories of goods, or even the whole of their tariffs. Moreover, measures for the direct regulation of trade had been widely adopted, of which the most frequent were measures to establish import quotas or to institute import licenses or permits. Austria, Belgium, Czechoslovakia, Denmark, Estonia, France, Germany, Greece, Hungary, Italy, Latvia, Norway, Poland, Rumania, Spain, Switzerland and Turkey were the chief countries in Europe which had introduced such measures. While these regulations were applicable

[1] League of Nations Document *C. 516. M. 255. 1932. II B.*

—in Belgium, Denmark, Germany and Rumania, for example—only to certain groups of goods, or (as in Italy) were strictly limited to goods specified as coming from particular countries, they had been continuously intensified in France, Estonia and other countries, and actually extended in Latvia and Turkey to the whole volume of imports. Certain countries, such as Estonia and Persia, had preferred the system of import monopolies to the system of import quotas or permits, while others, such as Spain, Portugal and Colombia, had rigidly prohibited the importation of particular products. A number of countries, furthermore, had not restricted these regulative measures to the import trade, but had adopted a system of permits for the export of particular products (as in Denmark and Spain) or for all exports (as in New Zealand).

It is quite impossible to review comprehensively the various aggravations of trade restriction, occurring all over the world, in creditor and debtor countries, in retaliation one towards another and in a general attempt to secure that elusive and illusory trophy, an outward balance of trade. All that can be done here is to mention a few instances of illustrative importance. The Chinese Government imposed heavy duties on the import of luxury articles, medicines, and toys, that is to say, goods bought chiefly by foreigners, but the principal reason was apparently the need for greater revenue, and this was a motive which operated in other countries, including Great Britain herself. In India, the influx of Japanese cotton goods through the depreciation of the yen forced the Government to refer the question of further protection for local industry to the Tariff Board, on whose recommendation import duties on cotton piece goods not of British manufacture were raised on the 30th August, generally, from 20 per cent. to 50 per cent., less the existing $11\frac{1}{4}$ per cent. surcharge, the net increase being thus $18\frac{3}{4}$ per cent. *ad valorem*; but as the Board's calculations were based on an exchange rate of Rs. 106 to 100 yen, and the actual rate was Rs. 86 to 100 yen, the Japanese manufacturer continued to enjoy a substantial advantage.[1] Here again was a motive which operated very generally, both in Europe and in the New World. In view of the attitude of the German Government towards British complaints about their own quota on coal imports, it is interesting that they were reported, in August, to be appealing

[1] On the 6th June, 1933, the Government of India announced that, the yen having remained for six months at approximately Rs. 82 to 100 yen, the import duties on cotton piece goods not of British manufacture would be raised to 75 per cent. *ad valorem* (or, in the case of plain grey piece goods $6\frac{3}{4}$ annas per lb., whichever was the higher). Discrimination against Japan was precluded by a trade convention between the two countries.

to the most-favoured-nation clause in a dispute with Belgium over the latter's progressive reduction of quotas on imports of coal. Finally, there must be mentioned the new Uruguayan tariff promulgated in August, for it embodied a principle frequently championed in public controversy over tariffs, in spite of the obvious economic fallacies inherent in it. Duties were to be reduced on goods imported from countries with which Uruguay had a favourable balance of commodity trade exceeding 1,000,000 pesos per annum, while an additional tariff was to be imposed on goods from other countries in proportion to the adverse balance of Uruguay's trade with them. It may be noted that this measure promised to award valuable preference to Great Britain, but that its full implementation was prevented by the existence of most-favoured-nation treaties.

(c) Exchange Control

Restriction of trade and financial intercourse through control of exchange operations was almost as universal as the heightening of tariffs. In a few cases, however, there was actually a relaxation of such control. In Great Britain there never had been any general supervision of transactions involving the sale of foreign exchange, but a ban was placed upon new capital issues for other countries—indeed upon all new issues during the process of National Debt conversion. This was slightly relaxed on the 1st October, 1932, when a Treasury notice stated that no further restrictions in the way of new issues were required, except (until further notice) (*a*) issues on behalf of borrowers domiciled outside the Empire or issues the proceeds of which would be remitted abroad, and (*b*) the optional replacement of existing issues by new issues involving either underwriting or an invitation to the public to subscribe new cash. Early in 1933, the Treasury, in accordance with these regulations, banned the issue of securities to the public to provide funds for the repurchase from American interests of a controlling block of shares in Messrs. Boots Ltd., the multiple chemists.[1] In Sweden and Finland exchange control was removed in December 1931. In Portugal and Spain the difficulties in the way of exchange transactions were reduced in the course of the year, while in Venezuela the rationing system adopted by the banks was removed. In reply to a parliamentary question on the 13th June, the Secretary to the Overseas Trade Department of the Board of Trade said that the countries in which restrictions upon exchange transactions were operative were as follows: Austria,

[1] See the Treasury Order of the 17th May, 1933, for the exact terms of the ban.

Bulgaria, Czechoslovakia, Denmark, Estonia, Germany, Greece, Hungary, Iceland, Latvia, Portugal, Rumania, Spain, Turkey, Jugoslavia, Portuguese East Africa, Portuguese West Africa, Portuguese Guinea, Argentine, Bolivia, Brazil, Chile, Colombia, Costa Rica, Ecuador, Nicaragua, Salvador, Uruguay. In three countries —Italy, Lithuania and Norway—registration or supervision was undertaken by the banks.

Germany was the foremost exponent of exchange control, and in the course of 1932 the restrictions which she imposed were tightened progressively in view of the failing export balance achieved. In 1931 the average monthly excess over imports was more than Rm. 200,000,000, whereas in only two months of 1932, March and September, did the monthly surplus exceed even Rm. 100,000,000. The various means of evasion (for instance the tender of German securities by foreign firms as payment for goods supplied, in lieu of foreign exchange) were stopped one after another. By April the quotas of exchange allotted to importing firms had been limited to 25 per cent. of their foreign exchange requirements in October 1930. The total imports, however, were not restricted in quite the same proportion, largely because importers made use of foreign credit lines becoming available through the agreed liquidation of credits under the standstill arrangement.[1] Other points of interest in connexion with German exchange control were the decision to place the contribution to the finances of the League in a blocked account (August), and the prohibitive export duty (Rm. 8 per kg.) placed on the export of used machines and parts, in order to prevent the setting up of businesses abroad by German firms seeking to escape the high costs of production at home and protective tariffs abroad. Thus move and countermove followed in rapid succession in the suicidal game of trade-snatching. An incident of the game was the cancellation by Germany of the concessionary arrangement with Italy whereby the latter paid for imports from Germany out of blocked accounts in marks. Italy responded by paying net mark debts as to three-quarters in blocked lire; and after three and a half months of tension Germany capitulated, the former arrangement being renewed.

In some countries management of exchange transactions was reinforced or replaced by direct control of imports. This was so in Austria, for instance, where a system of import control over a wide list of commodities, including foodstuffs, textiles, motor cars and a great many other manufactures, was imposed on the 1st May. Another country to use the method of direct import control was

[1] See the *Survey for 1931*, pp. 217–18, 238–9.

Denmark. Upon the abandonment of the Gold Standard by Great Britain, 'as a means of facilitating trade and controlling currency, a foreign exchange committee was established under the aegis of the National Bank, who could, on the one side, direct Danish imports to the countries who were the principal receivers of Danish exports, and, on the other side, curtail the import of luxury goods which Denmark at a time of crisis could ill afford. This arrangement proved to be very much in favour of England.'[1] On the 10th October it was announced that the currency restrictions then in force were to be abolished, and in place of the foreign exchange committee there would be instituted a special board for all foreign trade; at the same time a series of tariff increases was submitted.[2]

One of the worst features of import control through tariffs and exchange restriction in Central and Eastern Europe was the recrimination and retaliation that they engendered, resulting in an ever tighter strangulation of trade. Thus, in Rumania a bill was passed in February to regulate dealings with countries where currency restrictions were in force; all payments for imports from such countries were to be made through a special compensation department of the National Bank. In May this system was made more rigorous, the export of currency being prohibited and all exchange operations being centralized at the National Bank. When Hungary's trade treaty with Austria expired and the latter proceeded to put on a tariff which severely injured Hungary's seasonal export of fruit and vegetables, specific action was taken to restrict the sale of Austrian schillings.

> The effect of all these forms of restriction on commercial relations can easily be imagined. Every import is necessarily an export in another country; thus, there developed a process by which these foreign exchange restrictions produced, by their cumulative effect, a disastrous influence on the trade of those countries, both with each other and with third countries, at a time when international trade was so badly hit by the world crisis.
>
> Naturally, means were sought for attenuating these consequences, more particularly by agreements essentially involving exchanges of goods. The international clearing conventions belong to this group. Without going into details, it may be noted that these clearing conventions did not yield appreciable results, except when the monetary situation of the two contracting countries was practically equivalent.
>
> Each state has tried to protect itself by shifting to others the consequences of a general situation; each has tried to push its exports and to reduce its imports to a minimum, this being indeed essential if it was

[1] Statement of the Danish Legation in London, 8th June, 1932.
[2] See p. 7 above.

to be able to ensure the service of the external debt. This policy might have produced results if it had been pursued by one country alone and if the others had accepted the situation. But, as each country was taking identical measures on a national basis, these measures neutralized one another. The result was—experience on this matter is conclusive—not only nil, but negative; it seriously increased the difficulties which it was desired to remove. In no case was the individual problem solved.[1]

Representatives of the national committees of the International Chamber of Commerce, meeting in Paris on the 7th March, 1932, to inquire into the operation of foreign exchange restrictions, denounced them not only as restricting trade, but also as leading to an alarming and dangerous degree of state interference with private trading. The report particularly condemned bilateral clearing arrangements as an inadmissible form of indirect preference. The committee were of opinion that if choice had to be made between direct but temporary restriction of imports and their indirect restriction through exchange control the former was the lesser of the two evils.

(*d*) Barter

The break-down of the ordinary processes of international trade, and the inability of the credit system at this period of crisis to solve the paradox of excess in producing countries side by side with want in consuming countries, forced the world to turn in despair to primitive barter. Several instances of international barter through governmental agency occurred during 1932. Naturally, the Soviet Government were in the best position to act in this way, and several barter agreements were negotiated for the exchange of Russian oil and other products for goods of which the Soviet Union had need. One of the most notable instances was the undertaking of the Aluminum Company of Canada to dispose of a quantity of Russian oil taken in exchange for large shipments of aluminium. A ban on certain Russian imports was in force in Canada and for some time it was doubtful whether the Canadian Government would allow the clearance of the oil cargoes, especially in view of the strong stand that they had taken over trade with the Soviet Union in their negotiations with the United Kingdom Government at the Ottawa Conference; but the threat of losing an order involving the employment of several hundreds of men was apparently sufficient to outweigh scruple. Towards the end of the year negotiations were afoot for a similar exchange of Russian coal and oil for Canadian cattle and hides. Another notable

[1] Report of the Stresa Conference for the Economic Restoration of Central and Eastern Europe (League of Nations Document *C. 666. M. 321. 1932. VII*), pp. 9 and 11.

example of barter was the agreement between a group of Bremen cotton firms, on the one hand, and the Banque Misr of Cairo and the Agricultural Credit Bank of Egypt, on the other, for the exchange of 20,000 bales of Egyptian cotton against an export of German nitrate; there was no transfer of foreign currency, the Bremen cotton merchants merely crediting a sum in marks to the nitrate manufacturers. A further German effort on the same lines was the contract concluded between a coal-mining company of Duisberg-Ruhrort and the Brazilian Government for the delivery to the Brazilian State Railways of 350,000 tons of coal in the course of some six months, to be taken in direct exchange against additional German imports of Brazilian coffee. But a few isolated instances of barter, on however large a scale, could scarcely affect the whole body of international trade, with its complications and specialization, in a significant measure.

More important than these individual contracts were the numerous inter-governmental agreements, among European countries employing or suffering from measures of import control, for the exchange of particular commodities in specified amounts. Agreements of that kind had been concluded, up to the middle of 1932, between Germany and Hungary, Austria and Rumania, Bulgaria and Greece, Bulgaria and Switzerland, France and Latvia, Norway and the U.S.S.R., Poland and Austria, Hungary, Bulgaria, Estonia and Jugoslavia. With these might also be grouped the various compensation or clearing agreements, since their purpose was likewise to avoid direct payment for the goods exchanged.

(*e*) Bilateral Agreements

In every year since the War, but especially after the restoration of Central European finances and the arrest of inflation, there was in Europe and elsewhere a large or small crop of bilateral trade treaties. Even 1932 was not without its harvest, though trade treaties of the ordinary kind were outnumbered by the special clearing agreements made by countries who were subjecting foreign exchange transactions to government control. The principle of such agreements was generally that exchange credits for the purpose of imports would be allotted by a joint clearing house in equal proportions to each of the two countries concerned, so that imports and exports between them would always just balance; but there were numerous variations from the type. It was the policy particularly of Austria and Hungary to conclude these compensation or clearing agreements; thus the former signed agreements with France, Germany, Hungary, Italy, the Netherlands, Switzerland and Jugoslavia; while Hungary signed agreements with Austria, Belgium, France, Germany, Italy and Switzerland. The last-named, and France, were among the countries who concluded agreements of this kind besides those already mentioned. The unsatisfactory working of clearing agreements, in that they hindered the ordinary processes of commerce and prevented the establishment of normal balances of trade in one direction or the other, was the cause of comment by the League's Financial Committee and by the Stresa Conference.

France was generally regarded at this period as one of the chief exponents of economic nationalism, and certainly the emergency quota restrictions, to which she resorted as a means of combating the fall of world prices and the depreciation of foreign currencies, formed a new and severe restraint upon her trade with other countries; yet during 1932 she negotiated, or attempted to negotiate, important agreements for the mitigation of the general tariff war. It must be recalled that her post-war tariff policy, dictated first by the menacing adverse balances of trade that she incurred up to 1925, was maintained and reinforced largely because her internal price level became further and further out of harmony with the world price level (partly, indeed, as a result of the tariffs themselves). While world prices were falling sharply, French price indices, especially indices of the cost of living, showed even a contrary tendency. This naturally caused extreme difficulties among the producers of goods like cereals and other farm products which were peculiarly exposed to the world price-deflation; and measures were accordingly taken to protect them. This, however, only created a new disequilibrium, for it raised the cost of living still further; hence manufacturers, faced with acute price-cutting in foreign markets, found their costs actually rising, and their employees clamouring for higher wages when wages elsewhere were being cut. The disequilibrium was tolerable so long as unemployment in France was negligible, and French industries, with the advantage of up-to-date plant and strong finances, were holding their own in world markets. By the beginning of 1932, however, neither of those conditions still held; exports had fallen disastrously, and unemployment was assuming threatening proportions. Hence a move to mitigate the tariffs and quotas that were strangling France's foreign trade steadily gathered force, and clearly affected government policy. In October the President of the newly formed French Union of Exporting Industries addressed a memorial to the Prime Minister, calling for reciprocal reduction of trade barriers by agreement with other countries, and especially denouncing the typically French policy of import quotas.

Some of the extreme cases of trade restriction (for instance, the quota on British coal) were, in fact, modified unilaterally from time to time by the French Government, and in August 1932 special agreements for the abatement of restrictions recently imposed on French goods, in return for equivalent concessions, were concluded with Belgium, Spain and Italy; but the most important efforts of France towards a new tariff policy in 1932 were made in relation to Germany and the United States. Negotiations on the question with the latter country were begun in 1931, and continued in a desultory fashion throughout 1932, with no very tangible result except an understanding that in fixing future quotas for the products of the United States the French Government would first ascertain the views of the American industries affected. In August 1932 matters were brought to a head when Mr. Walter Edge, the United States Ambassador in Paris, presented an *aide-mémoire* requesting the modification of existing quotas, and especially protesting against features of the recent Franco-Belgian agreement which the United States Government regarded as constituting unfair discrimination. The negotiations began to take a more realistic turn, but they were baulked by a fundamental difference between French and American trade policies which gave the episode its greatest interest to the outside world. The French tariff, consisting of a general tariff and a minimum tariff (the latter accorded only to countries which had granted French exports advantageous treatment), was designed for the conclusion of discriminatory trade treaties; whereas the United States tariff law made no provision for any rate of duty below the general rate, only for an increase in the case of countries discriminating against American goods. This difference prevented the negotiations between the two countries from achieving any success in 1932, but the advent to power in the United States of the Democratic Party, with its specific policy of reciprocal trade agreements, gave grounds for hope that they would not eventually be abortive.

In February 1932 the commercial relations sub-committee of the Franco-German Economic Commission, which was set up under the terms of the trade treaty of 1927, negotiated a series of agreements for the more liberal operation of the quota system as between the two countries. This, however, was but the prelude to a general review of the 1927 treaty, which was begun in Berlin on the 21st November. There were two main reasons prompting the French Government to make this move: first, in the absence of Reparations the balance of trade in Germany's favour was considered excessive, and, second, the whole system of trade relations needed revision in the light of the abnormal barriers other than tariffs that had been erected. Both countries wished, further, to secure the maximum of tariff freedom in view of their forthcoming, or possible, negotiations with other countries. The agreement, which was initialled on the 21st December, made certain modifications of tariffs and quotas, and established an exchange clearing arrangement, but its chief interest here lies in the modification effected in the most-favoured-nation clause. Most-favoured-nation treatment would be maintained in principle, along with fixed maximum charges on a number of tariff items, automatically accruing to other most-favoured nations. In future, however, either country might cancel any such fixed maximum charge at fourteen days' notice, and thus the signatories secured almost complete freedom in relation to each other or to other countries. In a statement on the agreement Monsieur Durand, the French Minister of Commerce, said that the most-favoured-nation clause would no longer hinder France in trade negotiations. Most-favoured-nation treatment would be granted only in individual cases and on a reciprocal basis. It was understood that the French Government had particularly in mind the application of discriminatory duties against countries with depreciated currencies.

Germany was engaged in other bilateral trade negotiations in the course of 1932, though not always with success. An attempt to end the long tariff war with Poland to the mutual advantage of the two countries failed,[1] as did negotiations with Sweden for the replacement of the trade treaty which was shortly due to expire;[2] it was reported that feeling in the Scandinavian countries was extremely resentful at the progressively more rigorous restrictions placed on their products in the interests of German agriculture, and hence was reluctant to accord most-favoured-nation treatment to Germany. The latter herself, in December 1932, declared her refusal further to accord most-favoured-nation treatment to Argentina in spite of the existence of a long-standing treaty between them, on the ground that Argentina had granted a number of tariff reductions to Chile, which she extended to Great Britain and other countries possessing most-favoured-nation treaties with her, but not to Germany, and that this was the deliberate policy of the Argentine Government. Attempts to reach a new trade basis with Great Britain did not achieve success until April 1933, when a temporary arrangement providing for reciprocal concessions on specific items was initialled. In January 1932 the Reich Government promulgated a decree

[1] See the present volume, Part IV, section (ii) (c).
[2] See p. 8 above.

authorizing the imposition of additional duties on goods coming from countries with whom Germany had no most-favoured-nation treaty. Among the countries in this category was Canada, with whom, at the end of the following December, a temporary agreement was signed, providing for mutual most-favoured-nation treatment for an initial period of three months. Canada would grant German goods the benefit of the intermediate tariff rates, while Germany would accord to Canada her conventional tariff, or the general tariff where no conventional rates existed.

This account of bilateral trade treaties in 1932 is far from inclusive, its intention having been merely to illustrate the trend of events. Perhaps the first observation to be made is the importance of the most-favoured-nation clause. Even if it did nothing else, the clause sufficed to prevent excesses of tariff restriction which might otherwise have been committed, and it therefore seemed irksome to countries anxious to heighten trade barriers or to indulge in discriminatory tariff warfare. Yet no most-favoured-nation clauses, and no bilateral tariff treaties of the traditional kind, could do much to stem the tide of economic nationalism, driven on by the effects of falling prices; for such agreements were almost undone by the imposition of prohibitive tariffs, by the addition to ordinary tariffs of anti-exchange dumping duties and surcharges, and most vitally by the employment of quota systems and exchange control, which made the former straightforward tariffs of Europe seem liberal by comparison. Thus new bilateral trade treaties, with or without most-favoured-nation clauses, had but a slight effect on the course and volume of world trade in 1932, nor in them alone could be found much hope for the immediate future.

(*f*) Agrarian Preference: the Stresa Conference

The question of preference for the products of the agrarian countries of Europe has a history of several years' duration. It is unnecessary here, however, to go back further than the Second International Conference on Concerted Economic Action,[1] of the 17th to the 28th November, 1930, at which a committee was appointed to 'consider the question of negotiations regarding the trade of the agricultural states of eastern Europe with the states of central and western Europe'. What in fact the committee discussed was a joint proposal by the Governments of Bulgaria, Hungary, Poland, Rumania and Jugoslavia for the accordance of preference for their exports of grain by other European countries. The committee took no decision

[1] See the *Survey for 1930*, Part VI, section (ii).

on the question of principle involved or on the possibility of the application of the scheme, but reported its agreement on the following points.

(*a*) The system of preferences would have to be regarded as a conditional, exceptional and limited derogation to the most-favoured-nation clause, which must characterize the normal régime of international trade. It could only be established in agreement with countries enjoying most-favoured-nation treatment.

(*b*) Preferences would be accorded only for cereals and their derivatives.

(*c*) Preferential treatment should not harm the interests of overseas exporting countries, in as much as the latter were bound to be always the main providers of Europe.

(*d*) The preferential régime must not in any way endanger the protection of the agricultural interests of the importing countries, and should not in any case cause any injury to agriculturalists in European importing countries.

(*e*) The preferential régime would only be accorded for quantities to be limited by quotas or other methods.

(*f*) The demand for preference would not be made of those European countries which admitted cereals free of duty nor of those countries whose import duties were insignificant.

(*g*) If European countries, on being approached with a view to giving preference to cereals, were to demand an off-setting advantage amounting likewise to a customs preference, such preference would not be admissible without the consent of the interested countries enjoying most-favoured-nation treatment.

The Italian delegation, while noting these specifications for the preferential régime, affirmed their definite opposition to such a plan. It will be observed that the conditions, including the ban on injury to the agricultural interests either of the importing countries or of the extra-European exporting countries, would virtually nullify the effect of any proposed preferences, unless the cunning employment of quotas were somehow to overcome the inherent conflict of interests.

In execution of a resolution adopted by the Commission of Inquiry for European Union during its second session (16th to 21st January, 1931), a Conference of the grain-exporting countries of Central and Eastern Europe and of certain European importing countries was held on the 23rd February, 1931, to 'make a common effort to find means of disposing of the grain surplus' actually available in Europe. The Final Act of this Conference, signed by seventeen countries, noted that both the representatives of the countries which normally bought foreign wheat and those of the countries which did not import wheat, or did not usually import wheat from the countries under

consideration, were willing to participate to the utmost possible extent in the purchase of the available stocks. The Conference would not take upon itself to prescribe any practical solution, but 'the signatories, being prepared to reserve a certain proportion of their imports of foreign wheat for wheat originating in the countries under consideration, undertook to initiate, without delay, the negotiations necessary to enable those transactions to be carried out'. The importing countries were prepared to act likewise in regard to maize and barley, but the Conference reserved the examination of the question of rye and oats. What had thus been achieved was the acknowledgement of the principle of preference for European wheat, maize, and barley by the importing countries as well as by the clamorous exporters.

The Commission of Inquiry for European Union also set up a committee to consider the problems of the export of future harvest surpluses. This committee, which met on the 26th February, 1931, 'recognized that the disposal of surplus European cereals was not merely a European but a world problem, and that a wholly satisfactory solution could be reached only by an understanding between all the parts of the world concerned'. 'There is no over-production in Europe,' wrote the committee; 'there is over-production in the world as a whole.' On the subject of the preferential privileges requested by the exporting countries, the committee reported that the conclusions of the committee of the Conference on Concerted Economic Action (reported above) were still valid, and noted that practical attempts on the lines in question were shortly to be made by several European countries. The committee also turned its attention to other measures calculated to facilitate the regular disposal of the surplus cereals in question by improving the conditions of sale, in the fields of finance, organization, statistics, quality and transport.

The next events in the story, chronologically, were the International Wheat Conferences held in Rome on the 26th March, 1931, and in London on the 18th May. These Conferences failed to achieve their aim of securing a world-wide agreement on the production and marketing of wheat. At the London Conference a plan for the curtailment of production met with approval in principle from the leading delegations except that of the Soviet Union, whose policy was declared to be opposed to limitation of production though favourable to a system of export quotas; the latter project, however, did not meet with the consent of other important delegations.

But certain action had been taken bilaterally meanwhile. The Co-ordination Sub-committee of the Commission of Inquiry for

European Union, reporting in September 1931, affirmed once more the principle that bilateral agreements involving customs preference for grain should have the character of temporary and limited exceptions to the most-favoured-nation clause. The sub-committee, having examined the preferential arrangements agreed upon in the German-Rumanian Commercial Agreement of the 27th June, 1931, and the German-Hungarian Commercial Agreement of the 18th July, 1931, expressed the opinion that these were in keeping with the principles that had been laid down and that they fulfilled the specified conditions. The Greek Government submitted to the sub-committee a memorandum advocating the extension of special facilities to agricultural products other than grain. The ideas set forth in the memorandum were supported by a number of delegations, who also asked for the extension of the system to other products.

The Danubian customs preference plan, associated with the name of Monsieur Tardieu, was not designed purely, or even perhaps primarily, to assist the marketing of the agricultural surpluses of Central and Eastern Europe, but that was one of its aims, so that a brief account of it must be included in this section. Discussions with a view to relieving the plight of the successor states of the Austrian Empire by joint action had been going on among the Great Powers for some time, and it is difficult to assign the initiative to any one event or country. The discussions, however, took a more definite turn when on the 5th March, 1932, the French Government delivered to the British delegation at Geneva a memorandum containing suggestions for economic and financial reconstruction in the area in question. On the 16th February the Austrian Chancellor had warned the assembled Ministers of Great Britain, France, Germany and Italy that, while his Government were prepared to enter into negotiations with all countries for an economic *rapprochement*, they felt compelled to restrict imports as the only means of preventing inflation. The French proposal did not at this stage contain any cut-and-dried scheme, but when a Conference of the four Great Powers concerned was held in London at the beginning of April, Monsieur Tardieu put forward the following plan. The five 'Danubian' states—Austria, Czechoslovakia, Hungary, Jugoslavia and Rumania—should establish reciprocal preferences to the extent of one-tenth of existing tariffs. Certain other countries, including Germany and Italy, should grant the Danubian countries preferential entry for their agricultural products, without any direct compensation by way of counter-preferences. Third, a loan of $50,000,000 should be raised on the guarantee of the countries in whose centres it was issued, and spent,

under international authority, for the protection of the budgets and the exchanges of the Danubian group.

This plan was rejected, and the London meeting proved altogether abortive, for a number of reasons. Neither Germany nor Great Britain viewed with favour a sacrifice of their most-favoured-nation rights without compensation in the way of more favourable terms of entry for their own manufactured products. Germany, still smarting from the sting of having to abandon the scheme for economic *Anschluss* with Austria, disliked a proposal which would have brought the latter more closely into another economic orbit, that of Czechoslovakia and the Little Entente. The British Government had to refuse agreement to any plan involving financial contribution or guarantee. Italy also, resenting in some measure the political implications of the plan, adhered to her preference for bilateral treaties. Nor were the Danubian countries themselves unanimous in their support for the plan. Austria in particular felt that too much favour was being shown to the agricultural as compared with the manufacturing countries in the group. In these circumstances any such device as the Tardieu plan was bound to be a failure.

Further bilateral agreements for preferences on cereals were entered into, however, though their entry into force was sometimes delayed by the opposition of third states enjoying most-favoured-nation treatment. Moreover, as the Stresa Conference rather ingenuously remarked, 'even if all these agreements were in force they would probably fail to achieve the most important result—namely, an increase in the home price in the producing countries'.

The Stresa Conference was the result of the appointment by the Lausanne Reparations Conference of a special committee

> with the duty of submitting to the Commission of Inquiry for European Union at its next session proposals as to measures required for the restoration of the countries of Central and Eastern Europe, and, in particular:
>
> (*a*) Measures to overcome the present transfer difficulties of those countries and to make possible the progressive suppression, subject to the necessary safeguards, of the existing systems of exchange control.
>
> (*b*) Measures to revive the activity of trade, both among those countries themselves and between them and other states, and to overcome the difficulties caused to the agricultural countries of Central and Eastern Europe by the low price of cereals, it being understood that the rights of third countries remain reserved.

The committee sat at Stresa from the 5th to the 20th September, 1932, under the chairmanship of Monsieur Georges Bonnet. The following countries were represented by delegations: Austria, Belgium, the United Kingdom, Bulgaria, Czechoslovakia, France, Germany, Greece, Hungary, Italy, the Netherlands, Poland, Rumania, Switzerland and Jugoslavia; while Latvia sent an observer.

The Stresa meeting was preceded by a Conference at Warsaw of the delegates of the eight agrarian countries of Central and Eastern Europe—Bulgaria, Estonia, Hungary, Latvia, Lithuania, Poland, Rumania and Jugoslavia. Agreement was reached there on the following points: (i) the progressive suppression of the obstacles to international trade; (ii) the assignment by the creditor states to the debtor states of import quotas sufficient to allow the latter to discharge their debts; (iii) customs preference in favour of the agricultural products of the eight states; (iv) the raising of the prices of agricultural products by means of an improved organization of the consuming markets. This epitomized the policy eventually put forward by the agrarian states at Stresa. Early in the course of the Conference the Polish delegates elaborated their proposals, adumbrating (i) the complete abolition of import and export restrictions and prohibitions, the abolition to be essentially associated with the grant of supplementary quotas to debtor countries; (ii) preferential treatment for cereals and live stock, in the form of a considerable reduction of customs tariffs; (iii) creation of a special fund for the liquefaction of bills 'frozen' owing to the difficulties of agriculture and connected industries.

Objection to these proposals arose mainly on three counts, namely, the demand of industrial states like Czechoslovakia and Austria that their products should be no less favourably treated than those of their agricultural neighbours; the insistence of certain of the importing countries, notably Great Britain and Italy, upon the retention of most-favoured-nation rights; and the refusal of the British delegates to subscribe to any plan for an international stabilization fund. The French, Italian and German delegations all laid schemes before the Conference. The French project, which was to take the form of a multilateral convention, included the grant of customs preference for cereals imported from the Danubian countries, and the establishment of a fund to which each importing state should contribute in proportion to the amount of its imports, with the aim of improving the market value of the cereals concerned. The introduction of the preferential system would have to be considered, first of all, by the oversea exporters of grain enjoying most-favoured-nation treatment. Italy, on the other hand, proposed a system of bilateral agreements for the purchase of grain from the Danubian countries. Each exporting country would receive, as a temporary measure, a subsidy proportionate to its average export of cereals in the past three years, to be provided by a toll levied upon every European country on the basis of its total foreign trade. The grain-exporting countries in question would lower their customs tariffs to assist imports from other European countries and from the oversea countries. The German delegation agreed in principle to the French plan, but put forward an alternative in case the latter should be rejected. The German plan provided for a convention to be concluded between Germany, France, Italy, Austria and Czechoslovakia for the purchase of wheat, barley, forage and maize, under a preferential system involving reductions of tariffs, from Bulgaria, Hungary, Rumania and Jugoslavia, with whom they would make bilateral agreements. The agreements would be examined, and might be modified, by an international committee.

Ultimately, the Economic and Agricultural Committee of the Conference drew up a report which was unanimously accepted by the Conference in plenary session. The United Kingdom delegation, however, while in general approving the recommendations made, and in particular those which represented a step in the direction of removing obstacles to trade, drew attention to the special position of those countries, such as the United Kingdom, whose commercial policy did not include the imposition of quotas or heavy import duties on cereals; and they made reservations on behalf of His Majesty's Government in regard to participation in proposals involving financial contributions or guarantees. The committee's report was based on a draft multilateral convention, aimed at improving the price of cereals by a combination of the grant of preferences in bilateral treaties (subject to the rights of third states) and financial contributions to a special fund. The draft limited the preferences to be granted by the bilateral treaties or by collective action to the average quantities exported during the three years 1929–31. This limitation, the committee observed, was of great importance because it laid down acceptable limits to the concessions asked of European countries, while giving oversea countries an assurance that the production of cereals in Central and Eastern Europe would not increase behind the shelter of an unlimited preferential régime. Article 1 of the draft convention stated that signatory countries which were exporters of wheat, barley for fodder, maize, rye, barley for brewing, and oats, should 'receive facilities for their exports' within specified limits as above. Article 2 laid down that an aggregate sum of 75,000,000 gold francs (£3,125,000 gold) should be taken annually from the proceeds of contributions by the adhering states (as provided for in the report of the Financial Committee of the Conference)[1] towards a general fund for the economic and financial reconstruction of Central and Eastern Europe, and should be used to promote the revalorization of cereals. The share to be contributed by each state would be reduced in proportion to the effective operation of whatever advantages it had granted to selling countries, by means of bilateral treaties for the importation of the above-mentioned cereals. (Germany would acquit herself altogether of her contribution through such bilateral treaties.) Article 3 provided for the setting up of a committee representing the adhering states, whose principal duty would be the award of shares in the aggregate sum to the different beneficiaries, according to the results of their harvests and the effective advantages they received under bilateral agreements. Article 4 dealt with arbitration. Article 5 declared that in compensation for these favours the beneficiary countries, 'desiring to co-operate with the other countries in introducing a liberal commercial policy and a moderate tariff policy', undertook to grant adequate concessions to the contributing countries by bilateral agreements, so far as compensation had not already been given. The advantages thus granted would in no case affect the rights derived by third countries from the most-favoured-nation clause, and would extend to all signatory states. Article 6 dealt with ratification; the convention would not be binding upon any signatory until it had been possible to put into force the various bilateral treaties. Article 7 provided that the convention should remain in force until the 31st October, 1935, unless world prices had previously reached a remunerative level.

When these proposals came before the Commission of Inquiry for European Union, at its session of the 1st October, under the chairmanship of Monsieur Herriot, their practical acceptance did not seem very probable. The British delegate once more expressed his Government's refusal to participate in financial guarantees, while opposition to the plan for the revalorization of cereals was also expressed by Monsieur Litvinov, for the Soviet Union, and by the representatives of most of the Northern European countries. The report of the Stresa Conference was then passed to the Council of the League, with a request for expert examination; three reservations were attached, one reserving the rights of third parties, a second releasing Governments from final decisions until definite schemes should be submitted to them, and a third incorporating with the minute to the Council all the other reservations that had been made in the course of the discussion. For good or ill, the plan for the revalorization of cereal exports from Central and Eastern Europe was still bogged in the quicksand of committees and conferences at the end of 1932.

[1] See p. 93 below.

One of the obstacles, as has already been mentioned, was the resentment of countries not producing cereals at the special favour accorded to those products. The demand for the extension of preferential treatment to other agricultural products was repeated at Stresa. The Conference, however, while recognizing the 'primordial importance' of the crisis in the live stock and timber trades, felt bound for the moment to confine itself to cereals in order to give this experiment time to develop and prove its value. The conviction was also expressed that the Oriental tobacco question had assumed a particularly urgent character, but no recommendations were made cognate to those for cereals. Lastly, ran the report, there still remained the particularly important problem of Austria, whose exports were not mainly agricultural and who had to cope with particularly serious marketing difficulties.

(g) The Ottawa Conference

It does not beg any questions about the value of the Ottawa Conference in promoting or deferring world trade recovery to include the Conference among the efforts to escape from the toils of ever-rising tariffs. Undoubtedly in the popular mind, and explicitly in the mind of the Government, one of the chief reasons for the imposition of the British tariff was the need for a weapon with which to secure more liberal treatment abroad for Great Britain's exports; and what more favourable field for the exercise of such persuasion could there be than the British Commonwealth, in which pleas of commercial advantage could be reinforced with appeals to imperial sentiment? Imperialists of the narrower school demanded, in effect, preference for preference's sake, but by reason both of her political history in tariff matters, and her obvious economic interest, Great Britain, as a nation, sought at Ottawa an extension of preference from the Dominions essentially by means of a reduction of the latters' tariffs against British goods rather than by means of an enhancement of their tariffs against foreign goods.

This point of view was emphatically expressed by Mr. Baldwin, who led the United Kingdom delegation, both in his opening speech to the Conference and in a supplementary statement which was issued after Mr. S. M. Bruce had declared that the Australian people regarded the British preferences granted under the Import Duties

Act 'as a somewhat tardy response for the benefits from Australia long enjoyed by British industry'.

> What then [asked Mr. Baldwin] should be the first aim of this Conference? It should be to clear out the channels of trade among ourselves. . . . There are two ways in which increased preference can be given—either by lowering barriers among ourselves or by raising them against others. The choice between these two must be governed largely by local considerations, but, subject to that, it seems to us that we should endeavour to follow the first rather than the second course. For, however great our resources, we cannot isolate ourselves from the world. No nation or group of nations, however wealthy and populous, can maintain prosperity in a world where depression and impoverishment reign. Let us therefore aim at the lowering rather than the raising of barriers, even if we cannot fully achieve our purpose now, and let us remember that any action we take here is bound to have its reactions elsewhere.
>
> It is [he said in his supplementary statement] necessary to bear in mind that the percentage of duty charged on the value of the article is of great importance in assessing the value of a preference. A preferential rate of duty, if the preference is to be of material assistance, must not be so high as, in effect, seriously to restrict importation: and the United Kingdom delegation would urge upon the Dominions that the rates of duty charged should be so graduated as to give the products of the United Kingdom a reasonable chance of competing on equal terms, and that the rate of duty against United Kingdom products should be fixed for protective purposes no higher than is necessary to give a reasonably efficient industry in the Dominion a fair chance. In this connexion they desire to draw attention to the favourable tariff treatment which they have hitherto accorded to imports from the Dominions which compete with goods produced in the United Kingdom.

Indeed, in its sole general statement of principle the entire Ottawa Conference recorded its conviction:

> That by the lowering or removal of barriers among themselves provided for in [the] Agreements the flow of trade between the various countries of the Empire will be facilitated, and that by the consequent increase of the purchasing power of their peoples the trade of the world will also be stimulated and increased.

From the international point of view, the results of Ottawa must be treated in relation to two questions, namely, how far did the agreements lower or remove the barriers against trade within the Empire, thereby justifying the above claim, and how far did they increase tariffs against the rest of the world, or threaten such diversion of trade from the rest of the world as would exacerbate the existing tendency to raise tariffs competitively in the scramble for trade. These questions the reader himself must answer, on the basis of the following summary of the agreements.

The agreements between the United Kingdom and the Dominions were to run for five years; that with India was made terminable on six months' notice given by either party. It may be noted that in the field of international commercial agreements five years is an exceptionally long term of currency without the possibility of denunciation. Great Britain undertook (*a*) to continue free entry for all Empire products already admitted free, (*b*) to impose fresh duties (i.e. to put on duties where none existed, or to increase actual duties, or to consolidate *ad valorem* into specific duties) on certain imports from foreign countries, notably wheat, maize, butter and cheese, canned and dried fruits, a number of raw fruits, copper, linseed and rice; (*c*) to regulate quantitatively imports of chilled and frozen beef and frozen mutton and lamb and (when the Commission on the reorganization of the pig industry should have reported) bacon and ham, with the aim of raising the wholesale price of meat in the British market to such a level as would maintain efficient production at home and in the Dominions, and of giving the latter an expanding share of British imports of meat; (*d*) to maintain certain existing preferences, i.e. by not reducing the existing duties on foreign imports of the commodities concerned; and (*e*) to perform certain other undertakings, chiefly regarding the consolidation of preferences on tobacco, South African wine and coffee, but including also an undertaking given to Canada that if the preferences granted or guaranteed at Ottawa appeared likely to be frustrated in whole or in part through state action on the part of any foreign country, the United Kingdom Government would exercise their powers to prohibit the import of such commodities from the country in question for so long as was necessary to make the preferences effective. In pursuance of this undertaking, the British Government on the 17th October gave six months' notice of denunciation of the 1930 commercial agreement with the U.S.S.R., which granted the latter most-favoured-nation rights.[1] The incidence of the new duties imposed on foreign imports under the Ottawa Agreements is shown first by the fact that the proportion of imports from foreign countries admitted free, which

[1] In April 1933, during the course of the trial of a number of British subjects on charges of counter-revolutionary activities in Russia, the British Government imposed an embargo on imports of the following commodities from the Soviet Union: butter, wheat, barley, oats, maize, poultry and game, raw cotton, petroleum and timber. The embargo was removed on the 1st July, 1933, on the release of the two British subjects who had been imprisoned as a result of the trial. The counter-embargo which had been imposed by the Soviet Government was withdrawn simultaneously, and negotiations for the conclusion of a fresh commercial treaty between the two countries were thereupon resumed.

was 83 per cent. before the various tariff measures were passed by the National Government, fell as a result of the Ottawa Conference from 30 per cent. to 25 per cent.; and second by the following table prepared by *The Economist*.[1]

Protective Duties before Ottawa Percentage of Foreign Imports Taxed at			*Protective Duties after Ottawa* Percentage of Foreign Imports Taxed at		
10%	11–20%	Over 20%	10%	11–20%	Over 20%
32·9	15·3	4·6	28·3	21·8	7·7

The countries on whom the new duties fell particularly onerously were Denmark, Holland, Belgium, Sweden, Italy, Finland, Poland and Chile, while Argentina stood to lose most trade through the regulation of meat imports.

The concessions granted by the Dominions and India in exchange for these favours differed in each case, but at the outset mention must be made of the common undertaking entered into by Canada, Australia and New Zealand. They promised, first, to give tariff protection only to those industries which were reasonably assured of sound opportunities of success, and, second, to keep or reduce protective duties to a level which would give United Kingdom producers full opportunity of reasonable competition on the basis of the relative costs of economical and efficient production, provided that special consideration might be given to the case of industries not fully established. In Canada and Australia these conditions would form the terms of reference to independent tariff boards, before whom British producers should henceforward have the right of stating their case, while in New Zealand the agreement would be implemented by the Government directly, British producers again being given a hearing. The above principle of the 'compensatory tariff', which incidentally was the theoretical basis of the United States tariff schedule, was regarded by some as the most important feature of the Ottawa Agreements and as the one most calculated to secure a liberation of trade by reducing Dominion tariffs, despite the obvious fact that if it were rigorously carried out it would consume the mutual advantage of international trade altogether, rendering the latter redundant and impossible except in cases of dumping. Certain commentators pointed out that the application of the same general terms to three Dominions with varying scales of tariffs would tend to bring about a reduction of duties, since the Dominion with the lowest existing rate of duty would establish a criterion of economical and efficient production for the others. The further principle,

[1] Ottawa Supplement, 22nd October, 1932, p. 7.

that exporters should be heard before a revision of a tariff was carried out, was also of considerable general importance in connexion with international trade relations. However, even by the middle of 1933, no general review of the tariff in accordance with the terms of the agreement had been accomplished in any of the three Dominions.

All that can be related here concerning the specific changes in Dominion tariffs is the measure in which they involved a raising of tariffs against foreign countries. Australia undertook to apply a general formula for the guarantee of minimum British preferential margins, rising to 20 per cent. *ad valorem* preference where the duty on United Kingdom goods was over 29 per cent. *ad valorem*; the application of this formula resulted in the majority of cases in an increase of the general tariff. The Lyons Government was in any case pledged to the removal of the prohibitions and the grosser features of high protectionism that characterized the Scullin tariff. On 132 items in the Canadian schedule, which covered 215 items in all, there would be a reduction of the duties on United Kingdom goods (accompanied in some instances by a simultaneous raising of the foreign duty), while in respect of the remainder increased margins of preference were to be secured for the United Kingdom by means of advances of the general tariff.

It has been estimated, on the basis of 1931–2 imports into Canada, that the British preferential tariff would be reduced to zero in categories of which total imports were $31,200,000, including $8,300,000 of British goods; that the preferential tariff would be otherwise lowered in categories of which total imports were $58,900,000, including $37,400,000 British; and that the foreign tariff would be raised in the case of $35,100,000 of total imports, including $8,800,000 British. The total trade affected by the schedules was thus $70,700,000 of foreign goods and $54,500,000 of United Kingdom goods in 1931–2, representing roughly 22 per cent. of Canada's total imports. To estimate how much trade might be diverted as a result of these changes—a point on which there was considerable dispute during the course of the Conference itself—would be merely to guess, but the diversion might be put at a maximum of one-third of the foreign trade affected, namely, $24,000,000 odd, the United States being of course the chief loser.

The specific changes in the New Zealand tariff related only to four items, confectionery, clothing, hosiery, and silk and rayon piece goods, on all of which the British preferential duty would be reduced. South Africa undertook (*a*) to grant new or increased preferences on a brief list of manufactures, in most cases partially at least by means of an increase of the general tariff, (*b*) to impose new duties on certain foreign piece goods of cotton and rayon, and underclothing, leaving the existing British preferential tariff unchanged, and (*c*) not to lower existing margins of preference on a lengthy list of British manufactures. Newfoundland, whose tariff was primarily revenue-producing and not protective, promised a preference of 10 per cent. on 61 classes of goods, with the qualification that the preference might be reduced if it resulted in a loss of revenue. The Indian Government undertook to give a 7½ per cent. preference on motor-cars, omnibuses, and accumulators, and to give a 10 per cent. preference on a long list of manufactured goods, to be secured either by an increase of duty on foreign goods or by a reduction of duty on British goods, or by a combination of both. It has been estimated that in 1930–1 the volume of imports in the categories affected by this undertaking amounted to £32,000,000, of which £12,700,000 were already imported from Great Britain. Southern Rhodesia promised increased margins of preference on electrical and radio material, typewriters, cutlery and glassware (in some cases inevitably by dint of an increase of the foreign tariff) as well as minimum specific duties on foreign cotton, silk and rayon piece goods.

Perhaps the most satisfactory feature of the Dominions' concessions, from the point of view of liberation of trade, was the undertakings in respect of surcharges and other abnormal hindrances to British trade. Australia promised to repeal as soon as possible the proclamation of May 1932, prohibiting certain imports, to remove as soon as practicable the surcharges imposed at that time, and to reduce or remove the primage duty as soon as the finances of the Commonwealth would allow. Canada promised to ensure a minimum of uncertainty, delay, and friction in connexion with tariffs, and to provide machinery for the prompt and impartial settlement of disputes; to abolish surcharges on United Kingdom imports as soon as possible and to consider the ultimate abolition of the exchange dumping duty on United Kingdom products. New Zealand undertook not to increase the existing primage duty of 3 per cent. on United Kingdom goods which were otherwise duty free, and to remove it as soon as financial conditions permitted.

Without attempting to compute the extent of each factor, we may observe that the Ottawa Agreements resulted in a certain measure of liberation of trade within the British Commonwealth, a certain measure of increase of British tariffs against the rest of the world (including an aggravation of the United Kingdom tariff), and some diversion of trade from outside to within the British Commonwealth.

The effects of these phenomena on international trade and commercial relations generally could only be judged after lengthy experience of the actual operation of the agreements; but it is possible to make some comment on the reaction of Ottawa upon Great Britain's potential ability to use her tariff to secure the reduction of foreign tariffs. That this use was, from the first, officially contemplated was shown by the terms of Clause 7 of the Import Duties Act, which provided for the reduction of duties, upon the recommendation of the Board of Trade, on the goods of any specified country, presumably one which accorded reciprocal advantages to the United Kingdom. Now under the Ottawa Agreements the concessions that Great Britain could make for the benefit of foreign countries (except, of course, an undertaking not to increase existing duties) were limited for a period of five years in respect of all commodities for which the agreements provided a minimum general rate of duty or a minimum rate of preference where the preferential rate was already zero. This list of commodities included several, such as butter and timber, which were of particular interest to countries most likely, on account of the closeness of their trading relations with Great Britain, to offer her advantageous reciprocal terms. Further, the Ottawa Agreements would certainly prevent the entry of Great Britain into a free trade or very low tariff group, or any agreement like the Belgo-Dutch Convention for the progressive reduction of mutual tariffs to a low level. The admission of foreign countries to the whole preferential system enjoyed by members of the Commonwealth would be ruled out by a resolution of the Ottawa Conference affirming that while each Government would determine its particular attitude in its treaty relations towards other countries, the different delegations recorded their policy 'that no treaty obligations into which they might enter in the future should be allowed to interfere with any mutual preferences which Governments of the Commonwealth might decide to accord to each other, and that they would free themselves from existing treaties, if any, which might so interfere'. In accordance with this resolution the South African trade treaty with Germany, which promised the latter the benefit of any preferences that might be subsequently granted to Great Britain, was abrogated at the instance of the South African Government.

Finally, the Conference deliberated the policy to be adopted by nations of the British Commonwealth towards the most-favoured-nation clause in commercial treaties, and decided that whereas each participant would still act independently in its relations with foreign countries, and on its own judgment, their unanimous policy was that most-favoured-nation rights must be strictly upheld, against the tendency to modify them in respect of limited preferential groups, but that no claim could be countenanced to participate in the mutual preferences within the British Commonwealth, on the part of a foreign country pleading its most-favoured-nation rights.

(h) Other Multilateral Action: the Belgo-Dutch Convention

After the World Economic Conference of 1927 gave warning of the pressing need for a reduction of tariffs throughout the world, attempts to carry out its resolutions took two main forms, multilateral or universal negotiations (the International Conferences on Concerted Economic Action) and bilateral commercial agreements. It could assuredly be claimed that the World Economic Conference, the work of the Economic Committee, and other efforts under the auspices of the League of Nations had encouraged a more far-seeing and more internationalist attitude among the nations of Europe than they would otherwise have had in their commercial relations, but a glance at the world's tariff systems in 1932—or even before the acute financial crisis drove country after country to emergency measures of trade restriction—proves that the attempts were on the whole a failure. The abortive efforts of the Conference on Concerted Economic Action to establish a 'tariff truce' have already been described in this series.[1] For the failure of bilateral treaties, based, as the World Economic Conference recommended, on the most-favoured-nation clause, to achieve any appreciable general reduction of tariffs, a number of reasons must be adduced. First of all came all those obstacles inherent in the nature of protective tariff systems—the vested interests sheltering behind them and the difficulty of exchanging the advantage of one industry, manufacturing principally for the home market, for that of another industry seeking larger markets abroad. Then there were political reasons—the widespread fear of war or blockade which rendered the countries of the world unwilling to sacrifice economic independence, however dearly bought; as well as the political antagonisms between pairs or combinations of countries (Germany and Poland, for instance) which hindered the conclusion of commercial treaties among them. Possibly, too, as the sub-committee of economic experts mentioned below suggested, another reason was the want of any clear conception of the ultimate goal. 'In the absence of such a conception to act as a guide as well as an encouragement, tariff reduction, whether by general agreement or by means of bilateral treaties, appeared in the light of a bargaining arrangement and not of a step towards a new and better system of international economic life.' As far as Europe was concerned—and that was the limit of its terms of reference—the sub-committee declared that 'the ultimate goal must be the widest possible collaboration of the nations of Europe in the sense of making Europe a single market for the products of any and every country in it'. Finally, the most-favoured-nation clause itself acted as a brake, since countries were reluctant to enter into reciprocal arrangements one with another for the mutual reduction of tariffs, knowing that the advantage of any such reduction would also be enjoyed by third parties who had granted no counter-concession, by virtue merely of their possessing most-favoured-nation rights. Thus, while the general application of the most-favoured-nation clause acted as a brake on the upward movement of tariffs and checked tendencies towards catastrophic tariff wars, it certainly was a hindrance to the conclusion of limited arrangements for the reduction of tariffs among groups having some geographical and economic unity—a risky procedure in normal times, but one which offered some hope in the days of ever-growing restrictions on international trade during the world depression.

[1] See the *Survey for 1930*, Part VI, section (ii).

This question was the one that most exercised the sub-committee of economic experts, appointed in accordance with a resolution of the 28th May, 1931, of the Commission of Inquiry for European Union, 'to examine in complete freedom and in a spirit of liberal understanding all means which might seem calculated to bring about closer and more profitable co-operation between the different countries with a view to improving the organization of production and trade'. The sub-committee held two series of meetings under the chairmanship of Dr. Trip (Netherlands), and signed its report on the 29th August, 1931. The experts affirmed that they did not wish in any way to modify 'the general basis of the most-favoured-nation clause, which must remain the essential safeguard of normal commercial relations between the nations', adding that if any of the agreements which they contemplated were in any way to affect the rights of third parties under that clause, such agreements could not come into force until an understanding had been reached with those non-contracting parties. They thought, however, that cases might arise in which European or non-European countries which were not parties to the agreements in question might, without prejudice to their individual interests, be willing to agree to some modification of their rights in view of the benefits likely to accrue to the world in general from the growing prosperity of Europe as a whole which such agreements were designed to promote. What was clearly in their mind was a limited preferential agreement for the mutual and perhaps progressive reduction of tariffs, most probably among low-tariff countries.

From the economic point of view, they agreed, the *rapprochements* which they envisaged should be subject to the following conditions:

(*a*) The groups of countries which they affected should be such as to ensure that they were in conformity with the general interest and contributed to the general progress of Europe. (This was really a reservation intended to rule out disturbing semi-political accords. The sub-committee was working under the shadow of the Austro-German customs union dispute, which affected the attitude of several of the delegations.)

(*b*) They must not injure the interest of other countries, but must, on the contrary, tend to encourage economic intercourse with them.

(*c*) They must as far as possible include the free movement of individuals, goods and capital, and indeed all forms of economic activity, so that a fair balance might be established between sacrifices and advantages.

(*d*) If they were to lead to treaties or agreements different from the ordinary commercial treaties:

(1) These must be open to accession by all countries prepared to conform with the obligations which such treaties or agreements entailed.

(2) They must provide for the granting of the stipulated advantages to non-signatory countries which should accord equivalent advantages, whether by treaty or by virtue of their own autonomous policy.

The sub-committee added that the peril implicit in the diversion of trade through the conclusion of any economic agreements could be avoided only if they were such as to initiate a movement for the reduction of tariff barriers generally. Moreover, they should be as far as possible of a permanent character.

If, said the economic experts, the understandings envisaged were to take the form of customs unions, then they would achieve the desired results only if they took into account the situation of countries not prepared to participate. Among the latter (to paraphrase the report) would be countries whose tariffs were too high and those whose tariffs were too low—the former being unwilling to abolish their tariffs on the products of the participating countries, and the latter being unwilling to raise their tariffs against the rest of the world to the level established by the customs union. As for the first group, progress must be sought either by an extension and improvement of the actual system of commercial treaties, or by the conclusion of general agreements for preventing the increase of trade

barriers, such as the abortive Tariff Truce. As regards the second group (the sub-committee plainly having its eye on Great Britain, where a few days previously the first National Government had been formed, and a 'revenue tariff' seemed a probable contingency), it was wrong that they should be denied the chance of participating in agreements for the abolition of mutual tariffs in Europe, or that the price of their participation should have to be the increase of their tariffs to the level of the other participants. Clearly, indeed, their present liberal policy might 'serve as a basis upon which greater freedom for international commerce throughout the world as a whole could be built'—perhaps a desperate prayer to the British Government. It was therefore desirable that any European group or nation which was willing to extend the freedom of its market by the inclusion of free-trade or low-tariff countries should be permitted to do so, subject to agreement in regard to the fiscal duties of the parties concerned (in other words, they might be allowed to retain duties at a level and of a kind intended for the production of revenue).

The experts went on to consider the place of international industrial agreements (cartels) in the furtherance of trade, and elaborated their advantages and their dangers, which it was the duty of individual states to obviate. Subject to certain conditions, industrial combines might lead to a community of interests which would tend to create a favourable atmosphere for commercial negotiations, 'and to bring about that reconciliation for which the public in all countries is so eager'. Some of the delegates expressed the view that agreements among producers might one day come to transcend and obviate tariff barriers generally. It may be noted here that the policy of direct industrial co-operation (rationalization, or complementary production) was powerfully advocated by British industrial interests, preparatory to the Ottawa Conference, as the best means of enlarging and improving trade within the British Commonwealth, and that an understanding between the iron and steel producers of the United Kingdom and Canada—the 'Montreal Pact'—was the basis of the new Canadian tariff schedule in the iron and steel sections as incorporated in the Ottawa Agreements.

Considerable space has been devoted to the work of the sub-committee of economic experts because it represents the considered and unanimous opinion of a group of economists, bankers, business men and others representing the countries of Europe, upon a new or growing tendency in international commercial relations, and their guidance towards what seemed the most hopeful method of securing a liberation of European (and by the same token world) trade, having regard to the failure in practice of other means. Their views, however, were not in every case precisely in accord with those of their respective Governments. The British Government, in their published commentary on the report, declared that they had always held that customs unions proper must necessarily constitute an exception from the most-favoured-nation clause, but that, as for economic *rapprochements* not amounting to complete customs unions, such as regional tariff preferences, they remained of the view that it would cause conflict with the whole spirit of the most-favoured-nation clause if it were open to any countries to conclude arrangements with each other which they did not extend to other countries. This difference of opinion was the cause of the resignation of Sir Walter Layton from the preparatory committee for the World Economic Conference, in October 1932, for Sir Walter, who had been the British delegate to the meeting of economic experts, found himself too much at variance with the Government's conservative attitude towards the most-favoured-nation clause (except, of course, as concerned preferential agreements within the British Commonwealth) to continue as his country's representative on the preparatory committee.

The British Government had had occasion, meanwhile, to give practical expression to their attitude in this matter. The possibility of an understanding among the low-tariff countries of Northern Europe for mutual reductions of tariffs had been exposed by the conclusion of the Oslo Convention of December 1930 (entering into force on the 7th February, 1932), whereby Norway, Sweden, Denmark, Holland, Belgium and Luxembourg (who was in customs union with Belgium) undertook for one year not to raise their mutual tariffs without first consulting each other,[1] but it was generally recognized that the strained financial conditions of 1931 and 1932 greatly handicapped further progress in that direction. It was something of a surprise, therefore, to the outside world when it was announced, on the 20th June, 1932, in the course of the Lausanne Conference on Reparations, that the Governments of Belgium, Luxembourg and the Netherlands had initialled a Convention for the progressive reduction of the tariffs on each other's goods by 10 per cent. of their amount per annum. The conversations which led up to the signature of this agreement had included the other participants in the Oslo Convention, but the Scandinavian countries, all of whom had suffered exchange depreciation since Great Britain's relinquishment of the Gold Standard, preferred to postpone any action until economic conditions were more settled—perhaps until they had investigated the possibilities of a

[1] See the *Survey for 1931*, p. 154, footnote 2.

tariff understanding with Great Britain. In a covering statement, the Belgian delegation to the Lausanne Conference stated that the Convention was based upon principles formulated on various occasions by the League of Nations—presumably those embodied in the report of the economic experts' committee quoted above. In particular, while the advantages accorded by the Convention were reserved to the states taking part in it, any other state might adhere to it on a footing of equality with the three signatories. The announcement was accompanied by the publication of a vigorously worded appeal by the King of the Belgians for the reduction of barriers to trade throughout the world.

The text of the Convention of Ouchy-Lausanne was not published until the 3rd August. According to Article 1, the contracting parties pledged themselves not to increase customs duties existing between them above their actual level, nor to establish duties not already existing. They further agreed not to proceed to any protective increase of their customs duties, nor to any establishment of new protective duties applying to the merchandise of third states to whom they were bound by commercial conventions, unless those states, by a further raising of customs barriers or obstacles to trade, should cause serious prejudice to the signatories. Article II provided for the progressive reduction of customs duties, in the signatories' reciprocal relations, by 10 per cent. of their existing rate per annum, beginning with an immediate cut of 10 per cent. and ending four years later, by which time the duties would be one-half their former rates. Duties would in no case be reduced below a rate corresponding to 4 per cent. *ad valorem* for semi-manufactured products and 8 per cent. *ad valorem* for entirely manufactured products. While reserving the right to make certain exceptions, the contracting parties undertook in Article III not to apply between them any new prohibition or restriction to import or export, or any new measure of regulation which would have the effect of hampering their reciprocal exchanges. But should those exchanges be seriously disturbed by abnormal circumstances, each of the parties would have the right to limit its exports or imports, provided the quota fixed should be not less than 100 per cent. of the average quantities exported or imported during normal years. Further, the contracting parties agreed to abolish, as soon as circumstances should permit, in their reciprocal relations, all existing measures of prohibition, restriction, or regulation, with specified exceptions. By Article V they undertook to apply to their reciprocal exchanges the unconditional and unlimited régime of the most favoured nation. The Convention was concluded for a period of five years (Article VII); thereafter it would remain in force, for those who had not denounced it, from year to year. Article VIII laid down that any third state would have the right to adhere to the Convention, on a footing of equality with the signatory states, and moreover that so long as third states, without adhering to the Convention, nevertheless observed its provisions in fact, they would be admitted to the benefit of the conventional régime.

Not merely was the Convention favourably received by public opinion in the participating countries, but it was followed by an agitation for the establishment of a complete customs union among them. A referendum on the subject was held by the Netherlands Chamber of Commerce in Belgium, and, out of nearly 1,100 replies received from Chambers of Commerce and other representative institutions, industrialists, merchants and bankers in Belgium and Holland, no less than 87 per cent. were favourable to a tariff union, support being almost equally divided between the two countries.

The official attitude of the British Government towards the Convention was that their own policy in respect of their commercial treaty relations with foreign countries must await the outcome of the Ottawa Conference, but that meanwhile they must insist on the preservation of their most-favoured-nation rights unimpaired. This insistence, which would, if generally followed, have defeated the purpose of the Convention altogether, was not pressed in practice, in spite of its reaffirmation, as recorded above, at the Ottawa Conference. There was no hint that the British Government contemplated entering into any such multilateral, or even bilateral, agreement with foreign countries; and when it was announced, on the 17th October, that they had invited the Danish, Norwegian and Swedish Governments to open conversations in London on tariff matters it was semi-officially reported that no question of treaty revision would be raised, but that agreements would merely be sought within the framework of present trade treaties. The agreements concluded early in 1933, indeed, entailed no alteration of principle in Great Britain's trade relations with the Scandinavian countries, but provided only for adjustments, generally in the way of greater freedom of trade, on a limited number of items. It may be observed that the use of the quota system to regulate British imports of certain foodstuffs enabled the British Government to grant exclusive concessions to a few countries without violating most-favoured-nation treaties, at any rate according to a strict interpretation of their terms.

(i) The World Economic Conference

Full description of the origin and work of the World Economic Conference, held in London in June 1933, must be reserved for a future volume of the *Survey*. All that needs to be done here is to mention it briefly in its place as one of the attempts to escape from the toils of tariffs and other trade restrictions. The Lausanne Conference was summoned to discuss not only Reparations, but also 'the other economic and financial difficulties which are responsible for, and may prolong, the present world crisis'. The length of time expended upon a Reparation settlement, and other practical obstacles, prevented full performance of this part of the Conference's task, but besides appointing the Stresa Committee the Conference appended to its Final Act an Annex (Annex V) embodying a decision to invite the League of Nations to convoke a World Conference on monetary and economic problems, and recommending, in the meantime, an examination of these problems by a committee of experts, to consist of two representatives of each of the six inviting Powers of the Conference, three financial and three economic members nominated by the League Council, two financial members appointed by the Bank for International Settlements, and representatives of the United States, should that country accept the invitation to participate.

As early as the 31st May the State Department at Washington had issued a statement referring to inquiries by the British Ambassador as to whether the United States would be willing to take part in 'an international conference for the purpose of considering methods to stabilize world commodity prices', the suggestion being that the Conference should be called by the British Government in London. The Administration had replied through the United States Ambassador in London that it felt that an early convocation of such a Conference might be of real value. The manner, however, in which the proposal for a World Economic Conference emerged from the Reparations Conference, suggesting that one of the primary subjects for discussion would be the system of inter-governmental War Debts, caused considerable anxiety and embarrassment to the United States Government, who were reluctant to include on the agenda not only War Debts, but likewise tariffs, and who wished to concentrate on the monetary and financial aspects of the problem; hence, when the matter was brought before the League Council by Sir John Simon on the 15th July, it was made to appear rather as an independent initiative than as a reference from the Lausanne Conference. A preparatory commission of experts was duly set up, and the United of five years (Article VII); thereafter it would remain in force, for those who had not denounced it, from year to year. Article VIII laid down that any third state would have the right to adhere to the Convention, on a footing of equality with the signatory states, and moreover that so long as third states, without adhering to the Convention, nevertheless observed its provisions in fact, they would be admitted to the benefit of the conventional régime.

Not merely was the Convention favourably received by public opinion in the participating countries, but it was followed by an agitation for the establishment of a complete customs union among them. A referendum on the subject was held by the Netherlands Chamber of Commerce in Belgium, and, out of nearly 1,100 replies received from Chambers of Commerce and other representative institutions, industrialists, merchants and bankers in Belgium and Holland, no less than 87 per cent. were favourable to a tariff union, support being almost equally divided between the two countries.

The official attitude of the British Government towards the Convention was that their own policy in respect of their commercial treaty relations with foreign countries must await the outcome of the Ottawa Conference, but that meanwhile they must insist on the preservation of their most-favoured-nation rights unimpaired. This insistence, which would, if generally followed, have defeated the purpose of the Convention altogether, was not pressed in practice, in spite of its reaffirmation, as recorded above, at the Ottawa Conference. There was no hint that the British Government contemplated entering into any such multilateral, or even bilateral, agreement with foreign countries; and when it was announced, on the 17th October, that they had invited the Danish, Norwegian and Swedish Governments to open conversations in London on tariff matters it was semi-officially reported that no question of treaty revision would be raised, but that agreements would merely be sought within the framework of present trade treaties. The agreements concluded early in 1933, indeed, entailed no alteration of principle in Great Britain's trade relations with the Scandinavian countries, but provided only for adjustments, generally in the way of greater freedom of trade, on a limited number of items. It may be observed that the use of the quota system to regulate British imports of certain foodstuffs enabled the British Government to grant exclusive concessions to a few countries without violating most-favoured-nation treaties, at any rate according to a strict interpretation of their terms.

(*i*) The World Economic Conference

Full description of the origin and work of the World Economic Conference, held in London in June 1933, must be reserved for a future volume of the *Survey*. All that needs to be done here is to mention it briefly in its place as one of the attempts to escape from the toils of tariffs and other trade restrictions. The Lausanne Conference was summoned to discuss not only Reparations, but also 'the other economic and financial difficulties which are responsible for, and may prolong, the present world crisis'. The length of time expended upon a Reparation settlement, and other practical obstacles, prevented full performance of this part of the Conference's task, but besides appointing the Stresa Committee the Conference appended to its Final Act an Annex (Annex V) embodying a decision to invite the League of Nations to convoke a World Conference on monetary and economic problems, and recommending, in the meantime, an examination of these problems by a committee of experts, to consist of two representatives of each of the six inviting Powers of the Conference, three financial and three economic members nominated by the League Council, two financial members appointed by the Bank for International Settlements, and representatives of the United States, should that country accept the invitation to participate.

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States Government agreed to nominate members, but with the stipulation that Reparations, War Debts, and tariff rates should be excluded from the agenda. The triumph of the Democratic Party at the presidential elections in November, however, foreshadowed a change of policy in respect of tariff questions, and in fact the preparatory committee could by no means avoid their consideration. Tariffs and trade treaty policy, as well as non-tariff restrictions on international trade, formed an important part of the draft annotated agenda which they submitted to the League Council on the 19th January, 1933.[1] Among other questions under that general head, the Commission addressed themselves to the problem of the most-favoured-nation clause and of possible exceptions thereto. Further, they urged that the success of the Conference would depend in great measure on the vigour with which the participating Governments entered upon preliminary negotiations before the Conference actually met. A proposal for a 'tariff truce' to be observed before and during the Conference was put forward by the United States Government a month before the opening of the meeting, and was readily accepted by Great Britain and other countries represented on the Organization Committee of the Conference.

(iii) Debts and Defaults.
By H. V. Hodson.

(a) Trade, Tariffs, and Finance in 1932

The description in the *Survey for 1931* of the origins and development of the world economic depression laid particular stress on the part played by international debts in the upset of trade and the decline of prices. Briefly, the cessation or curtailment of international lending forced the debtor countries to achieve active balances of trade, both by restricting imports and by promoting exports, in order to pay the obligations incurred in respect of earlier indebtedness; the enhancement of international competition, aided by necessary measures of deflation in the debtor countries, forced down prices throughout the world. The fall of prices obviously need not have been so severe, nor the subsequent derangement so disastrous, if the creditor countries had been willing to adjust their economies by accepting in goods or services the fruits of their former lending; but, unable as they were smoothly to effect such an adjustment, and fearful as they were of aggravated foreign competition with their own industries, they rendered the situation worse by defending themselves

[1] League of Nations Document, *C. 48. M. 18. 1933. II.*

with tariffs and other restrictions against the influx of goods from the debtors. The latter in their turn were compelled to resort to ever more stringent measures of control of external trade, sometimes to official monopolies of foreign exchange transactions; but these measures, being mutually combative, were doomed to failure, and the next stage, which was reached, generally speaking, in the latter half of 1931 and which extended over the whole of 1932, was characterized by the failure of the debtors to meet the service of their debts in full, the establishment of Standstill Agreements limiting the withdrawal of short-term credits, and the defaults of Governments on the service of the public debt. How much worse the tale would have been had not President Hoover intervened with his plan for a year's moratorium on inter-governmental debts arising out of the War, it is possible only to guess.

Naturally the fall in prices aggravated the difficulties of the debtor countries, who were forced to find a steadily growing volume of exports in order to pay a constant debt in terms of money. 'By the beginning of 1932, the average fall in gold prices in those countries which had adhered to the Gold Standard was about 30 per cent. from the levels ruling in December 1929 or 30–35 per cent. from the average of that year. This estimate of a 30–35 per cent. fall in gold prices between 1929 and 1932, however, is calculated from national price indices, which include many commodities that are relatively sheltered in domestic markets. If those commodities which are the subject of competitive trading by well-informed buyers and sellers in organized world markets are taken, the fall is much greater . . . Their gold prices dropped in this period by 55–60 per cent.'[1] As far as debtor countries were concerned, even this estimate might not represent the full measure of their difficulties, because the prices of their products, being mostly raw materials and foodstuffs, fell faster than those of the manufactured articles that they had to buy; but even the lower figure of 55 per cent. for the drop of gold prices in less than three years would mean that the volume of exports needed to yield a given sum in gold currencies increased by over 120 per cent. between 1929 and 1932. Countries which abandoned the Gold Standard did not suffer quite so great a fall of prices expressed in terms of local currency; but the greater part of international indebtedness outside the British Empire (with the principal exceptions of the sterling debts of Greece, Egypt, Turkey, China and Latin America) was expressed in terms of gold or of Gold Standard currencies. It is small wonder, under these circumstances, that many countries found it

[1] *World Economic Survey, 1931–32.* (League of Nations, Geneva, 1932.)

impossible to meet their international obligations for interest and sinking fund in full, whether on public or on private debts. At the 1st June, 1932, according to the Council of Foreign Bondholders, the total of sterling loans which were officially quoted on the London Stock Exchange, and which were in default upon interest or sinking fund payments, was £137,906,000. Unpaid interest upon that principal sum totalled £9,650,000, and unpaid sinking funds £8,360,000. Defaulted dollar loans in the same category totalled $11,182,000, on which the unpaid interest amounted to $9,868,000 and the unpaid sinking funds to $2,460,000. On this calculation, London had suffered the non-payment of about £12,000,000 on a principal sum of about £140,000,000. These figures did not include the defaults of Russia and Mexico, on account of their long duration, nor that of the Federal Government of Brazil, since although all the interest payments on Brazilian Government loans had been suspended, bondholders were receiving payment in scrip which possessed a certain market value. The list was confined, moreover, to the obligations of foreign Governments and Municipalities. The Foreign Policy Association published a list of loans in default by Governments, states, and cities at the 1st January, 1932, which (omitting Russia) totalled $2,679,007,000, the amount of interest outstanding being $1,095,465,000. The scope of this computation was very much wider than that of the Council of Foreign Bondholders, but in the difference between them is to be read some indication of the greater success of London, compared with New York, in international investment.

According to the Economic Section of the League of Nations, from September 1931 to July 1932 (this being the critical period of governmental defaults), the following countries established moratoria on their external public debt service: Brazil (September), Bolivia (October), Hungary and Uruguay (December), Chile and Salvador (March), Greece, Latvia and Jugoslavia (April); and the following countries established official moratoria on the service of external commercial debt: Uruguay (September), Germany (February), Chile, Salvador and Jugoslavia (March). Apart from the countries mentioned, Bulgaria found it necessary to restrict releases of exchange for the discharge of commercial debt, and to suspend partially the transfer of the service of the public debt into foreign currencies; and Austria imposed, in May 1932, a general transfer moratorium applicable to all external debts and affecting even the League Loan of 1923. No detailed review of these various defaults can be undertaken here, attention necessarily being concentrated on Germany, as the centre of the War Debts problem and as by far the most important country

in the list, and on the four countries with which the League of Nations particularly concerned itself in this matter—Austria, Bulgaria, Greece and Hungary.

(b) Germany

The account in the *Survey for 1931* of Germany's problem of private international debts ended[1] with a brief mention of the Standstill Agreement of January 1932. That agreement prolonged for a further twelve months, with certain modifications, the contract that was due to expire on the 29th February, 1932. New opportunities were given to short-term creditors to exchange their credits for long-term investments, under guarantee that such investments would be retained in Germany for a period of years. As far as reimbursement credits were concerned, every foreign bank would have the right to demand a 10 per cent. reduction of its claims on the 1st March, 1932, but repayment would only take the form of the extinction of unused credit lines. The amount and time of further repayments would be considered, in the light of the foreign exchange situation, every three or four months, by representatives of the creditor banks, the Reichsbank, and the various debtors. The Reichsbank undertook that it would do its best to provide foreign exchange, but should it be of opinion that that was impossible without courting danger, it would notify the creditors, who would then be at liberty to cancel the agreement.

The first of these Conferences between debtors and creditors was held in London from the 1st to the 5th July, 1932. Arrangements were made to ensure that the preferential reduction of 10 per cent. of all credits, which had not yet been fully carried out, would be completed by the end of the year. As for further reductions, beyond those called for in connexion with preferential rights, it was agreed that the matter should be considered at the next meeting. Outside the official agenda, the possibility of a reduction of interest rates was discussed. There had been considerable agitation in Germany for the reduction of interest charges, in view of the easy money conditions generally ruling in creditor markets, and indeed the Reichsbank was refusing to release foreign exchange for payment of interest in excess of 7 per cent. The rate payable on the rediscount credit that had been granted by the other Central Banks to the Reichsbank was reduced early in the year to 6 per cent., and this the German authorities urged should be regarded as the normal maximum. According to the German press, in April 1932 the English banks were already

[1] See the *Survey for 1931*, pp. 239–40.

charging 6 per cent., the Dutch, Swiss and American 7 per cent., and the French 8 per cent., as a rule, on their respective standstill credits. At the July Conference it was agreed that the delegates should recommend to the bankers' committees in their respective countries the application to German credits of a lower schedule of interest rates. Political and financial agitation for further reductions, however, continued in Germany, and at the next Conference with the creditors, in January 1933, the latter consented to accept still lower rates. Apart from the vexed question of interest rates, the Standstill Agreement worked quite satisfactorily, the chief improvements desired by the creditors being fuller rights to demand repayment of individual debts in marks, so as to liquidate bad debts, and a corresponding extension of liberty to reinvest in Germany the 'blocked' marks thus made available.

These issues were prominent in the negotiations for the renewal of the Standstill Agreement which took place in Berlin in February 1933. As a result of the agreement then signed, any creditor would have the right thenceforward to demand repayment of his debt, in reichsmarks and in quarterly instalments, to the amount of 50 per cent. in the case of cash credits and between 10 and 30 per cent. in the case of commercial credits. The reichsmarks must be invested in Germany for at least five years, or they might be used for financing 'additional' exports or tourist traffic. The creditors also obtained a general repayment of a further 5 per cent. of outstanding credit lines, while in return further interest reductions averaging ½ per cent. were to be recommended to the several national bankers' committees. By this time, that is to say about a year and a half since the signature of the first Standstill Agreement, the volume of the debts covered by the standstill had been reduced to three-quarters of its original amount of approximately Rm. 5,000,000,000 (£250,000,000). From time to time, furthermore, the Reichsbank had effected partial repayments of its international central banking credit of $100,000,000, which had been periodically renewed, not without considerable disagreement between creditors and debtor regarding the conditions imposed. In April 1933 the whole of the outstanding balance of the credit was repaid, but as the operation was effected only at the cost of a great depletion of the Reichsbank's reserves against currency, it may be legitimately regarded as largely a political gesture.

Another move in the consolidation of German short-term indebtedness was made when a Standstill Agreement, covering the short-term debts of German public bodies, was signed in Berlin on the 9th April, 1932, by representatives of the debtors and of English, Dutch,

Swedish and Swiss banks. The agreement covered foreign credits to a total of Rm. 247,000,000 (about £12,000,000 at par), whereof some Rm. 200,000,000 was due from German states and the remainder from municipalities. It provided for a 'standstill' until the 15th March, 1933, an immediate 10 per cent. repayment, and interest at 6 per cent. subject to a minimum of 2 per cent. above current bank rate in the respective creditor countries. Creditors who had been repaid more than 10 per cent. of their claims since the 1st July, 1931, were not to share in the 10 per cent. repayment, while for their part the debtors agreed, in order to avoid discrimination between German and foreign creditors, that they would not repay more than 10 per cent. of any of their internal short-term debts during the life of the agreement. The creditors should have the right to denounce the agreement if for any reason the Standstill Agreement for private short-term debts should cease to hold good.

In the course of the year several German public debtors were forced to default on the service of their debts, but this was primarily a matter of internal finance, not of difficulties with the provision of foreign exchange. On the 1st January, 1933, there occurred the first instance of default on a German public loan raised abroad. The seven biggest cities of the Bavarian Palatinate, which had created a collective twenty-year 7 per cent. loan of $3,800,000 in 1926, found themselves unable to provide the sum of Rm. 600,000 required for the amortization payment due on that date. The cities attributed their financial distress to the general economic crisis, to the growing burden of unemployment relief, and to their inability to obtain financial assistance either from the Reich or from the state of Bavaria. This failure of the Government to intervene in the interests of German credit abroad was particularly regretted in German financial circles. It may be guessed, however, that the central authorities were not unwilling to accept any opportunity of relief from the necessity of providing funds in foreign exchange, since the strain upon the exchange resources of the Reichsbank was proving very severe. According to the Institut für Konjunkturforschung, Germany earned in 1932 a surplus of Rm. 1,100,000,000 (£55,000,000 at par) on her foreign trade, and £10,000,000 from services, but she had to pay out £40,000,000 more than she received in interest[1] and £10,000,000 on Reparations account, leaving only £15,000,000 available for capital

[1] Since the equivalent net interest payment in 1931 had been £65,000,000, the reduction of the interest burden through falling money rates and through progressive redemption of capital was almost precisely equal to the total of capital repayments effected during 1932.

redemption. An additional sum of about £12,500,000 was taken from the gold and foreign exchange holdings of the note-banks, making a total of £25,000,000 to £30,000,000 released for capital repayments abroad during the year. It was most unlikely, according to the signs of the times, that an equal amount would be available for the purpose in 1933, and that fact alone indicated the likelihood of further defaults on long-term loans.[1]

Indeed, the economic conditions in Germany, having their inevitable consequences in the political sphere, were far from improving. The volume of unemployment (which was at all times more subject to seasonal movements than unemployment in Great Britain), stood at some 5,500,000 at the beginning of the year, and rose to a peak of 6,129,000 in March; it fell again during the summer months, but by the end of 1932 once more exceeded 5,500,000. Here was a ready instance of the fact that the achievement of a positive balance of foreign trade could be no insurance against heavy unemployment. The Government made several vigorous attempts to deal with the problem. A bold and comprehensive scheme, effecting virtually a mortgage on future public finances in favour of present relief, was announced by Herr von Papen at the end of August. First of all, a large programme of works, for which £17,500,000 (at par) had already been found, would be continued and extended. Second, the provision of employment would be subsidized by the payment to employers of a premium of £20 per head for each new employee signed on, up to a total of £35,000,000, in the form of negotiable certificates valid for the payment of taxes. This idea was carried further in the third part of the scheme, which provided that in receipt for certain taxes, which weighed particularly heavily on industry, taxpayers should be given promissory notes bearing 4 per cent. interest. These notes might be discounted with the Reichsbank, or otherwise negotiated, or they might be retained for payment of taxes, to the extent of one-fifth of their face value per annum,

[1] On the 8th June, 1933, the Reichsbank announced that as from the 1st July a transfer moratorium would be imposed on the service of all Germany's external debts except those incurred after July 1931, and those coming under the Standstill Agreements. After consultation between Dr. Schacht and representatives of the creditors, the following terms of the moratorium, to apply from the 1st July to the 31st December, 1933, were announced:

1. The interest and amortization on the Dawes Loan would be transferred in full.
2. The interest on the Young Loan would be transferred in full.
3. The amortization payments on the Young Loan and all other loans would not be transferred.
4. Half, but at most at the rate of 4 per cent. annually, of all coupon and other revenue payments falling due would be transferred.

between the years 1934 and 1938. The Chancellor indicated that the ready money which it was hoped would accrue to the Government through this scheme would be used exclusively for the renewal and overhaul of the German productive machine. The Government's expectation was, further, that the promissory notes, by providing potential borrowers with suitable collateral security, would liberate idle funds for the use of industry. The fourth part of the scheme invoked a supposed elasticity of demand for labour. The Government, acting through compulsory arbitration and collective wage agreements, would endorse reductions of wages up to a maximum cut of $12\frac{1}{2}$ per cent., on condition that the employers in question increased their staffs by at least 25 per cent. The total sum hypothetically involved in the whole programme, including public works, tax rebates and premiums, was stated to be Rm. 2,700,000,000 (£135,000,000 at par); and the number of unemployed which (it was officially hoped) might thereby be absorbed was 1,750,000. The failure to make any large impression upon the unemployment figures up to the end of the year is sufficient testimony to the want of success of the plan. For one thing, trade unions effectively resisted attempts to cut wages further;[1] but the main explanation must lie in the generally depressed state of trade and in the psychological attitude of business men, who were unwilling to accept further risks through expansion of activity even at the premium offered by the Government. In December a special Cabinet meeting considered the menace of rising unemployment figures, and decided to proceed immediately with an expenditure of £30,000,000 on public works. £5,000,000 of this sum would be drawn from the Unemployment Fund, the remaining £25,000,000 being covered by unused taxation vouchers under the von Papen programme, which would be placed at the disposal of local authorities for the financing of public works. Apart from these governmental efforts, the Reichsbank endeavoured to stimulate industry by reducing its discount rate (by stages from 8 per cent. on the 9th December, 1931, to 4 per cent. on the 22nd September, 1932), and generally by pursuing as liberal an internal credit policy as its resources allowed.

Meanwhile two important steps had been taken to reorganize German economic life under crisis conditions. The first was the reconstruction of the big banks. Up to 1929, when the Deutsche Bank and the Diskontogesellschaft merged, there had been five great deposit banks in Germany, known as the D-banks: the above

[1] The average fall in German money wages over the two years 1931–2 was in the neighbourhood of 25 per cent.

two, the Dresdner Bank, the Darmstädter und Nationalbank (or 'Danat'), and the Commerz und Privatbank (or 'Compri'). It will be recalled that the German financial crisis of July 1931 began with the failure of the 'Danat' bank, and that the Dresdner Bank was soon involved in similar difficulties, both of them having to receive temporary financial aid from the Reich Government through the Reichsbank. On the 22nd February, 1932, a scheme was announced for the merging of these two great banks. As far as the Dresdner Bank was concerned, its reserve fund would be cancelled and its ordinary capital written down in the ratio of 10 to 3; the preference share capital of £15,000,000 (gold) which had been provided by the Reich during the crisis would be written down in the ratio of 3 to 2, and would be converted into ordinary shares. The Reich would further provide cash resources through the rediscount of a portion of its shares by the Gold Discount Bank, and would also furnish a reserve fund of £1,500,000. The 'Danat' bank had to be even more liberally treated. The reserve would be cancelled, and the remaining share capital exchanged for Dresdner Bank shares, which would be provided by the Reich out of its holding. In order to write off the losses of the 'Danat' bank, the Reich would also provide a reserve of £5,000,000 for the new merger, which would be known as the Dresdner Bank. The reorganization of the remaining two great banks was not so drastic. Shares of the 'Compri' would be written down in the ratio of 10 to 3, and fresh capital would be raised, as to £2,250,000 by sale of shares to the Gold Discount Bank, and as to £625,000 in exchange for shares of a big provincial bank, the Barmer Bankverein, which was to be absorbed. The Reich would provide a reserve of £1,500,000 in the form of pledgeable securities, but this contribution was to be repaid according to a definite schedule. In the reconstruction of the Deutsche Bank the Reich did not participate even to that extent. The bank's share capital would simply be reduced in the ratio of 10 to 4, and then doubled (raising it to £7,200,000) by the issue of new shares, initially to the Gold Discount Bank but eventually on the open market. Besides these financial operations, changes would take place in the managing personnel of all the banks concerned.

It was announced some time later by the Reich Finance Minister that the total obligation of the Reich resulting from the banking reconstruction was Rm. 1,115,700,000 (roughly £55,000,000), made up as follows: cost of purchasing bank shares, Rm. 338,500,000; repayable loans to the banks, Rm. 307,200,000; advances regarded as lost, Rm. 185,000,000; and guarantees, Rm. 285,000,000. The total did not include Rm. 400,000,000 (£20,000,000) of foreign credits advanced to the 'Danat' bank, for which the Reich was still liable under its general guarantee given in July 1931.

The other notable piece of economic reorganization accomplished during 1932 in Germany was the scheme for the state support of the great shipping companies. On the 19th March it was announced that the Hamburg-Amerika ('Hapag') and Norddeutscher Lloyd lines, which together controlled over three-quarters of the German mercantile fleet, would receive from the Reich Government a guarantee for credits to a total of Rm. 77,000,000 (£3,850,000 at par). About Rm. 24,500,000 would be used for the prolongation of maturing liabilities, Rm. 46,400,000 for new credits for the liner business which would be furnished by a banking syndicate and by the Akzept-und-Garantiebank, and the remainder (some Rm. 7,000,000) for credits for the tramp steamer business. The guarantee was granted on condition that the syndicate which had previously granted the shipping companies credits to the amount of Rm. 140,000,000 undertook to prolong them until the 28th February, 1933, and to limit the interest to the Reichsbank rediscount rate.

For their part, the 'Hapag' and Lloyd companies would reduce their share capital in the ratio of 10 to 3, which transaction, together with the cancellation of reserves, would produce a book profit of about Rm. 180,000,000 in each case, to be used for covering losses and depreciation. They also undertook to reinforce the measures of economy that they had already introduced so as to produce an estimated saving of Rm. 45,000,000 (£2,250,000) per annum. The reorganization scheme was to be associated with the provision by the Reich Government of Rm. 23,000,000 (£1,150,000) for 'breaking-up bonuses', that is to say, subsidies on the scrapping of old vessels. In this and in other ways there continued during 1932 the progressive 'socialization' of German industry and finance, conducted by Governments not of the Left, but of the Right, under the pressure of economic circumstances in which public credit was the only refuge from private bankruptcy.

(c) Austria

The affairs of the Credit-Anstalt, the largest bank in Austria, whose collapse was the first and critical event of the international financial crisis of 1931[1], continued to play a vital part in Austria's external financial relations. A capital reorganization scheme, promulgated on the 14th May, 1931, failed to arrest panic, and a month

[1] See the *Survey for 1931*, pp. 208-11, 240.

later the Government guaranteed all the liabilities of the bank, including the external liabilities, which were guaranteed in return for an undertaking from the foreign creditors that for the space of two years they would refrain from enforcing their claims. In November 1931 the Austrian Government concluded an agreement with the representatives of the foreign creditors for the complete reorganization of the bank, under an executive committee of five, three of whom would be nominated by the Government, and one by the creditors' committee, the chairman being the general manager, whose appointment would have to secure the approval of the creditors' committee. The scheme for internal reorganization was modified in the course of its passage through the Federal Parliament, with considerable reduction in the economies that were to have been effected in the heavy working expenses of the bank. After considerable delay, in February 1932, Dr. van Hengel, late Manager of the Amsterdamsche Bank, accepted the post of general manager of the Credit-Anstalt and chairman of the executive committee. One of his first acts was to draw up a plan for the reconstruction of the bank, its essential feature being the liberation of the Credit-Anstalt from the greater part of its liabilities to foreign creditors. In exchange, the National Bank and the foreign creditors were to accept annuities from the Austrian state representing a portion only of their legal claims, but the foreign creditors would obtain, in compensation, part of the share capital of the reconstructed bank. Efforts to secure the acceptance of this plan met with little success. In May 1932, when representatives of the foreign creditors conferred with the Austrian authorities, the Government offered to pay off the creditors in 40 annuities representing between 20 per cent. and 30 per cent. of the debts, but this proposal proved altogether unacceptable to the international committee. However, later in the year an agreement was initialled, based on the van Hengel scheme and providing also for strong co-operation between the foreign creditors and the management of the Credit-Anstalt in the protection of the foreign assets of the bank. In its report of January 1933, the Financial Committee of the League of Nations pointed out that the problem of reducing the working and administrative costs of the Credit-Anstalt and the other Austrian banks was still a very urgent one, which had yet to be definitely faced and solved.

Meanwhile, the general external economic position of Austria was deteriorating. In view of the drain on the foreign exchange resources of the National Bank, a system of control of foreign exchange transactions was instituted in October 1931 and was gradually tightened

up. Nevertheless, the exchange reserves continued to drop, as the following table shows.

RESERVES OF THE AUSTRIAN NATIONAL BANK
(in millions of £ gold)

At the end of each quarter.		*Gold Reserve.*	*Foreign Exchange.*	*Total.*
1931.	I	6·2	18·4	24·6
	II	6·2	10·2	16·4
	III	5·5	5·8	11·3
	IV	5·5	3·7	9·2
1932.	I	5·2	1·7	6·9
	II	4·3	1·2	5·5
	III	4·3	1·1	5·4
	IV	4·3	1·1	5·4

These reserves included the credits granted by the Bank of England (to the Austrian Government) and by the Bank for International Settlements (to the National Bank) when the crisis first began. Towards the end of 1932, when confidence in the finances of Austria was being steadily restored, the restrictions on foreign exchange dealings were somewhat relaxed.

In January 1932 the National Bank notified certain short-term creditors of Austrian concerns that it could not undertake to supply foreign exchange for the repayment of the principal of short-term credits. The Financial Committee of the League of Nations, taking cognizance of this development and recognizing its inevitability, recommended an extension of the veto to all such short-term payments, coupled with the conclusion of a Standstill Agreement with the foreign creditors. The last part of the proposals proved very difficult to achieve, but was eventually carried out. Even so, the reserves of the National Bank continued to fall, and on the 9th May the Government of Dr. Dollfuss, which had just succeeded the Buresch Administration, addressed a note to the League of Nations calling attention to the scarcity of foreign exchange and urging that the League should advise as to whether exchange should continue to be allotted for the service of external debts. It was essential, in order to avoid injury to Austria's financial reputation, that competent authorities, including the League, should admit the justification for discontinuing such service. The foreign exchange assets of the National Bank, explained the Chancellor, at that time consisted almost wholly of the credits granted by the Bank of England and the Bank for International Settlements, and it would be contrary to the understanding on which the credits were granted to allow the reserves to become exhausted. Moreover, it might prove impossible to obtain even those imports absolutely necessary for the population of Austria. The League Council, in reply, expressed itself generally in favour of a relief loan to Austria, and referred the plea to the Mixed Committee of Treasury Representatives and members of the Financial Committee. At the end of May, the Italian Government instructed their Ambassadors in London, Paris and Berlin to call attention to the serious plight of Austria and to urge that the international consideration thereof be accelerated. But the situation in Austria was too critical even for such delay as occurred. On the 23rd May the Government decided that the transfer of debt service must be suspended, and from the 23rd June no releases of foreign exchange for settlement of obligations for interest or amortization were made by the National Bank. This applied to all debts alike, including the League Loan of 1923, but it must be noted that a reserve fund for the payment of interest on that loan was available, under the terms of the international statute; and that the Austrian Government had provided the currency for the repayment of principal a year in advance, so that the instalment of sinking fund due in December 1932 was already in hand. Furthermore, the transfer of the monthly instalments for the service of the League Loan was resumed in January 1933, and the coupon of the 1930 Investment Loan, on which no default had yet occurred, was also paid then in foreign currencies.

A special meeting of the Mixed Committee was held at Lausanne during the Reparations Conference, and decided upon the character and terms of an international loan to Austria. A full description of this loan and subsequent events connected with it is given in a later section.[1] On the 1st September, before the Anglo-American Press Association in Vienna, Dr. Dollfuss declared that the Austrian Government were determined to pay all their debts. Interest on all public and private loans would be paid into the National Bank in schillings, and the exchange required for the resumption of interrupted transfers would be furnished as soon as possible, out of the proceeds of the new loan or from other resources.

The status of the Standstill Agreement was obviously modified by the transfer moratorium. Between the end of August 1931 and the 20th January, 1932, when the original Standstill Agreement expired, over one-half of the short-term banking debts, amounting to 33,687,000 schillings, had been repaid under the terms of the agreements. The renewed contracts, however, provided for a cessation of

[1] See pp. 84–7 below.

capital repayments, and between the 20th January and the end of June the amount outstanding had been reduced only from 16,046,000 schillings to 15,214,000 schillings. The Transfer Decree of the 15th July, as the League representative in Austria remarked, altered fundamentally the conditions under which the Standstill Agreements had been concluded, since their particular object had been precisely to enable Austria, by postponing capital repayments on her short-term debt, to continue the service of her long-term liabilities. Certain foreign banks were consequently inclined to look upon the transfer suspension decree as a breach of the Standstill Agreements, but they refrained from taking any definite action or reprisals. Negotiations for the renewal of the agreements, which again expired on the 20th July, were successful only in securing an agreed postponement of capital repayments until January 1933, no agreement being reached regarding the payment of interest and commission into the special transfer suspense fund which the decree had established at the National Bank.

It remains to add some details regarding the financial position of Austria. In respect of the Federal Budget she made a big effort under League advice and supervision. In 1929, with receipts at £58,200,000 (gold), the accounts showed a small surplus, but by 1931 expenditure had risen to £67,400,000, receipts having remained almost constant. The estimates for 1932, however, again showed a small surplus, with receipts still at approximately the same figure, namely, £57,900,000. The actual results for the year provided a deficit of about £1,000,000.

The foreign trade figures exhibited no such recovery. In 1929 there was an inward balance of £31,000,000 on a total external commodity trade amounting to £158,000,000. By 1931 imports had been cut from £94,000,000 to £62,000,000, but exports had fallen from £63,000,000 to £38,000,000, so that there was still an inward balance of £24,000,000. During 1932 there was a deficit of £18,000,000 on a total trade which had shrunk to £63,000,000. Austria's exports were chiefly manufactured articles, and her trade was especially handicapped by the protective efforts of her neighbours. The external public debt at the 31st December, 1931, was £49,000,000 (gold), requiring in 1932 £3,200,000 for interest and £2,100,000 for amortization, a total of £5,300,000. Other external debt amounted to £48,000,000, not including the debts of industrial, commercial, or other non-banking undertakings, or debt secured on short-term mortgage bonds; the service of the £48,000,000 required £3,200,000 to £3,400,000 in 1932. Thus the position was that quite apart from direct commercial debt Austria owed at least £8,500,000 per annum for external debt service, and had £18,000,000 less than nothing with which to pay it.

(*d*) Hungary

Hungary was one of the first countries in Europe to exhibit the symptoms of a thoroughly diseased financial economy, and to resort to the remedial measures which, regarded internationally, were almost worse than the disease. After the failure of the Austrian Credit-Anstalt in May 1931, there was a swift withdrawal of foreign credits from Hungary, accompanied by signs of waning internal public confidence in the national currency. Extraordinary measures of financial defence were thereupon enforced. A three days' bank holiday was declared in July, and the withdrawal of bank deposits was temporarily limited. All foreign exchange transactions were centralized at the National Bank, while at the same time the declaration to the Bank of all liabilities and assets in foreign currency was made compulsory. A very remarkable scheme, introducing the so-called gold-pengö, was adopted in order to restore the confidence of internal creditors. The equivalent, in ordinary pengö, of the new gold-pengö (the initial ratio being one to one) was to be determined and published daily, on the basis of the London price of gold and the National Bank's quotations for cheques on London. Assets arising out of transactions which had already been concluded would be taken as expressed in gold-pengö (at the rate of one gold-pengö to one pengö), whereas assets under later contracts would be in gold-pengö only if so specified on the contracts, except that all savings accounts and current accounts at banks would be automatically expressed in gold-pengö, and so would all taxes, and all public salaries and pensions. This device, designed to prevent a panic flight from the currency by creditors to whom debts in pengö were owing, obviously effected no change in the amounts of debts or of other financial accounts so long as the pengö was nominally maintained at gold parity, as it was; but if the exchange rate had fallen the country would have been faced with a double currency system, with a fluctuating exchange rate between the money of account (the gold-pengö) and the money of payment and exchange (the pengö). It may be noted that the principle of such a dual money was embodied in certain plans which were being widely propagated at the time, in Great Britain and elsewhere, as a means of escape from, and defence against, trade depressions—the proposal being that the money of account should have a constant purchasing power. But the Hungarian plan was really the reverse of this patent prescription, since the money of account would be tied to gold while the money of exchange might itself possess the more stable purchasing power.

Budgetary trouble accounted for much of the distrust shown by Hungarian investors. The financial year ending on the 30th June, 1931, produced a deficit of 117,000,000 pengö (£4,200,000) in the national accounts, and for 1931–2 a deficit of 175,000,000 pengö (£6,300,000) was in sight. Under a law adopted on the 6th August, 1931, the Government amended the budget in consultation with a commission representative of all the political parties, and by dint of cuts in expenditure and increases of taxation nominally produced a small surplus. Events, however, proved that the estimates were still too optimistic.

As has been noted above, concentration of exchange dealings in the hands of the National Bank was enforced in July 1931; these transactions were thenceforward concluded on a gold parity basis. To begin with, restrictions were placed on releases for payment for imports, but not on those for settlement of interest or sinking fund accounts; under this régime, however, a slow but steady drain of foreign exchange reserves took place. On the 7th September, 1931, the Hungarian Government addressed a letter to the Secretary-General of the League of Nations, requesting the League to examine the financial situation of the country by means of expert inquiry. Consequently, a delegation of the League's Financial Committee, under the chairmanship of Monsieur Suvich, arrived in Budapest on the 8th October and reported on the 24th October.[1]

> It may well be [wrote the delegation] that the ultimate cause of the budget deficit and of the depressed economic situation is not domestic but external—namely, the world depression—the repercussions of which have been particularly severe on a country so largely dependent as Hungary is upon the production and export of wheat, the world price of which to-day is only about a quarter of what it was in 1925. But the Hungarian difficulties have been aggravated by a scale of expenditure in recent years in excess of revenue, by excessive and often unproductive foreign borrowing and by insufficient credit control. The final solution of difficulties arising from over-borrowing cannot be sought in further borrowing, and, moreover, even were the problem such as to find its appropriate solution in the raising of a foreign loan, the condition of the world markets renders such an operation at the moment improbable.

The Financial Committee felt that the measures that had been so far taken to reduce state expenditure had been insufficient, and that the total should be brought down to a level more proportionate to

[1] League of Nations Document *C. 749. (i) 1931. II A.*

the contributive power of the country. The Hungarian Government were induced to declare to the Financial Committee their determination (*inter alia*),

(*a*) To re-establish budget equilibrium for the rest of the current budget year.

(*b*) To reduce state expenses in 1932-3 to a maximum of 830,000,000 pengö (£30,000,000)—compared with a revised budget figure of 918,000,000 pengö for 1931–2.

(*c*) To secure equilibrium in the budgets of all state undertakings.

(*d*) To transfer certain of their industrial undertakings to private hands.

(*e*) To take effective measures to control the expenditure of local authorities.

(*f*) To ask the Financial Committee of the League to appoint a representative to reside in Budapest until the Council of the League should have become satisfied that the financial stability of Hungary was assured. (In accordance with this decision, Mr. Royall Tyler, formerly deputy commissioner of the League of Nations in Hungary, was promptly appointed.)

(*g*) To abandon their efforts to maintain artificially the domestic price of wheat.

(*h*) To furnish regular information to the League and to the public on the progress of budgetary reforms and the condition of the state finances.

(*i*) To revise the general banking legislation in consultation with a representative of the Financial Committee.

(*j*) In order to avoid excessive borrowing in the future:

(i) to assure that the specific previous authorization of Parliament should be obtained by the Minister of Finance for every individual guarantee granted by the state for loan operations of the local authorities, the semi-public and private institutions.

(ii) to enforce their power to control borrowings at home and abroad by state undertakings and local authorities, to limit such borrowings to strictly productive purposes, and to consult the National Bank before consenting to any such loans abroad.

(iii) to concert with the National Bank measures to secure that any transaction involving foreign liabilities in excess of, say, 2,000,000 pengö (£70,000) should be brought to the previous notice of the National Bank.

The Financial Committee described the steps proposed as eminently desirable, but they doubted whether the budgetary totals were not still too high, and recommended that expenditure be cut to a maximum rate of 800,000,000 pengö (£29,000,000) per annum as from the 1st November. The state budget for 1931–2 actually showed a deficit of 160,000,000 pengö, and a further deficit of 150,000,000 was in prospect (January 1933) for the next financial year, despite the fact that expenditure estimates had been reduced to 806,000,000.

The Financial Committee were sharply critical of Hungary's position in respect of external debt, declaring that while the direct total indebtedness of the state could not be considered excessive, the debt of the whole community of Hungary had been increased in the past six years at a rate which the real needs of the country did not warrant. The Committee admitted that time and effort were required to open new channels of trade in order to make up for the alteration of financial movements, and that Hungary was subject to special difficulties through her reliance on wheat exports (which, with wheaten flour, had formed one-fifth of her total exports in 1929); but they expressed considerable optimism regarding Hungary's capacity to create and maintain an active balance of trade.

The Committee adversely criticized the National Bank for its 'unwillingness to apply the normal remedy for the protection of its reserves by increasing its discount rate'. They drew attention to the previous incapacity of the Bank to direct the credit system of the country, on account of its want of control over borrowing from abroad; this, however, had since been remedied by the control of foreign exchange operations. (It may be observed, in passing, and as a point of general interest, that if the above comment of the Financial Committee was sound, then, by analogy, Central Banks in creditor countries like Great Britain or the United States could not have possessed proper or complete authority over their respective credit systems so long as the time, character, and volume of the export of capital was beyond their control.) In the opinion of the Committee it was essential that the stability of the pengö should be maintained, but if this was to be done, and foreign obligations for interest were to be met, then exchange operations must be so controlled as to restrict imports to an indispensable minimum. Such a restriction of imports implied in its turn a contraction of internal credit, in the absence of which a rise of prices would be inevitable. While they recognized that it was not possible for Hungary to meet all the maturities of her short-term debt as they fell due, wherefore they urged the conclusion of Standstill Agreements, they considered that she should make every effort to meet the service of her long-term foreign debt in full.

For some months the efforts of the National Bank and the Government to pay the service of the external debt were continued, but the supply of foreign exchange began to prove inadequate. The total annual charge on Hungary's foreign debts, short and long term (reported Mr. Royall Tyler), had been estimated at approximately 300,000,000 pengö (£11,000,000). Between the date when exchange dealings had been concentrated in the hands of the National Bank (17th July) and the end of the year the Bank had sold 201,000,000 pengö of exchange, 114,000,000 of which had been for debt payments, for which purpose further payments had doubtless been made by banks and others who were in possession of the necessary exchange. During the same period, the Bank had bought only 195,000,000 pengö of foreign exchange, of which 88,000,000 pengö came from the proceeds of a Treasury bond issue in August, and 17,000,000 pengö from exchange holdings abroad which had been compulsorily surrendered.

On the 23rd December a decree was promulgated embodying a partial, and potentially a total, moratorium on the transfer of external debt payments into foreign exchange. The amounts becoming payable on all debentures and bonds, as well as on the interest of Treasury bills issued by the Hungarian state, might not be paid to foreign creditors, but must be deposited in pengö at the National Bank. Amounts so deposited would be remitted to a special foreign creditors' fund, in so far as transfer into foreign currencies could not be executed 'without endangering the continuity of the country's economic life or other vital interests'.

In an accompanying *communiqué* the Hungarian Government declared that they proposed to apply the foreign currency at their disposal in the first place to the service of the $7\frac{1}{2}$ per cent. State Loan of the Kingdom of Hungary, 1924 (the League Loan), and then, so far as the supply of foreign exchange permitted, to the secured relief loan; the interest or discount on the secured Treasury bills; the service payments for the Caisse Commune, the Austro-Hungarian State Railway, the Danube-Save-Adriatic Railway; the payments to be made under the London Protocol of the 11th August, 1931;[1] the service payments of the pre-war loans of the city of Budapest under the Ostend Agreement of the 14th August, 1925. Further, for the purpose of preserving the commerce of the country, the Government would authorize the National Bank to sell to Hungarian nationals foreign exchange for the purpose of meeting interest or discount and commission on short-term debts to bankers and others, and of giving effect to the appropriate standstill arrangements which the Government intended to propose to the different short-term creditors.

Protracted negotiations were conducted with the short-term creditors during the next six months. At the beginning of March 1932,

[1] i.e. payments under the Hague Reparations Settlement as adjusted in accordance with the Hoover Moratorium.

a Standstill Agreement was reached with the British creditors, according to which interest and commission on the short-term debts would be deposited for the time being in pengö, except where the creditor banks were prepared to continue debiting their Hungarian debtors with these sums in the form of overdrafts. Guarantees were demanded and given that Hungary would follow a foreign exchange policy (for instance in respect of clearing agreements) such as would render it impossible for preference to be accorded to any particular group of creditors. Prolongation of maturities was to continue on these terms until the 1st August, 1932. A similar agreement was reached with representatives of the American banks concerned at the end of June. Extensions of these arrangements were subsequently negotiated. It was estimated that the total foreign short-term indebtedness of the Hungarian banks was about £22,000,000, of which about £7,000,000 was owing to American and £4,000,000 to British bankers.

In spite of these measures there was a further fall of the exchange reserve. The total of gold and foreign exchange held by the National Bank fell from 118,000,000 pengö (£4,300,000) at the 31st December, 1931 (it had been 129,000,000 pengö at the 30th June, 1931) to 107,000,000 (£3,900,000) at the 30th June, 1932. During the first three months of the year the amount of exchange allotted for foreign debt payments totalled 10,400,000 pengö and in the second quarter 5,900,000 pengö.

By May the foreign exchange holdings of the National Bank had fallen so low that the Bank was compelled not to transfer the monthly instalments of League Loan service, and at the end of June the trustees of the Loan announced that the funds in foreign currencies then in their hands were insufficient to meet in full the interest due on the 1st August. Shortly afterwards the assigned revenues (except the pengö equivalent of the non-transferred service dues) were removed from the trustees' control.

As was the case with the Austrian League Loan, certain funds were already available for maintaining the service of the Reconstruction Loan for a while. The trustees had in hand the reserve created under the General Bond (equivalent to six months' service in the various currencies in which the loan was issued), together with four monthly instalments out of the six which should normally have been paid to them by the 15th June, 1932, and certain other assets. On the 4th August the Hungarian Government issued a statement acknowledging the importance of preserving the status of the loans issued under the auspices of the League of Nations, and suggesting that the interest service could be maintained if the trustees of the loan were to apply the reserve fund to meeting the coupons before providing redemption. On this basis the Government expressed the confident hope that, in the absence of any further deterioration of the position or of any serious and unforeseen emergency, they would be able to provide the assets required in foreign exchange to meet the coupons up to and including the one due on the 1st August, 1933.

Meanwhile, the balances of pengö due for exchange into foreign currencies but not transferred were piling up. At the 30th June, 1932, the aggregate sum paid into the foreign creditors' fund was 58,300,000 pengö (£2,100,000), while arrears totalled 8,300,000 pengö (£300,000). The total of matured coupons and drawn bonds which by the same date had been redeemed in pengö, either by the controllers of the fund or by the debtors themselves, amounted to 10,700,000 pengö (£400,000), so that the amount actually held by the National Bank was 47,600,000 pengö (£1,700,000). The fund had not been invested, but interest was being paid on accumulated balances at a rate one per cent. below that paid on fixed deposits by the big Budapest banks. It may be noted that the authorities in Hungary were pursuing a comparatively liberal internal credit policy, the bank rate being reduced progressively to 5 per cent. from a maximum of 9 per cent. in July–September 1931; consequently, internal prices showed a decline in no way comparable with the big drops in the price indices of other countries. By the 30th November, 1932, the Hungarian State Government were over 18,000,000 pengö in arrears on their obligations to the Foreign Creditors' Fund, and later they ceased altogether to transmit to the Fund the pengö equivalent of the service of the external public debt, pleading the inability of the Treasury to find the money. This unilateral act of default came in for severe criticism by the Financial Committee.

Hungary's estimated annual indebtedness of 300,000,000 pengö for interest and other debt service may be compared with exports, in 1932, of 332,000,000 pengö, and imports of 337,000,000 pengö. Thus unless prices were to rise, or Hungary's exports were to increase substantially in volume, the maintenance of full debt service would have required that imports should be cut down to negligible amounts, in fact far below the total of indispensable raw materials. Hungary's trade was, of course, being choked by the restrictive policies of her neighbours induced by their own financial troubles, and in an attempt to mitigate her difficulties she adopted the policy of concluding clearing agreements with them. By October 1932, she had signed clearing agreements with Austria, Belgium-Luxembourg, Czechoslovakia, France, Germany, Italy, Rumania and Switzerland, which countries took, at the time, over three-quarters of Hungary's exports. The League representative, reviewing the results of these agreements up to the 30th September, described them as deplorable, and the agreements themselves as defensible only on the ground that, without them, Hungary's trade with the countries in question would have ceased altogether. In their report of January 1933, the Financial Committee of the League pointed out that the various clearing agreements had, in practice, given results quite opposite to those expected by the parties; in Hungary they had had the effect of increasing the proportion of imports to exports, of causing an influx of unessential goods and of contracting the total volume of foreign trade, the contraction being felt more especially in the export trade. Although they had not yet denounced any of those agreements, the Hungarian Government, in agreement with the National Bank, had introduced a system of compensation arrangements which could be reasonably expected to give a wider expansion to international trade. The Hungarian Finance Minister, describing the Government's economic policy on the 31st January, made an exception in favour of the clearing agreement with Austria, which, he said, was working satisfactorily.

(e) Bulgaria

The difficulties of Bulgaria in respect of her external debt first attracted wide public attention during the session of the Financial Committee of the League of Nations held in Paris during the first fortnight of March 1932. The main business of the Committee on that occasion was to consider applications for financial assistance from Greece and Bulgaria. After some days of discussion, it became known that the Bulgarian Government had instructed their representatives to press for the immediate grant of financial reliefs, as the Government found themselves otherwise unable to meet the instalment of their external debts due on the 15th March. This crisis, however, was the conclusion of a sequence of gradually increasing financial difficulties. As early as January 1931, the Financial Committee, which had a special interest in Bulgaria on account of the administration of the Refugee Loan of 1926 under League auspices, and of the existence of other international controls, reported that the budget situation, which betrayed a considerable deficit, called for the closest attention on behalf of the Bulgarian Government.

This moderate and optimistic tone was retained by the Financial Committee in a report a year later. Despite the efforts of the Government, it then seemed probable that the expenditure for the year

1931–2 would total 7,100,000,000 leva (£10,500,000) against revenue of only 6,490,000,000 leva (£9,600,000); however, measures recently adopted were expected to reduce the deficit to 350,000,000 leva (£520,000). In fact, the deficit proved to be more than double that sum. The Bulgarian Government made known to the Committee their determination to balance the budget for 1932–3 (including the budget for railways and ports) on a basis of 7,000,000,000 leva, the result to be achieved partly by an increase of revenue and partly by a reduction of expenditure. The Committee urged that the figure of 7,000,000,000 leva be regarded as a maximum, since it seemed to them most unlikely that the revenue would exceed that amount. They renewed previous recommendations to the Bulgarian Government concerning both economies and new fiscal resources. These included the reduction of the number of civil servants and pensioners, the establishment of turnover and liquor taxes, and an improvement in the collection of direct taxes. Two months later, the findings of the Financial Committee were considerably gloomier. It might well be doubted, they reported, whether the revenue in 1932–3 on the existing basis could greatly exceed 6,000,000,000 leva, while the expenditure had not yet been brought down even to the promised figure of 7,000,000,000. Plans worked out in consultation between the Government and the Financial Committee's delegation in Sofia had cut the prospective deficit to 300,000,000 leva; but the Committee felt that the importance of restoring a properly balanced budget demanded that further energetic measures be taken to meet that remaining deficit, and they believed that this should be possible if a radical reorganization of the financial administration were carried out by the Government. In January 1933 the Financial Committee reported that the budget for 1932–3 already showed a deficit of some 600,000,000 leva (£900,000), which would probably amount to between 800,000,000 and 900,000,000 leva (say £1,250,000) by the end of the financial year. Unfortunately the Committee had not received the impression that the measures of reform which were imperative formed as yet the subject of any coherent programme.

Meanwhile, the other aspect of Bulgaria's financial troubles, the problem of external transfer, had raised acute difficulties. Even after the stabilization of the leva in December 1928 with the aid of a 'League' loan, complete freedom of trade in foreign exchange, which had been subject to regulation since 1923, was not restored, and on the 15th October, 1931, monopoly control over such transactions was once more vested in the National Bank. This action, involving a ban on luxury imports and the strict curtailment of transfers for the settlement of short-term and commercial debts, was taken under pressure of a considerable loss of exchange. During 1927 and 1928 and the beginning of 1929 there had been a progressive influx of private short-term credits of every description. In the second half of 1929 the movement was reversed, and during 1930 and 1931 there was an extensive withdrawal of such credits. The internal banking position was thereby strengthened, but during the course of 1931 the reserve of the National Bank fell from 2,661,000,000 leva (£3,950,000) to 1,768,000,000 (£2,620,000), in spite of a surplus on the trade balance officially placed at 1,274,000,000 leva (£1,890,000).

In the opinion of the League's Financial Committee (reporting on this situation in January 1932), it was important that the public should realize that bank reserves were designed to meet periods of exceptional difficulty such as that through which the world was then passing, and need not, in consistency with sound central banking usage, be regarded as entirely unavailable. In cases of necessity, and until conditions should improve, some part of such reserves could safely and properly be used. On the other hand, it was imperative that every step should be taken to secure to the National Bank complete control over operations in foreign exchange, which it was evident the Bank had not yet obtained. Indeed the Committee held it unfortunate that the National Bank had not put into force at an earlier date the regulations which it subsequently adopted and which would have checked the withdrawals of foreign credits.

On the transfer issue, as on that of budgetary equilibrium, the Financial Committee's tone changed rapidly from optimism to doubt. In January 1932 they remarked that Bulgarian merchandise exports had exceeded imports by 1,601,000,000 leva (£2,380,000) in 1930 and by 1,218,000,000 (£1,810,000) in the first eleven months of 1931, and that the service of the state debt amounted, during the period of the Hoover moratorium, to about 900,000,000 leva (£1,300,000) per annum; hence whatever qualifications might have to be made to those figures there should still be a considerable surplus. Two months later they calculated that in view of the rigorous restrictions placed on imports by Bulgaria's principal customers in Central Europe, either through import contingents (quotas) or through control over exchange dealings, and having regard to the inadvisability of attempting too great a contraction of the country's economic life, it would be rash to count on an average credit balance in foreign exchange, reverting to the National Bank in respect of commercial transactions, of more than 100,000,000 leva a month. The foreign liabilities to be met out of this balance included the repayment of private debts, invisible imports, and the service of the public debt and debts guaranteed by the state. The total volume of private indebtedness had been estimated at nearly 5,000,000,000 leva (£7,000,000) but in practice, the Committee's delegation concluded, only about 1,300,000,000 leva (£2,000,000), consisting almost entirely of sums due in respect of goods, could effectively be claimed. The Committee considered that in any case the Bank would be obliged to meet a monthly debit balance of at least 10,000,000 leva in respect of invisible imports.

As for the public debt service, transfers on that account to be effected during the six months April–September 1932 amounted on an average to 91,000,000 leva per month, including 22,300,000 for Reparation payments. Upon the termination of the Hoover Moratorium, a half-yearly Reparation payment would fall due on the 30th September, but under the system of monthly payments in advance Bulgaria would have to recommence payment as early as the 15th April. However, since the 1926 international loan and certain pre-war loans had priority over Reparation payments in regard to the transfer of foreign exchange, it was obvious that no transfer could be made on account of Reparations during a period when (as the Committee proposed) a special system was to be applied for transfers on account of the public debt service. Under those conditions, it seemed unnecessary for the moment to contemplate the setting up of the Transfer Committee under the Reparation settlement, and the suspension of monthly Reparation payments should simply be continued.

The Committee, in short, came to the conclusion that the situation in regard to foreign exchange did not enable Bulgaria to meet all the transfer obligations which she had contracted. It was true that the National Bank had at its disposal a gold reserve amounting to 1,512,000,000 leva (£2,250,000), and that this must be regarded as a reserve available for exceptional periods of difficulty such as that through which Bulgaria was then passing; nevertheless the Committee held that temporary concessions by the different categories of foreign creditors were inevitable in order to assist Bulgaria during the economic crisis. The Committee was, therefore, of opinion that transfers for the whole of the payments in respect of the external public debt should be reduced by 50 per cent. during the six months April–September. It would rest with the Bulgarian Government to decide how their future stock of foreign exchange could best be utilized in the general interests of the country and its future credit. In any case, the Government should continue to enter amounts not transferred in their budget and to pay those amounts in leva into a special blocked account, which might be temporarily invested in Bulgaria by the transfer to the fund of commercial bills or Treasury bills in the possession of the National Bank. A similar effort at restriction would naturally be required in respect of private indebtedness. The reduction by one-half of the transfer of the public debt service would reduce the latter to 45,500,000 leva per month[1], which, on the basis of the foregoing estimates, would leave a monthly sum of 54,500,000 for the settlement of private debts and so-called invisible imports.

The recommendations were carried out, and a provisional agreement come to between the Bulgarian Government and groups of the external public debt bondholders. In November 1932 a further agreement, providing for a reduction of the transferred portion of the service of the two League Loans, was negotiated in London. The position, however, deteriorated quickly, owing to the rapid fall in the value of Bulgaria's exports and the compulsion under which she was placed to accept commercial agreements with a number of countries, limiting releases of exchange from the proceeds of trade with those countries. Total exports of merchandise during 1932 amounted to £4,700,000 (gold), and imports to £6,800,000,[2] so that instead of a surplus of foreign exchange available for debt service there was actually a deficit to be met.

(*f*) Greece

The post-war economic situation of Greece was dominated by the necessity of providing for the thousands of refugees who streamed into the country from Asia Minor and elsewhere during and after the Greco-Turkish war.[3] To begin with, it was a question of providing these unfortunate people with the barest elements of subsistence, shelter, and sanitary and medical service, but when that had been done the Government, under international advice, embarked on a large programme of public works, notably irrigation projects, designed to render the greatly increased population self-supporting and eventually to minimize the country's need to import considerable quantities of essential foodstuffs. Loans for purposes of refugee settlement

[1] This is the figure given by the Financial Committee. It represents one-half of the total public debt service, which, however, included 22,300,000 leva for Reparation payments. The latter were not to be transferred at all during the currency of the Committee's emergency plan.

[2] Issues of foreign exchange by the National Bank, however, totalled only £5,000,000, indicating that about £1,500,000 worth of goods had been imported on credit.

[3] See the *Survey for 1925*, Vol. II, Part II E, section (iii).

and financial stabilization were raised under the auspices of the League of Nations in 1924 and 1928, and their service, along with that of certain other state indebtedness, was administered by an International Financial Commission representative of the Governments of Great Britain, France and Italy. Further international supervision existed in the person of a League adviser to the Bank of Greece, the statutes of which were promulgated in conformity with an international protocol signed at Geneva in 1927.

As into other Central and Eastern European countries, capital poured into Greece from 1925 to 1928, establishing a large inward balance of trade—although in the case of Greece a considerable volume of 'invisible exports', chiefly shipping services, tourist traffic and the remittances home of former emigrants, offset some of the excess imports of merchandise. Even in 1929 there was an inward balance of merchandise trade amounting to £17,000,000, on a total external trade of £55,000,000; in 1930 the deficit was cut to £12,500,000, and in 1931 to £12,000,000, on a total trade of £33,000,000. Nevertheless, the cessation of foreign lending, the anxiety of investors to remove their money from a country whose immediate economic future seemed precarious, and the low price of Greece's exports (chiefly tobacco and currants) caused a severe and rapid depletion of reserves of foreign exchange. Between the 31st December, 1930, and the 30th September, 1931, the reserves of the Bank of Greece in gold and foreign exchange dropped from 3,000,000,000 drachmae (£8,030,000) to 2,355,000,000 (£6,280,000). On the 28th September, 1931, restrictions were imposed on dealings in foreign exchange, and the Bank of Greece proceeded to limit the amounts of exchange allotted for purchase of imports. Even this measure did not prove effective in checking the drain of exchange, and in the last quarter of the year the reserves of the Bank fell still more rapidly, to 1,916,000,000 drachmae (£5,110,000). The threat to the country's trade that was involved in the departure of Great Britain from the Gold Standard, as well as the direct depreciation of the Bank's sterling assets, had alarmed investors, and there were signs of a flight from the drachma.

It was under these circumstances that the Greek Government and the Bank of Greece, in January 1932, invited the Financial Committee of the League to study the financial position of the country. At the same time the Prime Minister, Monsieur Venizelos, addressed to the three Governments represented on the International Financial Commission in Athens a request (1) for the suspension of external sinking funds, and (2) for support for further foreign loans to complete the irrigation programme in the valleys of the Struma and the Vardar.

These two requests, involving a five-year moratorium on sinking funds, were the basis of the proposals laid by the Greek Government before the Financial Committee at its March meeting, when the report on the investigation into the country's financial position was considered. By that time the total foreign exchange resources of the Bank of Greece had fallen to 1,275,000,000 drachmae (£3,400,000) which was almost exactly equal (at the Committee's reckoning) to the annual service of the foreign public debt of Greece, namely, not less than 900,000,000 drachmae for interest and about 330,000,000 for sinking fund. These figures for the foreign debt service were reached after allowing for reductions resulting from the Hoover Moratorium, for the saving on sterling loans through the depreciation of the pound, and for the payment of certain coupons of foreign loans to Greek residents who had repurchased them; and no provision is reckoned in them for the service of private indebtedness. This huge obligation stood in face of an external trade account which scarcely balanced even at the highest reckoning of invisible items. There was also a troublesome budget problem, for although the 1931–2 budget would show only a small deficit coverable by previous surpluses, on the budget for 1932–3 there was a prospect of a deficit of 1,300,000,000 drachmae (£3,500,000), which the utmost economies yet proposed by the Greek Government would not reduce below 400,000,000. Further, irrigation works in hand, which were not included in the budget, and for which no cash resources were available, would require approximately 1,000,000,000 drachmae in 1932–3 if the actual programme were to be carried out. The budget for 1932–3 actually produced a deficit of £2,000,000, in spite of the fact that provision was made for payment of only 30 per cent. of the foreign public debt service.

Nevertheless, in their report of March 1932 the Financial Committee declared that of the two problems, the transfer problem and the budget problem, the former was undoubtedly the most urgent. They regarded it as impossible, in the circumstances, for the Greek Government to maintain in full the transfer service of their foreign debt. They felt obliged to recommend that the International Financial Commission should be authorized to agree to suspend, for the period of one year (as compared with the five years of the Greek project), the transfer of the sinking funds of Greek loans under its control, and that similar measures should be applied to other Greek foreign loans. The Committee felt unable, 'in this particular instance', to urge any separate treatment for the League Loans of 1924 and 1928.

The recommendation was made subject to the maintenance by the Greek Government of the full payment in drachmae of the non-transferred amortization. The Committee suggested that, except where amortization could be satisfactorily accomplished in drachmae to be retained in Greece, the drachmae amounts should be paid over to the International Financial Commission, though they might be re-lent temporarily to the Greek Government for unavoidable expenditure on existing irrigation schemes, subject to their repayment out of any further loans which might be floated abroad for the continuance of those works. A precedent for such a course had been created, it may be observed, in the provision of the Young Plan for German Reparations, that if payments made in reichsmarks could not be transferred into foreign currencies without injury to Germany's economy, they might be invested temporarily in productive enterprise in Germany. During the currency of the Hoover Moratorium the unconditional part of the Reparations annuity was in fact paid in reichsmarks which were reinvested in bonds of the German Railway Company. The League Financial Committee declared that it would be necessary to reduce temporarily the expenditure on irrigation works to the smallest sum compatible with the need for safeguarding the work already done, and in no circumstances ought the expenditure to exceed the aggregate of the sums in drachmae due on foreign loans but not transferred.

The Committee emphasized their opinion that measures aimed at the balancing of the budget, including both increases of taxation and reductions of expenditure, were essential if Greece was successfully to make the appeal (which the Committee was prepared to support) to her foreign creditors for restraint in pressing their legal claims. Proposals were also made for the financial reorganization of the railways. However, the main preoccupation of the Committee remained the question of transfer. The Committee held that the steps taken to reduce and control imports, and the reduction of government expenditure abroad, other than debt services, together with the recommended cut in foreign sinking funds, would enable Greece to maintain the interest service of the public debt. At the same time, it was a matter of urgent importance that Greece should be included in a general scheme for the raising of guaranteed loans under international auspices.

The proposals of the Financial Committee on the one hand fell short of what the Greek Government asked and apparently expected, while on the other they aroused vigorous protest among their creditors, especially in respect of the League Loans. Pending a direct settlement with representatives of the bondholders, the Greek Government refused facilities for the transfer into foreign currencies

of the sums in drachmae retained by the International Financial Commission. Two months after the League Committee had reported, this policy on the part of the Greek Government was the subject of formal protest by the three Governments represented on the International Commission—Great Britain, France and Italy. This instance of direct governmental interference on behalf of bondholders appears to have been unique in the history of European finance during the period under review, and it was, of course, essentially associated with the international control of the service of the loans in question. It was not until the 13th September that announcement was made of agreement between the Greek Government and representatives of their creditors. While the debtor Government recognized their full liability on their external obligations, they could not, they declared, find means for providing the service of the sinking funds of the external loans, nor meet more than a limited amount of interest charges during 1932–3. Payments in foreign exchange amounting to 30 per cent. of the total annual interest service on each loan would be made and applied to the first half-yearly or first two quarterly coupons payable during the financial year. The parties to the discussions agreed to meet again in November, when half the Greek fiscal year would have elapsed, in order to re-examine the capacity of Greece to make further payments on interest account during 1932–3. These arrangements were recommended to bondholders by the Council of Foreign Bondholders and by the League Loans Committee.

The proposed negotiations were, in fact, postponed owing to the failure of the Greek Government immediately to complete their undertaking to pay 30 per cent. of the annual interest service, and owing to disagreement over the question of releasing for the benefit of the Greek Government the blocked sums in drachmae in the hands of the International Financial Commission. On the 25th January, 1933, however, it was announced that the 30 per cent. had been duly paid; and that, in agreement with representatives of the bondholders, the three Governments represented on the International Financial Commission in Athens had thereupon directed the Commission to release to the Greek Government all the amounts accumulated by them in drachmae on account of sinking fund up to the 31st August, 1932, together with the balance of the service moneys up to that date after deducting the 30 per cent. of the interest. As from the 1st September, 1932, up to the end of the current Greek fiscal year (April–March), the Commission would accumulate and retain an amount in drachmae equivalent at current rates of exchange to 35 per cent. of the annual interest service of the Greek External Debt, releasing the balance of the assigned revenues to the Greek Government. On this basis the latter would reopen negotiations with the bondholders' representatives.

Releases of exchange, over and above payment for imports, were not made for the service of the state debt at all until the arrangement described above was reached; but the service of private long-term debts was met in full, together with the interest on private short-term commercial debts. Repayment of the latter, however, was restricted to the grant of foreign exchange every six months to the extent of not less than 10 per cent. of the total debt.

Between the report of the Financial Committee and the temporary settlement with the bondholders, important changes had occurred in the external economy of Greece. On the 23rd April, 1932, the Gold Standard was abolished. At the same time, the system of exchange control was reinforced. The importation of goods other than cereals, animal products and foodstuffs was severely restricted. Not merely were exporters still obliged to hand over the whole of the foreign exchange they acquired, but a proportion of the proceeds of the export of certain products had to be made over at the former parity of the drachma, whatever the depreciation. Greece was the only one of the debtor countries of Central and Eastern Europe to allow the formal depreciation of the external value of her currency, the nearest instance being Austria, where an unofficial or 'black' market, on which the schilling sold at a considerable discount, was recognized alongside the official market on which the schilling retained its former par value. The decline of the drachma *pro tanto* enhanced the nominal burden of the external debt, but equally it promoted exports and hindered imports. The comparatively great importance of the British market to Greece, and the fact that a large part of her external indebtedness was expressed not in gold but in sterling, differentiated her from other Balkan countries and helped to explain her decision, contrary to theirs, to abandon the Gold Standard. By the end of the year the drachma had depreciated to less than one-half its par value in dollars, so that sterling itself stood at a high premium in terms of drachmae. On the 30th July, 1932, a decree was published providing that all bank deposits and debts of every description, including debts for current interest, which were contracted before the abandonment of the Gold Standard on the 26th April and were expressed in terms of foreign currency, should be considered as converted into drachmae at a rate of 100 drachmae to the dollar, par being 98. Exemptions from this relief to debtors were (*a*) debts arising from commercial transactions with foreign creditors, and obligations of foreign debtors to Greece; (*b*) debts in foreign currencies arising from insurance policies; (*c*) deposits in foreign exchange belonging to foreign subjects permanently residing outside Greece; (*d*) deposits of the foreign diplomatic corps; and (*e*) share issues and loans floated abroad by Greek companies. This measure, it may be observed, was in many respects the direct opposite of the action of the Hungarian Government in establishing the gold-pengö, for the Hungarian expedient, so far from converting gold debts into debts for local currency, actually translated debts for local currency into their gold equivalent.

(*g*) The League Loans

The part played by the Financial and Economic Organization of the League of Nations in promoting the financial restoration of Europe, ever since the first attempts at stabilizing the Austrian currency in 1921, was the object of considerable applause by supporters of the League. By the middle of 1932, however, apologists might have been excused for doubting whether, on the whole, the League had gained prestige by participating in financial reconstruction. Of the six large loans issued under the auspices of the League, transfer of service had been altogether suspended at that time as regards the Austrian and Hungarian and the two Greek loans, while only 50 per cent. of the service of the Bulgarian loans was being furnished to bondholders. It was therefore more natural than justifiable that these defaults should have redounded, in the public mind, to the discredit of the League's Financial Organization (which in more than one case, had, indeed, been responsible for recommending the suspension of transfer). Yet neither the League nor its constituent Governments had ever assumed any legal obligation in respect of the loans, except as regards the Austrian loan of 1923, which was guaranteed in varying proportions by a number of external Governments.

Nine loans, totalling approximately £80,000,000 in nominal value at pars of exchange, were issued between 1923 and 1928 on the basis of schemes recommended by the Financial Committee of the League and approved by the Council. In most cases the issue of the loan was made conditional upon the acceptance by the debtor Government of some form of supervision over its finances by League representatives, as well as the assignment to international trustees of specific revenues from which the service of the loan would be met. Thus apart from any moral responsibility, which might be imputed to the League, for securing the recognition of a special status for these loans, they were rendered attractive to the investor by the certification of the League that the scheme of financial reconstruction or refugee settlement was a sound one, by the allotment of sufficient revenues amply to cover service, and by the continued concern of the League in the internal finances of the borrowing countries. The result was that—in so far as comparison is possible—these League loans seem to have commanded a higher price than similar governmental loans not issued under the authority of the League, while many of them admittedly could not have been raised at all but for the League's action. Below is a list of the loans showing the centres in which they were issued. It may be remarked that the place of issue does not necessarily indicate the ultimate source of the subscriptions; for instance, many blocks of League loans issued in New York and other centres were known to be held in London by large investors who were in a position to take advantage of minor differences of price between one centre and another.

League Loans

£'000,000's at pars of exchange.

Loan.	Total Issue.	Countries of Issue.			
		Great Britain.	*U.S.A.*	*France.*	*Other Countries.*
Austrian 6% Guaranteed Loan, 1923 . . .	32·0	14·0	5·1	1·4	11·5
Bulgarian 7% Refugee Loan 1926	3·2	1·7	0·9	—	0·6
Bulgarian 7½% Stabilization Loan, 1928 . . .	6·2	1·5	1·8	1·0	1·9
Danzig (Free City) 6½% Tobacco Monopoly Loan, 1927	1·9	1·5	—	—	0·4
Danzig (Municipality) 7% Loan	1·5	1·5	—	—	—
Estonian 7% Banking and Currency Reform Loan, 1927	1·5	0·5	0·8	—	0·2
Greek 7% Refugee Loan, 1924	12·3	7·5	2·3	—	2·5
Greek 6% Stabilization and Refugee Loan, 1928 .	7·6	3·4	3·1	—	1·1
Hungarian State 7½% Loan, 1924	14·1	7·9	1·5	—	4·7
Total, nine loans .	80·3	37·5	15·5	2·4	22·9

The high proportion issued in London becomes even more striking if the Austrian loan, which alone among them was guaranteed by

external Powers, is omitted. Of the remainder, some 53 per cent. was originally subscribed in London.

The main reason why investors in these loans were disappointed of their expectations was one which would have injured their assets at least as badly, and almost certainly worse, had they resorted to any other type of international investment. This was the great fall in prices which, accompanied by the cessation of international lending, made the burden of their debts, as expressed in goods, intolerable for all debtor countries.

In some measure, however, the fall in prices and the drying up of the stream of loan money served merely to unmask defects in the economies of the borrowing countries which would in any case have come to light eventually. In certain instances it seemed that the total annual obligations of the debtor country in respect of its whole external debt, private and public, exceeded any trading surplus which could be counted upon even in prosperous times; or that the internal economy of the country was based unduly on the indefinite continuance of loan works financed with money borrowed abroad. Sometimes the fault lay with the public finances—there was insufficient central control over public expenditure of loan moneys or even current outgoings, or the budget was established on such a scale that revenue was certain to be inelastic should it prove necessary to increase expenditure for emergency purposes, which would certainly occur just when revenue was falling. These were faults which were certainly not confined to the recipients of League loans, but critics were inclined to suggest that, had the investigation and supervision conducted by the League's Financial Organization been a little more insistent and longer maintained, public warning of danger might have been given earlier to the debtor Governments. In view of the strictures passed on Hungarian public finance by the special investigation of October 1931,[1] for instance, it was claimed that in releasing Hungary from budgetary supervision in 1926 the League accepted a premature discharge from its responsibilities.

On the other hand, defenders of the League's Financial Organization urged that the international controls, which had been instituted for a definite limited purpose, were rightly terminated when that purpose had been achieved. They could not have been prolonged merely by reason of the possibility that fresh troubles might arise from fresh causes. The investor in League loans was assured only against certain risks, namely, the internal risks occurring during the execution of schemes, and in this assurance the League did not fail him.

[1] See pp. 57–9 above.

In April 1932, a committee was formed in London, at the instance of the Bank of England, to protect so far as was possible the bondholders of League loans. The committee included, among others, Sir Austen Chamberlain, who was chairman, Sir Otto Niemeyer and Sir Arthur Salter. The association of the last-named, who had lately retired from the directorship of the Economic and Financial Section of the League of Nations Secretariat, with the committee and with its representations concerning the special status of these particular loans must be taken to indicate that the League experts chiefly responsible for the flotation of the loans had assumed them to acquire a certain 'moral' priority. Later the committee addressed memorials to the British Government and to the Council of the League of Nations. The memorials were dated the 18th July, 1932, but they were not published until the 20th September. The committee, after reciting the list of loans, submitted to His Majesty's Government:

> That these loans were issued at various times since the War with the object of furthering the policy of European reconstruction, and that they were approved in detail by the Council of the League of Nations with the concurrence and support of H.M. Government, which was at all times represented on the Council. The fact that recourse was had to the League shows the difficulty, if not impossibility, of making such issues at the time solely by the normal market procedure.
>
> That it is believed that in all cases H.M. Government desired the success of the loans in the interest of their general policy of European reconstruction, and in more than one instance particularly recommended them to the support of the competent authorities of the City of London.
>
> That the British investing public, which subscribed about half the total of the League loans, did so in the faith that a special security attached to them, and that having regard to the circumstances of the issue both the Council of the League of Nations and H.M. Government would exercise a special watchfulness in regard to them.
>
> That the 'League Loans' have a moral claim to special consideration in view of the facts that, but for the reconstruction schemes in connexion with which they were issued, the service of previous loans could in many cases hardly have been resumed, nor would subsequent lenders have invested funds as they did in the countries concerned.

In view of the defaults or infractions of general bonds which had already taken place on several of these loans, and of 'the deplorable effect on the influence of the League of Nations, both in financial and in other fields', which must be produced thereby, the committee prayed His Majesty's Government

> To move the Council of the League of Nations to take into immediate consideration the very grave situation which has arisen in respect of the loans issued under its auspices and subscribed on the faith of its approval, and the injury which these defaults or threatened defaults inflict on the prestige of the League and on its ability to aid similar reconstruction schemes in future; and
>
> To urge the Council to take such steps as will best serve to restore confidence in League issues and enable the League to continue its work of European reconstruction.

The memorial to the Council of the League of Nations followed similar lines, while describing in greater detail the kind and measure of League endorsement and supervision that had been given to these loans.

The Council of the League set up a committee, under the chairmanship of Monsieur Braadland (Norway), to consider this memorial; and on the 7th October, following the report of the committee, the Council accepted a resolution admitting the special responsibility which lay upon it in connexion with these loans, and reaffirming the very grave concern with which it viewed the continued failure of certain states to meet their obligations thereunder. The Financial Committee was requested to give particular attention to the League's responsibilities in this connexion, and to advise whether any further remedial action could be taken at that time. Further, the Council declared its opinion that any country which was in default on a League loan should avail itself fully of the technical help of League advisers, and should keep the Council fully informed of the position through its Financial Committee. Significantly, in commenting on this resolution, Sir Austen Chamberlain remarked that while at present there was no possibility of a reduction of interest payable, sooner or later there would have to be a readjustment to the new value of money.

(h) Work of the Financial Committee of the League

In the evolution of a technique of default on international debts, which marked the public finances of Europe during 1932, a highly important role was played by the Financial Committee of the League, on whose shoulders, in earlier years, had fallen much of the burden of finding means to restore the shattered monetary and budgetary systems of war-worn states. The views expressed by the Committee were important, furthermore, not only on account of their executive effect and of the weight that must attach to the pronouncements of such a body, but also because the personal composition of the Committee indicated that these were the opinions of the most influential central and private banking circles in Europe. It will therefore be of interest to review the principles that emerge from the sundry reports of the Committee, which were issued on different occasions, in relation to various groups of facts, and often under pressure of urgency.

1. In the case of each of the four countries with which the Committee principally concerned themselves (Austria, Bulgaria, Greece and Hungary), at least partial suspension of transfer of the service of external public loans was declared inevitable, in the circumstances created by the cessation of international lending and the tremendous fall of commodity prices throughout the world. Suspension, however, was to be regarded as an extremely grave act, seriously damaging the credit of the debtor; it should therefore be treated as a temporary measure which every effort should be made to rescind.

2. It was impossible to lay down any universal rules for discriminating between one class of indebtedness and another, or between one kind of public loans (e.g. the League loans) and another.

3. One important consideration, however, which was bound to influence Governments in taking their decision on that point, was the necessity for maintaining a basis for commercial credit, on which external trade—the only means whereby any of the debts could ultimately be paid—depended. The Committee urged debtor Governments and banks to conclude Standstill Agreements with their short-term creditors.

4. Budgets must be balanced, and public accounts generally put on a sound footing.

5. In this connexion, the sums due on external public debt but not transferred should be paid in local currency into a special account, which might be temporarily reinvested in the debtor country under special safeguards.

6. External depreciation of the currency would be highly dangerous. A restrictive internal credit policy should be employed to counteract the rise of prices otherwise threatened by the restriction of imports and the retention of non-transferred sums.

7. Control of foreign exchange operations, however regrettable, was a temporary necessity in order to build up a surplus of exports. The system, once in force, should be made as complete and strict as possible.

8. Endeavours to build up an export balance out of which to pay debt service were being frustrated by the conclusion of clearing agreements, which served merely to restrict trade.

9. Further international loans, guaranteed by creditor countries, were necessary if the debtors were to be set on their feet again.

10. The Committee throughout treated the financial crisis as a temporary phenomenon, and the measures recommended to meet it as essentially transitory. Their advice, up to the end of 1932, was that no final settlement should be contemplated by the debtor Governments.

Some of these points need a little elaboration. Transfer suspension was effected independently by Austria and Hungary, and the Financial Committee merely recorded their acquiescence. 'In the circumstances and in the absence of any improvement in the general world position', the Financial Committee recognized, in the case of Hungary, 'the difficulty of any alternative to the step taken'. The measure could, however, only be justified as a temporary arrangement calling for every effort on the part of Hungary. As regards Bulgaria and Greece, on the other hand, the Committee were in a position to furnish advice beforehand—advice which, incidentally, the Greek Government did not accept. For the latter country, the Committee recommended suspension of transfer of the sinking funds of all public loans for one year, whereas Bulgaria was advised to reduce by 50 per cent. transfers for the whole of the payments due in respect of external public debt during the subsequent six months. The terms of these recommendations show how evanescent the Committee apparently hoped that the financial crisis would prove. 'The countries concerned', wrote the Committee in March 1932, 'should, in their own interest, make every effort to restore at the earliest possible moment their reputation as good and solvent debtors and resume full transfer of their debt service.'

The attitude of the Financial Committee towards the League loans is of peculiar interest. The Committee took cognizance of the complete suspension of transfer by Austria without specific comment, though they recorded also the protests of the trustees of the guaranteed loan against the breach of their General Bond. Likewise, in their report on Hungary, they merely recorded the view of the Hungarian Government that the terms under which the Reconstruction Loan of 1924 was contracted effectively exempted the service of that debt from transfer suspension; and they were equally reticent when Hungary eventually forsook her intention to maintain that exemption. In their recommendations for Bulgaria the Committee proposed no exceptions, while in the case of Greece they expressly included the League loans. 'Having regard', they wrote, 'to the fact that it has felt compelled to support a proposal to suspend amortization of many earlier Greek loans charged in general on the same revenues as the League loans, the Committee has come to the conclusion that it cannot in this particular instance urge any different treatment for those two loans.'

The Committee published, at the same time as the recommendations for Greece, some general comments on discrimination between one class of obligations and another.

While there is an obvious difference between loans which are secured on specific revenues and loans which have only a general charge, it is sometimes difficult to say, though in this respect individual cases differ widely, that any given specific charge is better or worse than any other specific charge, or that any particular creditor can claim to be preferred to any other.

The question of transfer, they remarked, is often not settled by contractual provisions, but has to be considered from a more general standpoint. In such circumstances,

a Government which is unfortunately compelled to default on any of its foreign obligations must make its choice in the light of what is the real interest of the country concerned, and consequently of its creditors as a whole. In so doing, the Government must naturally endeavour to strike a balance between the importance of its national credit and the necessity for maintaining commerce and the financial relations which enable that commerce to be carried on.

The Committee pointed out that the final prospects of short-term lenders depended on the possibility of ultimate funding operations, the prospect whereof would be very greatly decreased if long-term loans were allowed to fall into disrepute. Nevertheless,

Subject to the main consideration of maintaining a basis of Government credit on which to rebuild, the Committee attaches the greatest importance to States preserving commercial credit—for their capacity to pay in general is necessarily dependent upon their foreign trade. The Committee, furthermore, is of opinion that the maintenance of a Government's credit may call for a continuation of service on short-term Treasury Bill obligations.

In this connexion, the Committee several times urged, especially upon Austria and Hungary, the conclusion of Standstill Agreements with private short-term debtors. The agreements should in no case be for a shorter period than six months and should not involve any repayment of principal.

Recommendations regarding budget equilibrium need little comment. Their rigour in each case depended largely on the relative importance that the Committee attached to the budget problem in creating the debtor's difficulties. The Committee were chiefly insistent that expenses should be cut, to meet lower national incomes, but occasionally specific suggestions for new revenue were also put forward. One point on which the Committee displayed particular concern was the necessity for winding up expensive subsidies or state enterprises, such as grain valorization schemes.

The emphasis laid by the Financial Committee on the necessity for strict control of exchange transactions, in order that an external surplus might be built up, and leakages of foreign exchange prevented,

is of particular interest in view of the abuse heaped upon the system by other important bodies, including the International Chamber of Commerce and the Stresa Conference.[1] The Financial Committee were far from equivocal in their recommendations. Discussing the situation of Hungary, in October 1931, they wrote:

It is, in our opinion, essential that the stability of the pengö should be maintained. . . . If this is to be done, however, and the foreign obligations just mentioned are to be met, exchange operations must be so controlled as to restrict imports to an indispensable minimum. Such a restriction of imports implies in turn a contraction of credit in the country, in the absence of which a rise of prices is unavoidable.

Three months later the Committee were still complaining that the system had not proved watertight and that there was still need for energetic administration and supervision. They considered that steps should at once be taken to discontinue the privilege granted to some firms of retaining export exchange for the purchase of raw materials abroad, and to bring this exchange under the ordinary control of the National Bank.

Similarly, the Committee published an opinion in regard to exchange control in Austria which might be taken as a general *credo*.

For such temporary period as exchange control may be necessary, it is important that it should be effective; otherwise, all the disadvantages are obtained without the advantages. To enable the National Bank to exercise effective control, the Committee feels that certain principles are essential. The first of these is that no—or only the rarest—exceptions should be allowed to the general obligation to surrender foreign exchange to the National Bank. . . . The second essential principle is that no export should be allowed without the surrender to the customs authorities by the exporters of a permit from the National Bank. The third is that there should be control over the character of all classes of imports, even those taking place under clearing agreements.

Emphasis was throughout laid on the temporary character of the restriction advocated. Having admitted that they had on several occasions recommended the temporary application of measures of exchange control, and had urged that they should be accompanied by a credit policy designed to increase the competitive power of the state in question, the Committee continued:

But measures of exchange control designed to bring about a modification in the balance of trade must be looked upon as transitional. Their temporary necessity must, moreover, be recognized by creditor States. If creditor States resist the efforts of their debtors to secure the required surplus of goods, by raising their tariffs, by imposing prohibitions, or by insisting on contingents or clearings, the risk of default must be greatly increased.

[1] See p. 14 above, and p. 90 below.

It has been necessary to record in considerable detail the views of the Committee on this topic, in order that the reader may assess the measure of their responsibility for the restrictions upon trade which the Stresa Conference so wholeheartedly condemned.

Almost as energetic as their demand that exchange control should be as rigorous as possible was the Committee's objection to the system of clearing agreements. In their report of October 1932, they noted that Bulgaria had been compelled to accept commercial agreements with an increasing number of countries, and that these had resulted in blocking the proceeds from her exports. 'If', added the Committee, 'these agreements were maintained and became general, Bulgaria would soon be unable to dispose of any exchange for settling her non-commercial external payments.' The Committee considered that in so far as clearing agreements could not be altogether done away with, they should at least make provision for maintaining a fraction of exchange that could be disposed of freely. In the case of Austria, the Committee remarked that the clearing agreements threatened to bar control by the National Bank over different classes of imports, and that, further, they would appear to allow a special advantage to creditors of Austria resident in the countries with which such agreements had been concluded. The Committee felt that the granting of such special privileges was injudicious. More positively, the Committee urged that the beleaguered states should attempt to restore the normal flow of trade by straightforward commercial accords. In January 1932 they drew the attention of the Council, and also of the Austrian and Hungarian Governments, 'to a question of vital importance—viz. the necessity of establishing, at the earliest possible moment, closer economic relations with neighbouring and other States on a normal basis in keeping with the commercial possibilities of the various countries'. In a later report the Committee added that Bulgaria ought to be included in this recommendation, and that special consideration should be given to the relations between Bulgaria and Greece. It is interesting to note that at the same time as the Committee was making the above general recommendation for Hungary, the League representative in that country reported in the following terms.

> The policy of industrial protection that has been followed since the War might with advantage be reconsidered, especially in connexion with plans for restoring to Hungarian agriculture its traditional markets.

Finally, something must be said about the Committee's attitude

towards the raising of further loans to resuscitate the financially distressed countries. 'There is urgent need', they reported in March 1932, 'for immediate collective action in the form of loans to be raised on international markets under government guarantees.' Austria and Greece were the two most urgent cases; the Committee considered the sum of 250,000,000 schillings (£7,000,000 gold) essential for the restoration of Austrian finance, while for Greece a sum of not more than 10,000,000 dollars (£2,000,000 gold) was mentioned. The form of guarantee by external Governments, the Committee advised, should be the same as that employed in the case of the 1923 Austrian Reconstruction Loan. The loans, which would be of a maturity of not more than three to five years, and would be repayable out of the proceeds of long-term loans, would be intended merely 'to bridge an intermediate period in the interest of general stability'. Aid to any country would be conditional on its acceptance of the measures recommended by the Financial Committee, in consultation with the guarantor Governments, for sound public finance and the administration of the National Bank. Close and constant co-operation between any state which might receive outside aid and the League of Nations must be assured. Promptitude, added the Committee, was essential, for delay might very well prove costly. By the end of 1932, it may be noted, a guaranteed loan of 300,000,000 schillings (£8,500,000) had been promised for Austria (though the cash was not yet available), but nothing further had been done towards carrying out the recommendations for guaranteed advances.

Throughout the recommendations of the Financial Committee runs evidence of their faith that they were dealing with a temporary financial emergency, and that the time had not yet come to tackle the fundamental problems of international credit in Europe in any permanent fashion. In their report of March 1932 they expressly affirmed their belief that it would be a mistake for states in difficulties to endeavour to formulate any final settlement. The immediate and urgent problem was a different one, namely, to gain a breathing space during which the more hopeful elements of the situation might develop, and to endeavour within that period to arrest the tendencies towards disaster that were then evident. It is interesting to consider this dictum in connexion with the problem of War Debts and Reparations, that is to say, with the Hoover Moratorium, which was explicitly intended to provide just such a breathing space, and with the insistence of Great Britain and other Powers, before the moratorium expired, on the necessity for a final settlement as a condition of general economic recovery.

(i) The Austrian Loan

In March 1932, reporting especially on the condition of Austria, the Financial Committee of the League of Nations declared that there was urgent need for immediate collective action in the form of loans to be raised on international markets under Government guarantees. At that time 190,000,000 schillings of short-term credits had already been secured (from the Bank for International Settlements and the Bank of England) towards the sum of 250,000,000 schillings which the Committee considered essential for the restoration of Austrian finance; in view of the exceptional difficulties with which Austria was faced, the Committee strongly recommended that the remaining 60,000,000 should be increased to 100,000,000 schillings. This advice was repeated when the Committee reported on the Austrian situation after the transfer of debt service had actually been suspended. The League Council itself, replying in May 1932 to the Austrian Government's request for advice regarding the foreign exchange difficulties of the country, expressed itself generally in favour of a relief loan to Austria, and referred her problems to the Mixed Committee of Treasury Representatives and members of the Financial Committee. The Mixed Committee held a special session at Lausanne, during the course of the Reparations Conference, to consider a proposition for the raising of a guaranteed loan of 300,000,000 schillings for Austria, including sums required to repay the short-term advances already mentioned.[1]

Discussion in the Committee turned upon two issues: the reluctance of the British Government to incur any financial commitments in respect of international loans (an attitude which emerged even more definitely at the Stresa Conference), and the insistence of the French Government that the loan should be conditional upon a reaffirmation by Austria of the terms of the protocol of the 1923 Reconstruction Loan, which, according to the judgment of the Hague Court, legally prevented economic as well as political *Anschluss* with Germany.[2] Eventually a protocol was signed by the representatives of all the interested Powers except Germany, who dissociated herself from it on account of its restriction upon Austria's liberty of external policy. A loan of 300,000,000 gold schillings, redeemable over twenty years, during which period the terms of the protocol would remain in force, was to be raised under the following guarantees: United Kingdom, 100,000,000 schillings; France, 100,000,000 schillings; Italy, 30,000,000 schillings; Belgium, 5,000,000 schillings; Holland, 3,000,000 schillings; the remainder to be guaranteed by other countries who, it was hoped, would participate in the flotation.[1] The British portion, however, represented no new money, but merely a repayment of the 100,000,000 schillings lent to the Austrian National Bank by the Bank of England during the crisis of June 1931. The proceeds of the loan, apart from that, would be used for the restoration of Austrian national finances in agreement with a League Commissioner and a League adviser to the National Bank. Apart from this return to international financial control, which had been terminated in 1926, Austria abjured again, in the terms of the 1922 protocol, all efforts to alienate her independence.

[1] See the *Survey for 1931*, pp. 101–2, 210, 319.

[2] See *op. cit.*, pp. 297–8, 321–3.

It was this latter clause which nearly prevented the ratification of the agreement. Germany straight away refused to adhere, while making an independent offer of a credit for the Austrian Government. Bitter opposition was raised in Austria itself, and the Bill ratifying the agreement was passed—and voted again after the Federal Council had actually rejected it—by extremely narrow majorities in the National Assembly, against the combined opposition of the Pan-Germans and the Socialists. Most remarkable was the criticism of Monsieur Flandin during the debate on the ratification Bill in the French Chamber. Monsieur Flandin, who had been Finance Minister in the Governments of MM. Laval and Tardieu, declared that France was exposing herself to the accusation that she had bought the liberty of the Austrian people for 300,000,000 francs. A critic still further to the Right, Monsieur Marin, said that Austria was already under obligation to refrain from pursuing the *Anschluss;* yet it was being built up daily and the financial pressure of France would not prevent it. Monsieur Herriot's defence was that there were only two alternatives: the *Anschluss,* which would incorporate Austria in a great German union, or the policy of the League, which would give Austria moral and political independence in an organized Europe. Monsieur Viénot, expressing the majority views of the Foreign Affairs Committee of the Chamber, was more candid. If, he declared, France was to say 'No' to Austria when she entered upon dangerous political courses, she must say 'Yes' when Austria asked for help in meeting French wishes.

The debate in the British House of Commons naturally did not follow these lines, but was concentrated rather on financial issues. A number of members complained that these financial palliatives for a deep-seated economic disease in Central and Eastern Europe

[1] A *tranche* of 8,000,000 schillings was subsequently guaranteed by Switzerland.

were useless, and that good money—which could be profitably employed in national development at home—was being thrown after bad. The Government, however, claimed for the new loan not merely that it would enable an advance from the Bank of England, which was otherwise frozen, to be repaid, but that it would provide funds for the resumption of transfers on the 1923 Reconstruction Loan and would put Austria on her feet again so that she could resume her place among the solvent nations of Europe. Before the Finance Committee of the French Chamber, Monsieur Chéron, Minister of Finance (who, however, admitted that the loan was more important for France from the point of view of foreign policy than from that of pure finance), pointed out that if Austria were not put in the way of providing the service of the 1923 loan, the French Treasury might have to back its guarantee of that loan to the extent of 750,000,000 francs in ten years. A similar consideration, of course, exercised the minds of other participating Governments. Monsieur Marin criticized the measure on the ground that it was no part of the French Government's international duty to thaw British bankers' credits. But it is remarkable that support for the loan was very lukewarm in London financial circles; *The Economist*, for instance, remarked that it would not greatly regret Austria's refusal to ratify the protocol, and continued:

> It was tempting, doubtless, for the Powers on the League Council to decide that it was worth while paying a moderate price to keep the Austrian problem in cold storage for a few months; but, if this stop-gap falls to the ground, it may well be a gain that the Powers will thereby be forced to face realities on the Danube more quickly.

The view that the loan would prove inadequate for the purpose of restoring Austrian finances to a condition in which transfers could be resumed and the exchange maintained without further foreign aid, and that something much more drastic was required, was equally forcibly expressed in Austria itself, as well by the Socialists as by industrial interests who were pressing for a thorough-going reform of governmental finance.

In spite of these criticisms from such widely different quarters, the terms of the loan were ratified, as required, by Austria, Great Britain, France and Italy, before the end of the year. There was, however, some inevitable delay before the loan could be floated. The Committee of Control of the states guaranteeing the 1923 Reconstruction Loan met in Geneva in January and reached full agreement with Austrian representatives upon the general form of the obligation to be created. Nevertheless, partly owing to delays in passing the necessary financial

measures through the Parliaments of the guarantor states, no public issue for the loan was made until August 1933, when the London and Paris *tranches* of the loan were issued independently. In London £4,514,000 of 'Austrian Government International £3 per cent. Guaranteed Sterling Bonds, guaranteed as to principal and interest by H.M. Government', were offered at £96 per cent. This gave a flat yield of £3 2*s.* 6*d.* per cent., or of £3 5*s.* 7*d.* after allowing for redemption. The Paris issue gave a considerably higher yield, which indicated the superiority of British Government credit compared with that of the French Government. In a statement accompanying the prospectus, the Austrian Minister of Finance declared that the proceeds of the loan, after providing for the repayment of the advance of approximately 100,000,000 gold schillings made by the Bank of England to the Austrian Government in June 1931, would be used to consolidate the existing short-term debt position of the Government and to reinforce the monetary reserves of the National Bank of Austria. The London issue was oversubscribed and went immediately to a premium.

(*j*) The Stresa Conference

The origin and terms of reference of the Stresa Conference have already been mentioned in connexion with the scheme there adopted by the representatives of European Powers for the revalorization of cereals.[1] The work of the Conference was divided between a Financial Committee and an Economic and Agricultural Committee, the latter of which was responsible for the agrarian preference proposals. The Financial Committee, presided over by Monsieur Bachman (Switzerland), addressed itself more particularly to that portion of the terms of reference which related to 'measures to overcome the present transfer difficulties of the countries of Central and Eastern Europe and to make possible the progressive suppression, subject to the necessary safeguards, of the existing systems of exchange control'; although the committee perceived that the economic and financial aspects of the phenomena under consideration could not be kept in separate watertight compartments.

The Conference was concerned with the affairs of eight countries, whose financial and economic position differed widely, as the table on the next page indicates.

The condition of a group of countries which between them imported £5,500,000 more goods than they exported, while they had to find £53,000,000 of foreign exchange annually if they were to pay the

[1] See p. 23 above.

Central and Eastern Europe
Summary of Financial Position, 1932
In millions of £'s gold

	Foreign Trade in 1931.			*External Debt.*			*Annual Service Thereof (a).*		
	Imports.	*Exports.*	*Balance.*	*Long Term.*	*Short Term.*	*Total.*	*Public.*	*Private.*	*Total.*
Austria	62·5	37·8	−24·7	67·1	29·0	96·1	5·3	3·2	8·5
Bulgaria	6·9	8·7	+1·8	27·0	1·3	28·3	1·2	0·2	1·4
Czecho-slovakia	71·5	80·0	+8·5	66·9	13·9	80·8	2·8	1·4	4·2
Greece	21·6	11·3	−10·3	93·0	2·8	95·8	5·1	0·5	5·6
Hungary	19·8	20·4	+0·6	93·8	55·8	149·6	4·6	5·2	9·8
Poland	33·6	43·2	+9·6	117·9	58·8	176·7	6·0	4·6	10·6
Rumania	19·5	27·1	+7·6	192·5 (*b*)	16·3	208·8	6·8	1·2	8·0
Jugoslavia	17·2	17·2	—	118·1 (*c*)	11·5 (*c*)	129·6	4·9	?	4·9(*c*)
Total, after eliminating trade of 8 countries *inter se.*	175·3	169·9	−5·4	776·3	189·4	965·7	36·7	16·3	53·0

(*a*) Including interest on short-term debt.
(*b*) Including short-term public debt.
(*c*) Public debt only.

service of their indebtedness to foreign countries without sinking further into debt, could scarcely be called satisfactory. Aggregates of that kind, however, are misleading; it is not very useful, for instance, to strike an average between Austria and Czechoslovakia. All of the group, except Greece, formally maintained the Gold Standard, keeping the 'official' rate of exchange up to the level of the gold parity; but, in fact, only Poland was managing to do so without the most rigorous control of transactions in foreign exchange. Austria began to restrict foreign exchange dealings in October 1931, but considerable decentralization was allowed and a system of private clearings gradually elaborated. A 'black' exchange bourse was countenanced by the authorities. No foreign exchange was being provided for the service of long-term loans, or even for the interest on short-term obligations. Bulgaria established the regulation of foreign exchange dealings, in the form of an absolute monopoly by the National Bank, about the same time as Austria. Foreign exchange was being granted for the settlement of private short-term credits and external debts only in exceptional cases and up to 10 per cent.; however, 50 per cent. of the service of the public debt—the only long-term external debt—was being transferred. In Czechoslovakia, foreign exchange dealings were regulated under licence, but not monopolized, by the National Bank. Exchange was being granted for the service of short-term and long-term debts, and for their due repayment, without any restriction, except that debts owing to countries like Austria, Hungary, Jugoslavia, Bulgaria, Rumania and

Greece, which had established transfer restrictions of their own, were being paid not in foreign exchange, but by means of various kinds of clearings or blocked accounts. Greece was able somewhat to liberate conditions of release of foreign exchange upon her abandonment of the Gold Standard, but the obligation upon exporters to hand over to the National Bank the full proceeds of their exports in foreign exchange was maintained. The transfer service of the public external debt—much the most important section of Greek debt to other countries—had been altogether suspended, though not long afterwards arrangements for partial payment were made.[1] The service of private long-term debts, and the interest on private short-term commercial debts, were being met in full; but narrow limits were set on the repayment of short-term debts. In Hungary, dealings in foreign exchange were entrusted almost exclusively to the National Bank, and a moratorium on all debt transfers had been declared. Poland alone had not imposed any restrictions on dealings in foreign exchange. Regulation of foreign exchange business came late in Rumania, but by the time of the Stresa Conference was almost complete. The full amount of foreign exchange was still being granted for the payment of interest on short-term debts and the service of long-term debts, and in many cases releases were also effected for the repayment of short-term debt. Dealings in foreign exchange in Jugoslavia were likewise concentrated in the hands of the National Bank and of certain private banks specially authorized, although exporters were allowed to keep 20 per cent. of the proceeds of their exports. The Bank was granting foreign exchange to the state to cover the whole of its requirements in respect of short-term and long-term debts, but to individuals only so far as it was able to do so. The state and municipalities had been able to extend the date of maturity of certain short-term debts.[2]

That was the state of affairs which the Stresa Conference had to face. The whole problem, remarked the Financial Committee of the Conference, was dominated by two fundamental considerations. The first was the fall of prices, and the second was the fact that the economic structure of these countries had adapted itself to working, during the previous few years, under the continuous influx of foreign capital, an influx which had now ceased. The degree of indebtedness

[1] See pp. 70–1 above.

[2] The continued payment of full external public debt service having proved impossible, in January 1933 the Jugoslav Government successfully negotiated with their foreign bondholders for the establishment of a three years' moratorium on their dues both for interest and sinking fund, 25-year bonds being given in lieu of cash.

to foreign countries was in several cases excessively heavy, and the difficulties were enhanced by the fact that an unduly high proportion of the capital lent was in the form of short-term obligations.

> One definite conclusion [wrote the Committee] may be deduced from this situation: to add, before the necessary adaptation has been completed—as a result of new loans—additional charges to those over-heavy burdens which exist to-day, would be for those countries at the present juncture as little in the interests of the lenders as of the borrowers. The difficulty would not be settled at all, but would simply be held over until later, while its solution would be rendered more complicated and burdensome.

The Committee added that the foregoing did not apply to the Austrian loan under the Lausanne Protocol. Apart, however, from a rather indefinite reference to recommendations for the continuance of commercial negotiations by Austria, the Committee was not explicit as to why it allowed such an exception to its strictures upon further international loans until adjustment to new conditions had been secured. Its policy on this issue presents something of a contrast to that of the League Financial Committee.[1]

The Committee went on to agree that it was difficult, in the circumstances, to avoid establishing a temporary system of restriction on foreign exchange dealings—a régime, nevertheless, upon which it would be fatal to confer a permanent character. There was, however, no need in the majority of countries to fear inflation, as in the period immediately after the War. The energetic steps taken in order to avoid, or at all events to limit, deficits in the budgets of public authorities and public services had prevented the creation of that large additional purchasing power which was an essential condition of such inflation. Unfortunately, the result of the efforts of the several countries, by exchange restrictions and the like, to remedy the disturbance of their external balance of payments, had been not only nil, but negative. The final solution of the difficulty, therefore, could be found only in joint action on international lines.

Considering how exchange restrictions could be removed, the Committee declared that there were two methods of securing greater freedom of trade in commodities: on the one hand, that of continuing deflation, until a new equilibrium was reached, based on the original gold value of the national currency; and, on the other hand, that of leaving the value of the currency to adjust itself to the new situation—while, of course, continuing with the greatest energy the efforts necessary to balance the different budgets and the whole national

[1] See p. 83 above.

economic system. In default of either of those two courses the policy of officially maintaining the Gold Standard, without the internal conditions which could give it reality, made the abolition of existing barriers impossible. A third method had sometimes been envisaged—that of replacing the actual legal parity of the currency by another. The Committee considered that this operation would be most hazardous in the circumstances, in the absence of effective outside support. As between the other two methods, the Committee contented itself with pointing out a number of considerations which should influence the sovereign authorities in determining their monetary policy. Whatever the decision was, the Bank of Issue must pursue an energetic policy, and a satisfactory budget equilibrium must be maintained at all costs.

Next, the Committee turned to measures involving outside co-operation. As far as debts were concerned, no single solution was possible, on account of the profound differences which existed between the several countries. Nevertheless, the Committee saw fit to affirm certain general principles.

> Once an obligation has been entered into, it is final: it must be carried out in full and as stipulated in the contract. If circumstances occur which are stronger than the will or the capacity of the debtor, they create for the parties a new situation in which the creditor must be able to form an idea of the real situation of the debtor and demand guarantees safeguarding his interests. But, at the same time, it may be said that such a situation should incite the creditor to assist the debtor to return to normal conditions. . . .
>
> We repeat that the whole problem of debts will be simplified by the disappearance or gradual lowering of the barriers to international trade in general. Conversely, the aggravation or maintenance of these barriers, accentuating the stagnation of business, would complicate the problem to the extent of rendering it in some cases insoluble. The abolition of restrictions on dealings in foreign exchange may, in certain cases, necessitate an at least temporary adjustment of foreign debts.

It must not be forgotten, insisted the Committee, that they were in the heart of the crisis, so that the measures to be taken should have a temporary rather than a final character. This attitude, similar to that of the League Financial Committee, appears throughout the report. If, wrote the Stresa Committee, debt adjustments appeared necessary, it would, in principle, be preferable, in the interests of debtors and creditors alike, that they should be given a provisional character; for it was possible that world trade was on the eve of revival.

Discussing the problem of short-term debts, which were either 'frozen' internally or lacking the means of transfer abroad, the

Committee observed that the Standstill Agreements, which had been concluded with the idea that they would only be for a provisional period, presented evident drawbacks. In certain cases, they had lumped together the sums falling due, further increased by arrears, and had fixed the same date of payment for all of them, thus intensifying the difficulty of a solution. In the interior of each country they had prevented the liquidation of intrinsically bad debts, and had thus stopped the painful but normal process of improvement and reduction. A transfer moratorium, whether official or *de facto*, had the same drawbacks, and others as well. It was in the interest both of creditors and of debtors to correct to the greatest possible extent, by direct negotiation, the defects which practice had revealed. The Committee then gave some advice upon the principles that should guide such negotiations. They pointed out that measures taken to 'block' funds injured the liquidity of foreign creditors, some of whom could not safely accept the pure and simple transformation of their short-term credits into medium or long-term credits. The Committee recommended that funds belonging to foreigners should at least be available for capital employment within the country; further, that arrangements should be made for their progressive utilization for the purchase of exported goods. Lastly, foreign creditors must, as soon as possible, be able to choose their debtor within the country and enjoy all the advantages granted to national creditors; otherwise they might demand compensating guarantees. Moneys derived from the payment of long-term debt coupons, and placed in special non-transferable accounts, had to be considered separately; they should in any case be available within the country to holders wishing to cash their coupons there.

The Committee then turned their attention to the problem of long-term debts. Most of these, and in some countries even all, were public debts; so that the issues turned partly on budgetary capacity and partly on foreign transfer capacity. The Committee emphasized the importance of the principle that in no circumstances could contractual obligations be modified unilaterally. If a debtor country considered itself unable to meet its obligations in full, it was in duty bound to communicate with its creditors, directly and without delay, and, if the latter were to deem such a course necessary, to submit to any reasonable investigation of its position by qualified persons acceptable to both parties. In certain cases, the burden would be appreciably lightened by comparatively slight modifications of the rate of amortization. Concessions made by foreign creditors should not result in placing them in a less favourable position than home creditors.

It might be hoped, wrote the Committee, that the various measures which they had recommended would safeguard the balance of payments of the countries concerned from a sudden attack at what had hitherto been its most vulnerable point. It would then be possible, by prompt and decided action, to abolish the system of restrictions on foreign exchange dealings. But when all that was done, and when the countries concerned had reached the threshold of a final adjustment in the relations of their economic life with that of the world at large, foreign assistance in currency matters might be found both necessary and expedient. Hence there had been put forward the idea of instituting a fund for the purpose of assisting at the opportune moment the 'normalization' or final regularization of currency conditions in Central and Eastern Europe.

This proposal for a currency normalization fund met with some opposition in the Committee, and was merely recommended for further consideration by the Commission of Inquiry for European Union, to which the Stresa Conference had to report. Nor was the Financial Committee of the Conference able to put forward any conclusions as to combining the proposed currency fund with the fund for the valorization of cereals which was recommended by the Economic and Agricultural Committee.[1] Nevertheless, it is important to note the details of the proposal, which seemed likely to play eventually a considerable part in schemes for the financial resuscitation of Europe. (*a*) The immediate object of the fund would be to assist central banks by increasing their reserves at the opportune moment, thus facilitating the final abolition of exchange restrictions. (*b*) It would not be called into play until the last stage, when the efforts of the interested parties were completed. (*c*) Nevertheless, since the necessary conditions would be fulfilled more rapidly in some countries than in others, and since the value of the scheme in stimulating confidence would (according to its authors) be immense, it would be desirable that a movement for promoting the idea of such measures should be launched without delay. (*d*) The fund would be constituted through an appeal to Governments, which would make the necessary sums available, either directly or indirectly. (*e*) It was desirable that as many countries as possible, especially the leading Powers, should contribute to the fund; the question of assessment of contributions was left open. (*f*) The working methods should be modelled on commercial practice; capital would be lent at interest and in accordance with the accepted rules for credit transactions. Subsidies paid into the fund would therefore have the character of

[1] See pp. 25–6 above.

loans, recoverable as soon as the fund had completed its task. (*g*) The administration of the fund should be entrusted to the Bank for International Settlements, though the measure of the Bank's independent power in respect of the fund was a matter of controversy.

These particulars were, generally speaking, confirmed by the Committee of Experts which was appointed by the Council of the League to examine the proposal for a currency normalization fund. The committee, which met in November 1932, did not consider it possible to undertake at that time the detailed and thorough preparation of the scheme, but was content to elaborate certain points, recommending, for instance, that a part only of the fund should be subscribed primarily in cash, the balance to be called up only in case of need. The Experts' Committee, like the Stresa Conference, insisted that the fund should be operated only in the final stages of financial recovery in any given country.

It will be observed that the recommendations of the Financial Committee of the Stresa Conference formed a more or less complete system. They may be summarized still further as follows:

(i) There should be no new international loans to the countries concerned until independent efforts by the interested parties, designed to secure liberation from exchange control, were completed.

(ii) Countries could either, by deflation, adjust their economic life to existing pars of exchange, or allow the exchange to adjust itself; but the latter process involved grave dangers.

(iii) In any case, it was essential that the Central Bank should keep the credit system of the country under strict control, and that budgets should be balanced.

(iv) There must be no unilateral repudiation of contractual obligations, but temporary adjustments might be found necessary in the interests both of creditors and of debtors.

(v) The removal of exchange restrictions would ease the problem of debts; conversely, temporary reduction of the debt burden might be necessary in order to allow the removal of exchange restrictions.

(vi) The time had not yet come for a final settlement of the debt question.

(vii) It was necessary to revise Standstill Agreements and transfer moratoria, so as to avoid the accumulation of debts all falling due at the same date, and to give the creditors the widest possible rights of liquidating the debts, or effecting an exchange of debtors, within the country.

(viii) When these adjustments, internal and external, had been effected, it ought to prove possible to remove exchange restrictions. But some members of the Committee favoured the idea of a 'currency normalization fund', to be furnished by Governments, directly or indirectly, and to be used, when the other measures were complete, to provide Central Banks with additional reserves during the critical period of a return to a normal international monetary régime.

In the absence of a general rise in prices, the hopes implicit in these dicta could be justified only if the debtor countries managed to adjust their internal economies to the new level of world prices and to the cessation of international lending. Those hopes remained still to be fulfilled at the end of 1932. The piling-up of non-transferred sums due to foreigners, and the removal of most international competition, made the task of the monetary authorities in debtor countries all the more difficult. A certain measure of adjustment was nevertheless discernible, although the surest method of restoring the debtors to solvency, the willingness of creditor countries to accept their products in increasing quantity, seemed as far away as ever from the region of practical politics.

(*k*) Conclusion

The sequence of particular events in the financial history of 1932, with the exception of the Lausanne Conference and the measures taken under League auspices to lend order and principle to what might otherwise have been the wholly chaotic condition of public finance and exchanges in Central and Eastern Europe, makes rather a gloomy narrative. The picture that is left is one of widespread default, partial or total, on external debts, coupled with measures of exchange control which reduced the international trade of the countries chiefly concerned to a fragment of its former extent. Budgets were almost everywhere unbalanced, and unemployment on a huge scale afflicted every industrial country. But there were forces at work outside the range of public attention which were gradually establishing the conditions under which recovery would be possible. There was the imponderable restoration of hope and confidence, chiefly as a reaction, in an atmosphere of convalescence, from the earlier defaults of debtors and from the violent shocks of 1931. There was the general establishment of easier monetary conditions. The signal was given in February by the reduction of the Bank of England rate from 6 to 5 per cent., which was followed immediately by reductions in Sweden, Norway, Greece and the United States, with other countries following later. From the middle of January 1932 until March 1933 (when American rates went up) there was not a single increase in the discount rate of any Central Bank in the world. The opportunity of cheap money was taken by several Governments (notably the British Government, but including also those of Australia, Belgium, Denmark, France, Italy, the Netherlands, Sweden and Switzerland) to convert part of their public debt to a lower rate of interest. Then there was the steady liquidation of international debt, the excessive volume of which had been one of the principal threats to the existing economy. Among other liquidations, the crisis credits lent to London and Berlin were repaid. Foreign exchange assets of Central Banks in Europe, the United States and Japan fell by almost £300,000,000 between March 1931 and the end of 1932, partly on account of a net loss of reserves and partly because foreign exchange was widely converted into gold. It has been computed that the total international short-term indebtedness outstanding at the end of 1932 amounted to £1,200,000,000, of which approximately one-half was governed by Standstill Agreements, moratoria, exchange restrictions, &c. In certain cases, notably that of Germany, the Standstill Agreements provided for the gradual liquidation of the debts. The body economic was working a good deal of poison out of its system, even though it was still charged with deleterious drugs.

PART II
REPARATIONS AND WAR DEBTS

(i) German Reparations and War Debts (1931–2).
By R. J. Stopford.

(a) Introductory

No picture of the crisis which occurred in the history of Reparations and War Debts in 1931 and 1932 would be intelligible without an adequate delineation of the background of world economic developments during the period. The student of this subject has at his disposal the chapters entitled 'Annus Terribilis 1931' and 'Nemesis: the Financial Outcome of the Post-War Years' in the *Survey for 1931* and that headed 'The World Crisis' in the present volume, so that it is not necessary here to do more than depict very briefly the situation which led up to the Hoover Moratorium of June 1931.

For Germany—as for any other country under the necessity of making large inter-governmental payments—there were the two problems of the Budget and of the transfer over the exchanges. The budgetary problem, which had been the subject of repeated warnings by the Agent-General for Reparations, Mr. S. Parker Gilbert, was complicated by the extent of the financial powers possessed by the various states of the Reich; and even the stringent attempts at economy made by the Government in 1930 and 1931 were insufficient to deal effectively with the situation. On the transfer side, the economic facts of the situation had been temporarily obscured by the volume of foreign loans and foreign short-term credits, out of which Germany was able to meet her Reparation liabilities for over twelve years; but to the student of economics it was clear that she was piling up an amount of foreign debt such that the service alone would eventually absorb all her transfer surplus. It is true that from 1929 Germany's balance of trade was favourable; but this was due to the restriction of imports and not to an increase in exports, and was obviously artificial. When, in 1929, the ability of the creditor Powers to make fresh loans ceased, and in 1930 the withdrawal of foreign short-term credits and the flight of capital from Germany began, the final crash became only a matter of time. In the event, political developments such as the rise of the Nazi party[1] and the unexpected announcement in March of the conclusion of a customs

[1] See the *Survey for 1930*, pp. 8, 28–9, 549–51.

union with Austria[1] administered a further shock to confidence, while the economic repercussions of the failure of the Credit-Anstalt in Austria gave the *coup de grâce*. It was the outflow of funds which followed these developments that made the moratorium necessary.

Such were the immediate causes of the crisis, but it must also be borne in mind that underlying these, particularly with reference to Reparations and War Debts, the headlong fall in commodity prices and the decrease in the volume of international trade by more than 50 per cent. greatly increased the burden of Reparations.[2] Moreover, it was these same factors, gathering momentum from the cessation of Reparation payments, which made the burden of Inter-Allied Debts intolerable.

It would be rash to say that, had there been no payments on account of Reparations and War Debts after the War, there would have been no crisis, but it is unfortunately true to say that it required a world economic crisis of the magnitude of that experienced in 1931 and 1932 to convince the world of the impossibility of such payments, and that even in the midst of these events there were those who were not convinced.

(b) The Hoover Moratorium

By the middle of June 1931 it had become obvious that Germany was heading for ruin and that such a catastrophe could only be averted by outside action of so comprehensive a nature as to strike public imagination and restore confidence throughout the world. Such action could scarcely be taken by the European Powers, who were themselves between the upper and the nether millstones of Reparations and War Debts. Expectation accordingly turned towards the United States, where the Administration had been closely following developments in Europe. It will, no doubt, be recalled that, both in the Young Plan and in the various War Debt agreements, provisions had been inserted with the object of affording temporary relief to the debtor if the economic situation should render payment in full impossible. Thus, under the Young Plan, the transfer in whole or in part of any conditional annuity could be postponed, but it was specially provided that payment in marks must be continued in full for at least one year after the postponement of their transfer had

[1] See the *Survey for 1931*, Part III A.

[2] Unfortunately, the provision in the Dawes Plan for a revision of the Reparations payments in accordance with changes in the general level of prices was omitted in the Young Plan. Such a revision would have substantially reduced Reparation payments before June 1931 by a process which would have had profound and beneficial effects on War Debts.

been approved.[1] Not only, therefore, was the relief which could be extended to Germany limited to the conditional annuities, but no relaxation of the burden on the German Budget could be obtained until after July 1932. Similarly, the postponable amounts under the various War Debt agreements formed only a small percentage of the total annuities payable, and the period of postponement allowed was very short.[2] It was obvious, therefore, that the rights of postponement exercisable under existing agreements were of so limited a nature that there could be no hope of their having any real effect in the critical situation which had arisen. President Hoover, however, had prepared a provisional plan, which was communicated to his Cabinet as early as the 6th June, and by the 15th June semi-official indications of the Administration's attitude were being given out. On the 19th June, President Hoover, warned by the fate of President Wilson in 1919,[3] sounded a number of Congressional leaders on his scheme. That same day, President von Hindenburg made an appeal to him for help, and on the 20th June[4] President Hoover published his famous plan for a moratorium of one year for all inter-Governmental debts, the text of which was as follows:

> The American Government proposes the postponement during one year of all payments on inter-governmental debts, reparations, and relief debts, both principal and interest, of course not including the obligations of Governments held by private parties. Subject to confirmation by Congress, the American Government will postpone all payments upon the debts of foreign Governments to the American Government payable during the fiscal year beginning July next, conditional on a like postponement for one year of all payments on inter-governmental debts owing to the important creditor Powers.
>
> The purpose of this action is to give the forthcoming year to the economic recovery of the world, and to help free the recuperative forces already in motion in the United States from retarding influences from abroad.
>
> I do not approve in any remote sense of the cancellation of the debts to us. World confidence would not be enhanced by such action. None of our debtor nations has ever suggested it. But as the basis of the settlement of those debts was the capacity, under normal circumstances,

[1] See the *Survey for 1929*, pp. 158–9, 163.

[2] Out of the total annuity of some $170,000,000 payable by Great Britain to the United States, only $30,000,000 was postponable for a period of two years. For the War Debt agreements, see the *Survey for 1926*, Part I B.

[3] It is interesting to note that the announcement in January 1933 of President-Elect Roosevelt's intention of conducting the War Debt negotiations himself was the signal for a number of warnings to him in Congress to remember the fate of the last President (President Wilson) who had attempted to conduct international negotiations himself.

[4] It will be observed that the proposal was not published until after the payments due on the 15th June, 1931, had been made, so that the moratorium year ran from the 1st July, 1931, to the 30th June, 1932.

of the debtor to pay, we should be consistent with our own policies and principles if we take into account the abnormal situation now existing in the world. I am sure the American people have no desire to attempt to extract any sum beyond the capacity of any debtor to pay, and it is our view that broad vision requires that our Government should recognize the situation as it exists.

This course of action is entirely consistent with the policy we have hitherto pursued. We are not involved in the discussion of strictly European problems, of which payment of German reparations is one. It represents our willingness to make a contribution to the early restoration of world prosperity, in which our own people have so deep an interest.

The psychological effect of this statement was tremendous. A sigh of relief went up, not only from Germany, but throughout the world. At the moment when the future looked blackest, the United States, which had hitherto seemed to be the stumbling block in the way of the settlement of War Debts, and consequently of Reparations, had suddenly given evidence of constructive leadership. It was true that, for the plan to succeed, two conditions were necessary, namely, the immediate acceptance of the plan by the countries concerned and the approval of Congress; but it seemed to be unbelievable that the first condition would not be fulfilled, and the fact that Congress would not meet till December seemed to be offset by the publication of an imposing list of the names of Congressmen who had approved President Hoover's action. The fact that, under pressure of domestic politics, the period of the moratorium had been reduced by President Hoover from two years to one was not known until later.

Great Britain, Italy, Germany and almost all the other Powers accepted the proposal immediately and unconditionally, but a serious shock was administered to the new spirit of hope by rumours as early as the 22nd June that France was not prepared to agree to the plan as it stood. France declared that the proposed moratorium destroyed all the guarantees which had been given by Germany, and insisted that the framework of the Young Plan, as embodied in the unconditional annuities, should be retained. It is easy to criticize France for this attitude as destructive of what was the essence of the plan—namely, its comprehensiveness and simplicity; but it is also important to remember that, from the French point of view, the plan involved a serious nominal loss, and that to France, still suffering from a fear neurosis, the proposal to cut through the only existing agreement that bound Germany to pay any Reparations at all might well seem to be but the forerunner of the tearing-up of the Treaty of Versailles. Subsequent events went some way to justify the French feeling that the suspension meant the final end of Reparations.

The French Government replied to President Hoover's proposal in a note of the 24th June in which they announced their general acceptance of the underlying idea, but declared that the unconditional annuity could not be entirely waived. They suggested that it should be paid by Germany, but that each of the creditor Governments should return their share to the Bank for International Settlements, which would allocate the sums received as follows: the service of the Dawes and Young loans should first be secured; credits to the extent of $25,000,000 should be put at the disposal of certain Central European Governments which would suffer from the non-payment of Reparations; approved contracts for deliveries in kind should be financed; and the remainder of the annuities should be reloaned to German industrial concerns. They also required that repayment should be made by Germany within two years and that France should be freed from her obligation to create the Guarantee Fund of 500,000,000 Reichmarks.[1]

Negotiations between Paris and Washington continued, with assistance from London, for some time, while the spirit of optimism roused by President Hoover's proposal died down and the strain on Germany's resources recommenced. It was not until the 6th July that agreement was reached as follows:

(1) The payment of all inter-governmental payments, including War Debts and Reparations, was to be postponed for one year.

(2) The unconditional annuities were to be paid by the German Government, but they were to be returned by the creditor Governments to the Bank for International Settlements, which, after providing for the service of the Dawes and Young loans, was to invest them in guaranteed bonds of the German railways. The funds for the unconditional annuities were actually to be provided out of the payments due from the German railways.

(3) The suspended payments both on War Debts and on Reparation account were to bear interest at the rate of 3 per cent. per annum and to be refunded in ten equal annual instalments, commencing on the 1st July, 1933. The original American idea had been simply to move on the schedule of all payments by one year, and the agreement finally reached was a compromise between that and the French proposal for repayment in two years.

(4) The French demand for credits to Central Europe was withdrawn, but the Bank for International Settlements was to organize the necessary assistance for the countries concerned.

(5) France recognized that the question of the Guarantee Fund

[1] See the *Survey for 1930*, pp. 498 *n.*, 524.

was not of direct concern to the American Government and agreed to settle this point with the other Reparation creditors.

(6) Questions regarding deliveries in kind were to be brought before a committee of experts, which was to meet in London on the 13th July.

(7) Germany was to give guarantees that the sums released to her would be devoted to economic needs and not employed for the purpose of military expansion.

During the interval before the meeting of experts, which had been postponed till the 17th July and was to be followed by a meeting of European statesmen, also in London, on the 20th July, the situation in Germany grew rapidly worse.[1] So serious was the situation when the committee of experts met on the 17th July, that it adjourned till the 24th July in order to give the Seven-Power Conference time to deal with the bigger issues. This conference of statesmen sat for four days, but failed to agree on any joint governmental action to provide financial help for Germany.[2] It did, however, perform a most useful function by encouraging, with all the force of its authority, the bankers in the various creditor and neutral countries to take steps to stop the withdrawal of short-term funds from Germany, the eventual result of which was the drawing-up of the various Standstill Agreements.[3] The committee of experts, which then reassembled, consisted of representatives of twenty-three countries (not including the United States of America). Its report, which was signed on the 11th August, 1931, consisted of seventeen documents, including a main report with protocols covering German and Eastern European Reparations, as well as agreements between the various allied Governments concerned.[4]

The main report agreed reluctantly with the Franco-American arrangement of the 6th July, by which all European inter-governmental debts affected by the moratorium should be repaid in ten equal, non-postponable annuities, commencing on the 1st July, 1933, and carrying interest at a rate not exceeding 3 per cent.[5] This recommendation was made on the assumption that similar arrangements would be made with the United States Government. As regards Germany, the service of the Dawes and Young loans was to be continued without interruption. The conditional annuities were to be suspended for a year and then repaid in accordance with the general

[1] See the *Survey for 1931*, pp. 81–6 and 213–15.
[2] See *op. cit.*, pp. 87–90 and 217.
[3] See *op. cit.*, pp. 99–100, 113, 143, 217–18, 239.
[4] See *Cmd.* 3947 of 1931.
[5] Afterwards increased to 4 per cent.

provisions outlined above; repayment was to be made by equal monthly instalments during the ten years 1933–43. In respect of the unconditional annuities, monthly payments were to be continued during the moratorium year, out of which the service of the Dawes and Young loans were to be met, the balance of some Rm. 45,000,000 per month being paid by way of loans in foreign currencies by the Bank for International Settlements to the German Railway Company, which was to be released from the Reparation tax of Rm. 55,000,000 per month during the holiday year. Existing credits for deliveries in kind were to be used, but any arrangement for the continuation of contracts was to involve no charge on the German Budget during the year, nor any injury to German economy. Agreements were also signed between Great Britain on the one hand and her war debtors on the other, providing for the suspension of payments by the debtors during the moratorium and arranging for repayment on the same terms as those applied to Germany.

It was agreed, however, that, in order to keep within the framework of the Young Plan, Germany must make a formal application under Article 119 of that Plan to the Bank for International Settlements for the postponement of the conditional annuities. This involved the convocation of the Special Advisory Committee therein provided for,[1] but as this committee did not meet until the 7th December, 1931, the account of its labours will be found later in this chapter.

The financial effect of the Hoover Moratorium may best be seen by the following summary[2] in tabular form of suspended receipts and payments converted at former pars of exchange.

It will be seen that the principal losers were the United States (£53,600,000), France (£16,100,000), Great Britain (£9,700,000), Jugoslavia (£3,300,000), Belgium (£2,400,000), and Italy (£1,800,000).

Although much of the effect of President Hoover's proposal had been lost by this delay in reaching agreement on details, the conclusion of the work of the experts, followed by the signature of the bankers' 'Standstill' Agreement on the 19th August, and the publication of the report of the International Bankers' Committee (the Layton–Wiggin Report) on the economic situation in Germany,[3] tended towards the restoration of confidence, so that from now on it was possible to record some improvement in the situation. It would,

[1] See the *Survey for 1929*, p. 159.
[2] Reproduced by permission from *The Economist War Debts Supplement* of the 12th November, 1932.
[3] See the *Survey for 1931*, pp. 99–100 and 217–18.

FINANCIAL EFFECT OF THE HOOVER MORATORIUM

Government.	*Suspended Receipts.* £'000.	*Suspended Payments.* £'000.	*Net Loss* (−) *or Gain* (+) £'000.
United States	53,600	Nil	−53,600
Great Britain[1]	42,500	32,800	−9,700
France	39,700	23,600	−16,100
Italy	9,200	7,400	−1,800
Belgium	5,100	2,700	−2,400
Rumania	700	750	+50
Jugoslavia	3,900	600	−3,300
Portugal	600	350	−250
Japan	600	Nil	−600
Greece	1,000	650	−350
Canada	900	Nil	−900
Australia[2]	800	3,900	+3,100
New Zealand	330	1,750	+1,420
South Africa[3]	110	(340)	−110
Egypt	90	Nil	−90
Germany	Nil	77,000	+77,000
Hungary	Nil	350	+350
Czechoslovakia	10	1,190	+1,180
Bulgaria	150	400	+250
Austria	Nil	300	+300

however, be a mistake to think that the statesmen of the world were so short-sighted as to believe that the whole problem had been solved by a moratorium on inter-governmental payments for a period of one year. The ink was scarcely dry on the various documents mentioned above before attempts were being made by various Governments to ascertain the views of their neighbours as to what action was to be taken in July 1932. No chart of these soundings has been published, but it is clear that early in September the German, French and British statesmen were already considering the question. British policy had always been to advocate complete cancellation of all inter-governmental debts, or, if that could not be achieved, the balancing of the debts due to them with what they themselves might have to pay. France was ready to cancel War Debts, but was not prepared to forgo Reparations. Germany had always regarded Reparations as unjust, and this view was also held by the United

[1] The British debit balance is accounted for by the War Debts of the Dominions, reconstruction debts and other items excluded from the scope of the Balfour Note.

[2] Only the interest on Australia's War Debt is included above, as repayment of the principal had already been suspended on the initiative of the British Government.

[3] South Africa decided not to suspend payment on her War Debt to Great Britain.

States; but it was difficult for the United States Government, who were not directly interested in Reparations, to advocate their cancellation while demanding payment of debts due to them by their late Allies. The situation in the United States was particularly difficult, as President Hoover and his advisers were known to favour, if not a revision of War Debts and Reparations, at least some extension of the moratorium—a course which made no appeal to popular opinion in that country.

It was clear, however, that no advance towards a solution of the problem could be made in Europe until the attitude of the United States was known. Accordingly, in the second half of October, the French Prime Minister, Monsieur Laval, paid a visit to President Hoover at Washington.[1] The secret of these conversations was carefully guarded, but it was known that they concerned the problem of inter-governmental debts on the one hand, and the question of the withdrawal of French balances from America on the other. At the conclusion of these discussions on the 25th October, a *communiqué* was issued, of which the more important passages were as follows:

> It has not been the purpose of either of us to engage in commitments binding our Governments, but rather, through development of fact, to enable each country to act more effectively in its own field.
>
> It is our joint purpose that the conference for limitation of armaments will not fail to take advantage of the great opportunity which presents itself and that it will be capable of meeting what is in reality its true mission, that is, the organization on a firm foundation of permanent peace.
>
> In so far as inter-governmental obligations are concerned we recognize that prior to the expiration of the Hoover year of postponement, some agreement regarding them may be necessary covering the period of business depression, as to the terms and conditions of which the two Governments make all reservations. The initiative in this matter should be taken at an early date by the European Powers principally concerned within the framework of the agreements existing prior to July 1, 1931.
>
> Our special emphasis has been laid upon the more important means through which the efforts of our Governments could be exerted toward restoration of economic stability and confidence. Particularly we are convinced of the importance of monetary stability as an essential factor in the restoration of normal economic life in the world in which the maintenance of the Gold Standard in France and the United States will serve as a major influence.
>
> It is our intent to continue to study methods for the maintenance of stability in international exchanges.

Although it was clear that no binding commitments had been undertaken, this *communiqué* was of importance inasmuch as it contained a tacit admission on the American side of the connexion between

[1] See the *Survey for 1931*, pp. 124–6.

Reparations and War Debts and of the possibility that it might be necessary to renew the moratorium in July 1932. From the French point of view, however, it secured that initiative in any such action should come from Europe, and that the United States would not again make proposals with regard to these questions without previous consultation with France, so that the structure of the Young Plan could be preserved. But it was also interpreted in France, and elsewhere in Europe, as implying that if the European Powers solved the Reparations problem, the United States would be prepared to deal with the War Debts problem.

After Monsieur Laval's return to France, negotiations were resumed between the French and the German Governments, with the German Ambassador in Paris, Herr von Hoesch, as intermediary. The German contention was that the Special Advisory Committee to be set up under the Young Plan should consider not only the conditional, but also the unconditional annuities and should, in fact, investigate Germany's capacity to pay any Reparations at all. It was also to have authority to decide on the vexed question of priority as between Reparations and short-term credits. The French, on the other hand, insisted once again that the letter of the Young Plan should be preserved by the restriction of the terms of reference of the Special Advisory Committee to the question of the conditional annuities, and declared that the priority of Reparations over short-term credits was not open to discussion. The British were inclined to be sympathetic to the German point of view with regard to the annuities, and definitely supported Germany in claiming that short-term credits should have priority over Reparations. It was eventually agreed, on the 18th November, that the German application for the formation of the Special Advisory Committee was to conform absolutely with the requirements of the Young Plan, but that it should be accompanied by a statement of the larger issues which would not be made the subject of a protest by France. It was also agreed that the committee should not deal with the question of priority, but that the short-term credits should be the subject of separate negotiations between the bankers concerned on both sides, and that both questions should be considered later by a conference at which the Governments would be represented. The German Government accordingly made formal application on the 19th November to the Bank for International Settlements for the appointment of a Special Advisory Committee.

Under the terms of the Young Plan,[1] this committee was to consist

[1] See *Cmd.* 3343 of 1929, Part 8 (e).

of seven members representing the seven Central Banks of the six principal creditor countries[1] and Germany. The committee met for the first time at Basle on the 7th December, 1931, and co-opted four additional members (Dutch, Swedish, Swiss, and Jugoslav). Subcommittees were appointed on Germany's foreign indebtedness, German assets abroad, the Budget, and the railways. But the main work of the committee in the first week was to examine the evidence, both written and oral, submitted by Germany. This was followed by an examination of the connexion between the German economic situation and the world crisis, and it was not until the 23rd December that it was possible to reconcile divergent views and obtain a unanimous report. This report, after an able review of the situation, declared that it would not be possible for Germany to transfer the conditional part of the annuity in the year beginning in July 1932. It pointed out that, so far from the steady expansion in world trade contemplated in the Young Report having taken place, the opposite had occurred, and that the exceptional fall in gold prices 'had greatly added to the real burden, not only of German annuities, but of all payments fixed in gold'. Under these circumstances concerted governmental action was called for, in a much wider field than that of Germany alone. It concluded by emphasizing the necessity for an adjustment of all inter-governmental debts and an appeal to the Governments concerned to take immediate action to ameliorate the grave crisis affecting the world.

But while the Special Advisory Committee (which included among its members one appointed by the Governor of the Federal Reserve Bank of New York) was sitting, events seemed to be moving in a backward direction in the United States. It will be recalled that, as Congress was not in session in June, President Hoover had secured the approval of the leading members of Congress before making the proposal for a moratorium.[2] The meeting of Congress on the 10th December was, therefore, the first opportunity which had occurred to obtain the ratification of the scheme by the Legislature; and immediate ratification was necessary if the instalments due from debtor countries on account of War Debts were not to be paid on the 15th December. President Hoover, anxious that the United States should continue to play as leading a part in December as she had played in June in the movement towards world recovery, included in his Presidential Message a recommendation for the re-establishment of the World War Foreign Debt Commission—the Commission

[1] i.e. Belgium, France, Great Britain, Italy, Japan and the United States of America.

[2] See p. 99 above.

of Congress which had carried out the various debt funding agreements between 1922 and 1927. In the course of his message he declared that it was clear that a number of the debtor Governments would be unable to make payments in full pending economic recovery and that it would be necessary in some cases to make still further temporary adjustments. Unfortunately, feeling among Congressmen was not the same as it had been when the leaders supported President Hoover in June. The realization that the moratorium plan had not resulted in the recovery of Europe, and the growing economic troubles of which the Congressmen had been witnesses in their constituencies for the past six months, made them regret the step which President Hoover had taken as 'favouring the foreigner' at the expense of his fellow countrymen. To be asked now, not only to ratify the moratorium, but also to set up machinery for 'still further temporary adjustments' was too much. The traditional rôle of Congress as the guardian of the people against the Administration had to be preserved. Accordingly, the proposal to re-establish the Debt Funding Commission was rejected, and the ratification of the moratorium was only carried through on the 22nd December, after an exhaustive investigation by committees of both Houses, and after a rider had been added that it was 'against the policy of Congress that any of the indebtedness of foreign countries to the United States should be in any manner cancelled or reduced'. The delay in ratification had put both the Administration and the debtor Governments in a difficult position with regard to the instalments due on the 15th December, but the Administration had notified the Governments concerned that it would not press for payment and with the ultimate ratification the difficulty was removed.

(c) The Lausanne Conference

It became obvious soon after the 10th December that the United States Administration would not be able to take any active part in the international Conference which would have to follow the report of the Special Advisory Committee. But the wording of President Hoover's original proposal, as well as that of the Hoover–Laval *communiqué* in October, had led to a general belief that, if a satisfactory settlement of the Reparations problem could be reached and some progress made towards Disarmament, the United States would be willing to help Europe in the matter of War Debts. It was in this belief that negotiations for an international Conference on inter-governmental debts were set on foot after the despatch on the 7th December to the Governments concerned of a note containing the

views of the French Government on Reparations. By the 21st December, the views of Great Britain and Italy had been received and conversations had begun between the British and French Treasuries. On the 30th December the British Government suggested to the other Powers that the Conference should take place at Lausanne on the 18th January, 1932.[1]

To the historian of the future, one of the most tragic factors in the story of the post-war economic crisis may well seem to be the delay which regularly occurred between the publication of any scheme to relieve the pressure and its actual inception. Just as in the case of the Hoover Moratorium much of its effect had been lost by the prolonged negotiations before it was put into force, so in this case nearly six months were to elapse between the British Government's suggestion of a Conference at Lausanne and the actual meeting there in June 1932. The negotiations between France and Great Britain continued during January 1932, but in view of a statement by the German Chancellor, Dr. Brüning, on the 9th January, that Germany could not possibly make any further political payments, it became clear that immediate agreement could not be reached. An attempt to agree on a proposal for a moratorium for Germany for another two years was defeated by the French insistence that this should apply to the conditional annuities only, the unconditional annuities being mobilized by the creation of railway bonds. This was followed by a proposal for a six months' moratorium, to be followed by a Conference in the autumn, by which time it was hoped that the United States Government would be able to join in a plan for the final settlement of Reparations and War Debts. This was coldly received by France because she thought that any further complete moratorium would mean the end of Reparations, and by Germany because she thought that it would not. It became obvious, however, in view of the approach of elections both in France and Germany, that the Conference must be postponed, and on the 14th February it was officially announced that the Conference would not be held until June, and that its object had been defined by the Governments concerned as: 'to agree on a lasting settlement of the question raised in the report of the Basle Experts and on the measures necessary to solve the other economic and financial difficulties which are responsible for, and may prolong, the present world crisis.'

It was generally accepted that agreement had been reached in principle between the British and French Governments as to their attitude towards Reparations, although the cynic might have observed

[1] See the *Survey for 1931*, pp. 139, 141–2.

that the word 'lasting' could cover both a final settlement as desired by the British, and a settlement of the kind desired by the French, which could be revised later if Germany recovered. During the four months which intervened before the opening of the Lausanne Conference, little of importance occurred with regard to either Reparations or War Debts, except for some excitement at the end of May with regard to agreements which the United States were then asking their debtors to sign. These agreements contained the detailed arrangements for the repayment of the sums due to the United States and postponed under the Hoover Moratorium, the only important change from the original proposal being an increase in the rate of interest payable from three per cent. to four per cent., following on a similar increase in the rate for inter-governmental European debts.

At the same time, it is reasonable to presume that discussions with regard to the Conference continued during this period; for, when it was announced on the 8th June that Monsieur Herriot had invited Mr. MacDonald and Sir John Simon to go to Paris on the 11th June, for a preliminary conversation with regard to the Conference, there was a general feeling that the French and British Governments were in closer *rapprochement* on these questions than they had been for a long time. This feeling was reflected in a *communiqué* issued just before the British Ministers left Paris, which spoke of 'a common point of view which makes it possible to foresee the adoption of fair and effective solutions at the Lausanne Conference, the strengthening of confidence and the maintenance of peace among the nations'. It was not indeed expected that France would agree to wipe the slate of Reparations clean, but Monsieur Herriot was understood not to be taking so definite a stand on the priority of Reparations and the inviolability of the unconditional annuities as his predecessor.

When the Conference opened at Lausanne on the 16th June, 1932, Mr. MacDonald was elected President, and a good impression was created by the decision which was taken on the 17th June that, should the Conference not be concluded by the 1st July, when certain inter-governmental payments became due, these payments would be postponed for the period of the Conference. It is true that the British proposal for a clean slate was rejected by the French, but the fears that a counter-proposal would be made by them for a further moratorium for six months were not realized. It was also significant that the resolution regarding the postponement of payments due on the 1st July spoke of a final and definite solution directed towards the improvement of European conditions. Monsieur Herriot indeed was known to be prepared to make far-reaching concessions on the understanding that War Debts would be correspondingly reduced, though his Finance Minister, Monsieur Germain-Martin, was clearly acting as a brake. The Germans, too, were moderate in their attitude, though they might declare that they did not intend to pay any more Reparations, and though the German press threatened a moratorium for all commercial and private debts if a satisfactory agreement were not reached. The negotiations proceeded slowly for some days while Monsieur Herriot attempted to reassure opinion in France both by a visit to Paris and by speeches referring to the danger of German industrial competition and the disproportionate sacrifice which France would be called upon to make in the event of Reparations being abolished. The proofs put forward by the German delegation of Germany's incapacity to pay further Reparations produced a considerable effect, and when the Chancellor, Herr von Papen, spoke of economic compensations, the hopes of a settlement improved, although the Germans excluded any political *quid pro quo*. At this point the German Chancellor paid a hurried visit to Berlin on the 25th and 26th June, and his more cautious attitude on his return to Lausanne was attributed to pressure put on him by the German Cabinet. In fact, with opinion also hardening in France, it was clear that a crisis had been reached.

On the 30th June the negotiations were continuous. The principle which was slowly emerging was that Reparations as such should be abolished, but that Germany should undertake an obligation to make a payment at a later date to a common fund for European reconstruction, which would be administered by the Bank for International Settlements. As regards the amount, it was believed that the Germans had offered a lump sum payment by means of a bond issue of Rm. 2,000,000,000, and that the French had refused to consider less than Rm. 7,000,000,000. The creditors also refused to accept the settlement as final unless they reached agreement with the United States, whereas the Germans insisted that the whole object of the Conference was to reach a final settlement. By the 2nd July, the creditors had agreed on a proposal for a bond issue of Rm. 4,000,000,000, bearing interest at 5 per cent., but with a moratorium of three years before any part of the issue was to be made. This proposal was informally put before the Germans and promptly—though equally informally—rejected. On the 4th July, after an incursion by the Italians into the realm of War Debt relief, the Germans made a counter-proposal for an amount of Rm. 2,000,000,000, but they accompanied it with a demand for the cancellation of the War Guilt clauses of the Treaty of Versailles. The introduction of political conditions at this moment was unfortunate, as Monsieur Herriot had been forced to return to Paris, where his Government was seriously threatened in the Chamber; but the adoption by Mr. MacDonald and Herr von Papen of the customary conference technique of threatening to return home if agreement were not reached within twenty-four hours enabled Monsieur Herriot to quell the revolt and return to Lausanne. The 5th July was spent in bargaining, and though the Germans raised their figure to Rm. 2,600,000,000, they repeated their demand that the War Guilt clauses be annulled and added a further claim for equality of armaments.[1] The deadlock continued throughout the 6th and 7th July. The good offices of the British delegation were constantly in demand, and eventually, at 2 a.m. on the morning of the 9th July, agreement was reached at a meeting of the British, French and German delegations. Monsieur Herriot himself announced the success of the Conference to the representatives of the press by saying 'it is done', at the same time symbolically embracing two lady journalists, the one French and the other German.

The principles of the Agreement[2] were: (1) the abolition of Reparations; (2) the abrogation of the Hague Agreement of January 1930,[3] the London Agreement of the 11th August, 1931,[4] and the Berlin Agreement of the 6th June, 1932;[5] and (3) the delivery by the German Government to the Bank for International Settlements of 5 per cent. redeemable bonds with one per cent. sinking fund to the amount of Rm. 3,000,000,000. The Bank was to have the right to negotiate these bonds by means of public issues in such amounts as it thought fit, provided that no bonds should be negotiated for three years from the date of the agreement, that the issue price should not fall below 90 per cent. (subject to a lower price to be decided on by a two-thirds majority of the Board of the Bank for International Settlements

[1] On the question of equality in armaments, see Part III, section (ii), of the present volume.

[2] *Cmd.* 4126 of 1932. The Agreement was signed by representatives of Belgium, Great Britain, Canada, Australia, New Zealand, South Africa, India, France, Italy, Japan, Poland and Germany.

[3] *Cmd.* 3484 of 1930, except Article 3 (Liquidation of Past) and Articles 6 and 10 (Bank for International Settlements). For the Hague Agreement, see the *Survey for 1930*, Part VI, section (iii) (*d*).

[4] *Cmd.* 3947 of 1931. See p. 102 above.

[5] i.e. a supplementary protocol to the protocol concerning Germany signed in London on the 11th August, 1931. The text of the protocol of the 6th June, 1932, will be found in *Cmd.* 4206 of 1932.

after five years), and that all bonds not issued after fifteen years should be cancelled. The proceeds of the bonds were to be placed to a special account pending future agreement between the creditor Governments as to their allocation, and the German Government further undertook to apply one-third of the net proceeds of any foreign loan which they might subsequently issue to the purchase of these bonds. An agreement was also signed releasing Germany from the liability to make any payments pending the ratification of the main agreement or pending notification by one of the six major Governments of their decision not to ratify.

Provision was also made for a committee to report on measures to overcome transfer difficulties and to revive trade in Central and Eastern Europe, and a resolution was passed embodying the decision to invite the League of Nations to convoke a World Economic and Financial Conference.

It will be seen that the Germans had dropped their political demands; but it might be argued that since Reparations were based on the recognition by Germany of her responsibility for the War, their abolition implied a concession to German susceptibilities in this matter. In addition, a striking declaration, drafted by Monsieur Herriot himself, was included in the Agreement, which referred in its opening paragraph to 'the establishment and development of confidence between the nations in a mutual spirit of reconciliation, collaboration and justice'.

The Lausanne Conference appeared at first sight to be the actual, if not the nominal, end of Reparations. The name had been abolished and whereas, before the Conference, Germany was bound to pay instalments the present value of which amounted to a total of some \$25,000,000,000, after the Conference the present value of her maximum liability on account of interest and sinking fund, if all the bonds were issued, could not amount to more than \$2,000,000,000. And, in fact, no one anticipated that these bonds ever would be issued in full. The agreement was well received everywhere, except among the Nazis in Germany, who demanded an absolutely clean slate; but in England and the United States it was accepted that the small amount of writing on the slate was so faint as to be practically indecipherable.

French satisfaction was less easy to understand until it became known a few days later that there was, in fact, another agreement which had been signed by the creditor Powers at Lausanne and which safeguarded their position. The text of this agreement which, although it was signed on the 2nd July, was not published until the

13th July[1] and which came to be known as the 'Gentlemen's Agreement', was as follows:

> The Lausanne Agreement will not come into final effect until after ratification as provided for in the Agreement. So far as the creditor Governments on whose behalf this *Procès-Verbal* is initialled are concerned, ratification will not be effected until a satisfactory settlement has been reached between them and their own creditors. It will be open to them to explain the position to their respective Parliaments, but no specific reference to it will appear in the text of the agreement with Germany. Subsequently, if a satisfactory settlement about their own debts is reached, the aforesaid creditor Governments will ratify and the agreement with Germany will come into full effect. But if no such settlement can be obtained, the agreement with Germany will not be ratified; a new situation will have arisen and the Governments interested will have to consult together as to what should be done. In that event, the legal position, as between all the Governments, would revert to that which existed before the Hoover Moratorium.
>
> The German Government will be notified of this arrangement.

The document was signed by the representatives of Belgium, Great Britain, France and Italy. The White Paper in which it was published also contained the report of a question addressed at the final meeting of the Lausanne Conference by Herr von Papen to Mr. MacDonald and the latter's reply, in which it was made clear that in the event of any inability to fulfil the agreement, a further Conference would be held. There was also included a letter dated the 8th July from the British Chancellor of the Exchequer to the French and Italian Ministers of Finance undertaking not to demand payments on account of the War Debts from France and Italy due to the United Kingdom, on the same conditions as in the case of Germany with regard to ratification or non-ratification.

The news of the existence of this document created great excitement throughout the world In Great Britain, a parliamentary debate on the 11th and 12th July was largely occupied with the question of this 'Gentlemen's Agreement' and suspicion was only partly allayed by the Government's assurance that the German delegates had been aware of it before the Lausanne Agreement was signed and by the publication of the text.[2] In the United States the satisfaction at the successful conclusion of the Lausanne Conference was almost completely nullified by the Gentlemen's Agreement, which was regarded as an attempt to hold a pistol to the head of the

[1] It was published in Great Britain as the parliamentary paper *Cmd.* 4129 of 1932.

[2] The principle behind the document was, of course, the same as that behind the Balfour Note, namely, that Great Britain's incomings and outgoings on account of War Debts and Reparations should balance.

United States in order to secure the cancellation of War Debts due to that country. This feeling was intensified by an incautious statement by the Chancellor of the Exchequer (Mr. Chamberlain) in the course of the debate in the House of Commons, which seemed to imply that the United States Administration had given some sort of pledge that War Debts would be cancelled if Reparations were abolished at Lausanne. It need hardly be said that this suggestion was immediately denied in Washington and that the denial was accepted by Mr. Chamberlain. At the same time the terms of the Hoover-Laval *communiqué* of the 25th October, 1931, if nothing else, gave ground for the belief that the settlement of the Reparations problem would be regarded by the existing Administration as a considerable factor in any future attempt to settle the problem of War Debts.

On the 12th July, an additional shock was administered by the announcement in the House of Commons that a further agreement[1] had been signed at Lausanne between the British and French Governments, in the following terms:

> 1. In accordance with the spirit of the Covenant of the League of Nations they [the British Government and the French Government] intend to exchange views with one another with complete candour concerning, and to keep each other mutually informed of, any questions coming to their notice similar in origin to that now so happily settled at Lausanne which may affect the European régime. It is their hope that other Governments will join them in adopting this procedure.
>
> 2. They intend to work together and with other Delegations at Geneva to find a solution of the Disarmament question which will be beneficial and equitable for all the Powers concerned.
>
> 3. They will co-operate with each other and other interested Governments in the careful and practical preparation of the World Economic Conference.
>
> 4. Pending the negotiation at a later date of a new commercial treaty between their two countries they will avoid any action of the nature of discrimination by the one country against the interests of the other.

This agreement was received with satisfaction in France (where it was regarded as going some way towards providing that guarantee of security for which France had long been asking), with misgiving in England, with unfortunate results in Italy, and with great suspicion in the United States. In fact, in the last-named country the existence of these two documents and the apparent reluctance with which their publication was authorized formed a large part of the basis for the feeling, which underlay all the subsequent international

[1] *Cmd.* 4131 of 1932.

negotiations about War Debts, that the European debtors had formed a united front and were trying by moral pressure to force the United States to release the European Powers from the burden of their War Debts, with the consequence that the burden would be shifted to American shoulders. Much of the attempt to keep these agreements in the background was probably due to a desire to avoid that very feeling in America, but the opposite result was achieved and, though informed opinion in that country came to realize the true nature of the agreements[1], public opinion in general remained unconvinced.

(d) War Debt Negotiations

(1) *November and December, 1932*

The theatre of operations now completely changed. With the settlement reached at Lausanne, Germany dropped out of the picture as far as Reparations were concerned, though her claim for equality of armaments reminded the world that her post-war rehabilitation was not yet complete. As far as the proposed World Economic Conference was concerned, however, the chief interest lay in the attitude to be adopted by the United States. At the beginning of August, the Government accepted an invitation to participate in the Conference on condition that Reparations, War Debts, and Tariffs were not included in the agenda—another indication that the next phase of the struggle to liquidate the War would take place in the New World. But little of outward importance occurred for several months, though beneath the surface discussions continued between the Powers, and policies were prepared. Signs of the coming storm, however, were visible during September, following on a reminder by the United States Secretary of the Treasury, Mr. Mills, that any Governments which wished to take advantage of their rights with

[1] The view of the intelligentsia may best be seen by the following quotation from a survey of American foreign relations published by the Council of Foreign Relations in New York: 'The only mysterious thing about the [Gentlemen's] Agreement was their [the European diplomats'] own method of dealing with it. . . . But apart from annoyance at the manner of presentation, the American view was that the Agreement contained no promises of action which in the nature of things would not have been taken without it.' (*The United States in World Affairs, 1932* [New York, 1933, Harper Bros.], p. 147.) There were, moreover, signs that opinion was beginning to change. Thus, for instance, it was on the 23rd July that Senator Borah, the Chairman of the Foreign Relations Committee of the Senate and hitherto an uncompromising opponent of debt revision, declared that the Lausanne Agreement alone was not enough, but that he would agree to cancellation, if it formed part of a general scheme to end world depression and to ensure real disarmament.

regard to the postponement of payments on capital account on the 15th December[1] (though these were only a small part of the total War Debt payments to be made on that date) must give notice by the 15th September. Poland, Estonia and Latvia alone took advantage of this, in respect of capital payments to a total amount of $1,252,000, but Germany notified the United States Treasury of her intention to postpone the payment of some $7,800,000 due on the 30th September on account of Mixed Claims and the cost of the United States Army of Occupation.[2] But the main debtor countries decided to make no move. This decision was partly due to the smallness of the advantage to be gained by such a postponement and to the hope of a general settlement of War Debts before the 15th December, and partly to a tacit understanding which had been reached between the European debtors not to raise the issue of War Debts until after the American presidential election which was to be held in November. On their side, the two great American political parties and their presidential candidates refrained from making either War Debts or the proposed World Economic Conference a party question during the election campaign. Both parties, however, were pledged to oppose cancellation of the debts and both candidates expressed apprehension of a united European front in this matter.

It was, indeed, common knowledge on both sides of the Atlantic that the question would be raised immediately after the presidential election on the 8th November. In fact, the Greek Government defaulted on a payment two days later, and the Hungarian Government notified their intention to default. On the same day (the 10th November) the long and important interchange of notes between the debtors and the creditor began with the presentation of the first British note,[3] followed by the first French note[4] on the 11th November.[5] The British note referred to the Hoover Moratorium, the Hoover–Laval *communiqué* of October 1931,[6] and the Lausanne Settlement, recited the belief of the British Government that the 'régime of inter-governmental financial obligations, as now existing,

[1] The date for annual payments on capital account was the 15th June, and not the 15th December, in the case of France, Italy and some other countries.

[2] See the special agreement between Germany and the United States, signed on the 23rd June, 1930. (Text in *L'Europe Nouvelle*, 19th April, 1930.)

[3] The text was published as *Cmd.* 4192 of 1932.

[4] The text was published in *Le Temps*, 15th November, 1932.

[5] Belgium followed suit on the 15th November, Czechoslovakia and Poland on the 22nd November, Latvia on the 28th November, and Lithuania on the 10th December.

[6] See p. 105 above.

must be reviewed', and asked for an exchange of views at the earliest possible moment.[1] The note then continued as follows:

> The immediate objective of the present note, however, is of a more limited nature. On the 15th December the next instalment of the British War Debt is due to be paid. It is not possible to hope that agreement can be achieved in five weeks on matters of such vast scope. Confronted last summer with a similar difficulty, the Conference of Lausanne found it necessary, in order to allow its work to proceed undisturbed, to reserve, during the period of the Conference, the execution of the payments due to the participating Powers. His Majesty's Government in the United Kingdom hope that a similar procedure may now be followed, and ask for a suspension of the payments due from them for the period of the discussions now suggested, or for any other period that may be agreed upon.

It will be observed that the note was simply a request for a review of the whole situation, with a moratorium for the period of the discussions, based on the fact that the measures so far taken had not been sufficient to put an end to the economic depression, and that no arguments, either moral or economic, for revision of the British debt as such were advanced. No specific mention was made of the other debtor countries, which might have given rise to the suspicion of a united front, but the whole argument was that there must be a revision of all inter-governmental payments. The French note contained the same requests, though in the opening paragraphs it connected the concessions made at Lausanne more directly with the Hoover–Laval *communiqué* than the British note did. The interdependence of Reparations and War Debts, however, was not directly mentioned.

In view of the similarity of the notes and of their almost simultaneous presentation, fresh fears of a united front were expressed in the United States;[2] and although the French Government denied that the terms of the British note had been communicated to them before despatch, it was admitted in the press that there had been exchanges of views between the two Governments. Apart from this, however, there was reason to believe that the tide of public opinion was beginning to turn, however gradually, in the United States and that many among the intelligentsia who had previously been opposed to any revision of the debts were beginning to realize the economic necessity of according some further relief to Europe. The moment was, however, particularly unfavourable to action in the United

[1] It is of interest to note that it was then formally proposed to authorize the British Ambassador at Washington, Sir R. C. Lindsay, to conduct the negotiations.

[2] Owing to the absence of President Hoover in California, the notes were not published until the 14th November.

States. Apart from the economic depression, the Hoover Administration was deprived of all moral authority after the crushing defeat of the Republican Party at the congressional, as well as at the presidential elections, and Congress was still rigidly opposed to revision.[1] In this situation, President Hoover, on the 13th November, invited by telegram Mr. Roosevelt, the President-Elect, to consult with him in view of the certainty that the negotiations would extend into the next Administration and in view of his influence with a large number of Congressmen. In his communication, the President made it clear that any commitments entered into between the European Governments at Lausanne could not have been based upon any assurances of the United States, but declared that in his view the United States should be receptive to proposals of tangible compensation in the form of expansion of markets for United States labour and farm products, as well as in the realm of disarmament. Mr. Roosevelt accepted this invitation on the 15th November, but made it clear that his visit would be an informal one and that final responsibility rested on the existing Executive and Legislature. The President and Mr. Roosevelt accordingly met on the 22nd November and subsequently issued separate statements of their points of view. The President, in his pronouncement, after repeating that he could take no action without the approval of Congress and that, while War Debts and Reparations were entirely separate, War Debts and Disarmament had a close connexion, declared himself opposed to a postponement of the December payments, but in favour of the establishment of a Commission to review the situation with each of the debtor Governments individually. He also declared that he would consider payment of the December instalment in foreign currencies of which transfer would only be made as the exchanges permitted. Mr. Roosevelt, in his statement, agreed with the main basis of the President's contentions, but refused to take any responsibility regarding the December payments and expressed himself as opposed to the setting-up of any commission, holding that a debtor Government could at any time have access to the American Executive through the ordinary diplomatic channels. The underlying difference between the two points of view is made clear by two quotations from Mr. Roosevelt's statement. 'No action by the Congress', he wrote, 'has limited or can limit the constitutional power of the President to carry on diplomatic contacts or conversations with foreign

[1] At the same time President Hoover was not to vacate his office nor Congress to be dissolved until the 4th March, 1933, so that the responsibility in connexion with the payments due on the 15th December rested with them.

Governments'; and again: 'It is equally true that existing debt agreements are unalterable save by Congressional action.' He thus rejected the theory of successive Republican Administrations that Congress was entitled to negotiate the settlements[1] and contended that subsequent ratification by Congress was all that was necessary.[2]

On the 23rd November, the American replies to the first British and French notes were despatched. The note[3] to Great Britain, after recalling that not only was the ultimate decision in these matters reserved to Congress, but that Congress itself in the past had provided the machinery, and after acknowledging the importance of the Lausanne Settlement (but not any responsibility for it), pointed out that, while the depression had affected the debtor nations, it had also fallen with great weight upon the American people. It went on to say that the President favoured the establishment of a Congressional Commission for individual examination of the situation with any debtor Government, but saw no fresh arguments in the British note which would be likely to affect Congress, which alone could authorize a postponement of the December payment. It argued further that payment in December would greatly increase the prospects of an ultimate settlement of the question.

The American reply to the French note followed the same lines,[4] but was different in several important respects. It emphasized strongly that there was no connexion between Reparations and War Debts, hinted that the proposition with which the Lausanne Conference had been faced was different from that which now existed, and declared that 'the United States Congress concluded with each of its debtors arrangements which, in its intention and in its opinion, were both liberal and wholly within the capacity of the debtor to pay without jeopardizing its finances and currency or preventing it from maintaining, and if possible improving, the standard of living of its citizens'. The Administration also crystallized the general feeling in the United States that while Great Britain had perhaps been treated with some hardness in the original settlement, France

[1] It was on this theory that the original Debt Funding Commission had been set up.

[2] It will be understood that both the President and the President-Elect held that modifications in existing settlements were to be regarded as bills affecting the revenues of the United States and consequently requiring a simple majority of both Houses, rather than as treaties requiring a two-thirds majority of the Senate alone.

[3] The text was published as *Cmd.* 4203 of 1932.

[4] The text was published in *The United States Daily*, 28th November, 1932. Similar notes were also sent to Belgium, Czechoslovakia and Poland.

and Italy had been let off lightly and could well go on paying on the agreed scale. This was, in fact, one of the main difficulties which existed all through this period. While the United States was prepared to consider some concessions to Great Britain, it was not inclined to help France; and yet, unless France was brought into a settlement voluntarily, the Lausanne Agreement went by the board. France, on the other hand, conscious of the sacrifice which she had made at Lausanne, expected some recognition from the United States, the absence of which was largely responsible for her default in December 1932. Payment then would have been particularly difficult for her, as she had made no budgetary provision for the equivalent of the $20,000,000 due and it was already clear that her Budget for the year would close with a large deficit. In France the political effects of an American refusal were likely to be more serious than in Great Britain, and, though consultations between the two countries were continued, the subsequent lines adopted by them differed slightly. In Great Britain, references were made by Cabinet Ministers in public speeches to the inequity of Great Britain's making payments to the United States when she was not receiving anything herself from her debtors, and the American note was regarded as an invitation to produce arguments in support of her requests both for immediate postponement and for ultimate revision.

Under these circumstances it was necessary for the British Government to frame a reply which would be both a public statement of their case and policy before the world and also an effective argument addressed to the particular point of view of Congress and the American public.

This note,[1] which was delivered on the 1st December, after welcoming the decision of the United States Government to review the whole situation, put forward the economic arguments with regard to a postponement of the December payment, in three parts. The first part dealt with the historical setting of the debts and their relationship to the world crisis; the second set out the specific British claims for reconsideration: and the third part explained the political effects of a resumption of repayments and pointed out that payment in December, if made by Great Britain, could only be made in gold. The three parts may be summarized as follows:

1. After emphasizing the necessity for a settlement of War Debts and Reparations, which were one of the major causes of the depression, the note recited the history of the War Debts, which to a total of $20,000,000,000 between all the countries were for war purposes

[1] *Cmd.* 4210 of 1932.

and were taken in the form of goods. Their repayment would involve a dislocation of commerce, which, in view of the refusal of the creditors to receive payment in goods, had so far only been avoided by the extent of the flow of foreign investment by the United States, but this flow had stopped suddenly in 1929. The only means of payment left was gold, the drain of which from some countries had reduced world prices and, while increasing the burden of all debts, had made the burden of unproductive war debts intolerable. World trade had also decreased by 50 per cent. in three years. The American principle of payment according to the capacity of the debtor did not mean payment to the full extent of capacity.[1] The taxpayer in any country had to pay the burden of remitted debt and in Great Britain the taxpayer had already assumed a burden of £80,000,000 per annum under the Balfour Note principle. The total amount involved in the debts to the United States was $270,000,000 per annum, but payment would reduce the normal exchange of goods, while even a partial business recovery as the result of revision would mean a greatly increased yield from taxation.

2. The payment of War Debts was, therefore, inconsistent with the existing economic organization of the world. But, apart from that, Great Britain's record justified her request for consideration. Of $12,000,000,000 which she had raised in the United States during the War, only $4,000,000,000 was inter-governmental debt. The other $8,000,000,000 had either been paid for in goods, services, gold and securities or, in so far as it consisted of commercial loans, had been repaid. As regards the $4,000,000,000 of inter-governmental debt, $1,352,000,000 already had been paid, of which $202,000,000 was on account of principal. The British debt had originally been 40 per cent. of the total of American inter-governmental loans, whereas her payments were 80 per cent. of total payments on this account. Further, Great Britain, having been the first nation to fund her debt, had so far paid £200,000,000 more than she received. It was pointed out that the British debt had been incurred in gold and that the depreciation of sterling increased the cost of the December payment from £20,000,000 to £30,000,000, while wholesale prices being now only half as high as they were during the War, the burden

[1] The following quotation from the Annual Report of the Secretary of the United States Treasury for 1924–5 was cited: 'The debtor Government must be permitted to preserve and improve its economic position, to bring its budget to balance and to place its finances and currency on a sound basis and to maintain and, if possible, improve the standard of living of its citizens. No settlement which is oppressive and retards the recovery and development of the foreign debtor is in the best interests of the United States or of Europe.'

of the debt was doubled. The ratio, also, of the British debt to the United States to the value of exports to the United States had altered from 50 per cent. to 300 per cent., so that a change in the balance of trade would become necessary if payments were resumed, and the only apparent means by which this could be achieved would be the further restriction of the import of American goods, and especially farm produce.

3. The third part of the note, after referring to the Hoover Moratorium, the initiative taken by Germany's creditors at Lausanne 'with the cognizance and approval of the United States Government', and the *de facto* connexion between War Debts and Reparations, recorded the assumption that the United States would not require preferential payment over payments to Great Britain by her creditors and pointed out that the resumption of payments to Great Britain would mean the destruction of the Lausanne Settlement. It recalled the recognition of these facts by the United States Government as recorded in their acceptance of the principle of a review of the situation, but it declared that a postponement of the December payment was no less essential, especially in view of the difficulties of transfer in present circumstances—pointing out that the British Government's reserves of foreign exchange were adequate for the support of sterling but not for the debt payment of $95,500,000 as well. It rejected the proposal of payment in foreign currencies for transfer at a later date as constituting a continual threat to the exchange market, and pointed out that the only means of payment left would be in gold, out of reserves which were no more than sufficient for the responsibilities of London as a financial centre.

If the contents of this note have been given at some length, it is because the note constituted, not only the record of the British case, but also the whole economic argument against the transfer of vast amounts of inter-governmental payments.[1] The French note of the 1st December[2] confined itself, after expressing its pleasure at the American Administration's willingness to review the whole situation, to a reiteration in greater detail of the historical factors from the date of the Hoover Moratorium onwards which, in the opinion of the French Government, rendered the resumption of payments impossible. It concluded with an appeal to the United States not to fail in supporting the French Government in their efforts to bring

[1] It will be observed that no moral case was made except to say that Great Britain 'had deserved well of the Republic' in the matter of payments hitherto.

[2] The text was published in *Le Temps*, 3rd December, 1932.

about economic recovery throughout the world, and emphasized again the grave consequences of retrograde action at that moment.

The British note was applauded in England as a true statement of the case and on the whole it was not badly received in the United States, though its length, however inevitable if the case were to be properly put, prevented its being widely read in full, while the extracts published in the press tended to be taken from those sections which were most open to criticism. It was not to be expected that the main economic thesis—that it would do less harm to the United States in the long run to remit the debts than to collect them—would be immediately accepted; and there was in fact considerable resentment among the mass of the population at this apparent attempt on the part of the debtors to educate the creditors in a way which happened to be advantageous to the debtors themselves. There was a large measure of support for this argument in economic, business and official circles, which were, however, considerably disturbed at the threat of new tariff barriers aimed at American goods. But Congress had already committed itself against any further suspension of payments, and it was soon clear that no change could be expected in this respect as long as the old Congress existed.

The outlook, therefore, early in December was gloomy for the future of relations between the United States and Europe. In France and in England there was a large body of opinion which favoured default, while in the United States a far larger proportion still looked at War Debts from the point of view expressed in Mr. Coolidge's famous phrase: 'They hired the money, didn't they?' The Governments on both sides of the Atlantic were, however, concerned above all to prevent any break in friendly feelings. On the 2nd December, Monsieur Herriot's Government secured a large majority on their refusal to allow a debate in the Chamber on War Debt policy. On the 6th December, however, President Hoover's Message to Congress contained only a formal reference to the exchange of notes, and put forward no proposal for action.

The American reply[1] to the second British note was also received on the 7th December. In this note, the United States Secretary of State, after repeating his willingness to conduct a close examination of the whole subject, proceeded to deal with a number of statements in the British note, to which the United States took exception. (i) The note pointed out that the War loans were not all used for destructive purposes, but that much of the money was spent on food and cotton and to support the exchange and that many of the

[1] The text was published as *Cmd.* 4211 of 1932.

post-Armistice loans were used for relief and recovery purposes.[1] (ii) It considered that the British note over-emphasized the importance of War Debts as a contributory cause of the depression. (iii) It complained that in the trade figures quoted in their note the British Government had not included invisible items. (iv) It contested the argument that the payment of War Debts had led to a drain of gold from Europe. (v) It disclaimed responsibility for the Lausanne Settlement.[2]

With regard to the payment of the December instalment, the note referred to informal suggestions which had been made to overcome the transfer difficulty,[3] since the British Government had refused the offer that they should pay in sterling which would only be transferred as the state of the exchanges permitted. It concluded by expressing the Administration's confidence that Congress would be willing to consider any reasonable suggestion made by the British Government to facilitate the payment due on the 15th December.

The American reply to the second French note was received in Paris on the 8th December.[4] After welcoming the suggestion of a close examination in the same terms as in the note to Great Britain, it continued:

> My Government, however, has not been able to reach the conclusion that a postponement of the 15th December payment from the French Government to the United States is necessary because of its effect on the problem of recovery. Although we recognize the serious budgetary difficulties which the French Government, in common with all other Governments, is now facing, the sum involved in this case and the transfer thereof would hardly seem to my Government to be of disturbing weight or difficulty in respect to world economy or the re-establishment of prosperity. Maintenance of these agreements in their operation pending due opportunity for analysis of all matters bearing upon your request for revision and its consideration by the American Congress and people still appears to us to outweigh any reasons presented for a delay.

[1] This was true of some of the debtors. In the case of Great Britain some of the funds were used during the War for food and cotton and exchange purposes, but none of her debt was contracted after the Armistice.

[2] In the course of a statement in the House of Commons on the 14th December, 1932, the Chancellor of the Exchequer, Mr. Chamberlain, referred to this in the following words: 'I may say that the United States Government indicated also to the British Ambassador that, if the European Powers devised a reasonable reparations settlement, this would be the best method of approach with a view to the revision of the War Debts due to the United States.'

[3] The proposal was that the payment should be made in bonds, which should be marketable on the New York Stock Exchange. This was rejected by the British Government as being 'merely another way—and not a very agreeable way—of making the payment'.

[4] The text was published in *The New York Times* on the 10th December, 1932.

The note concluded with a reminder of the importance of making the payment on the 15th December. That same evening (the 8th December) there was a conference in Paris between Monsieur Herriot, Mr. MacDonald, and Mr. Chamberlain, after which there were indications that the policy of both Governments would be to pay in gold on the 15th December.

In Great Britain the nature of the reply was not unexpected and public opinion resigned itself to payment in gold; but in France there was a growing feeling that the terms of the last American note showed that France had made large sacrifices at Lausanne in the mistaken, but not unjustified, belief that the United States would make a similar gesture; and the conclusion was that France would now be morally justified in withholding payment. It was true that France was also a debtor towards Great Britain, but that country was now standing by her and the Lausanne Agreement. A further cause of irritation in France was the American insistence on linking revision of the debts with disarmament, to which her reaction was somewhat similar to the American reaction to the British economic arguments for cancellation. In addition, French public opinion felt that it would be vain to trust again to American generosity by making the December payment in the expectation that it would facilitate the ultimate settlement, as the American note declared. On the other hand, the French Government, under Monsieur Herriot's leadership, inclined towards payment, principally, it was said, because of Monsieur Herriot's desire to respond to the support accorded to the French Government by the British Government.

Under these circumstances, the British decision could not be long delayed, nor indeed would any useful purpose have been served by further discussions. With very few exceptions, opinion favoured payment under conditions. On the 11th December, therefore, the British Government addressed a third note[1] to the United States Government. In this note they reserved their comments on the American criticisms of the 7th December on the earlier British note until the negotiations should take place, and proceeded to deal only with the question of the payment due on the 15th December—four days later. They declared that no solution except suspension could obviate the transfer difficulties and that, as the United States Government would not agree to recommend this to Congress, no alternative remained except to pay in gold, under a most important condition which they expressed as follows:

> In the view of His Majesty's Government, therefore, the payment to

[1] *Cmd.* 4215 of 1932.

> be made on the 15th December is not to be regarded as a resumption of the annual payments contemplated by the existing Agreement. It is made because there has not been time for the discussion with regard to that Agreement to take place, and because the United States Government have stated that in their opinion such a payment would greatly increase the prospects of a satisfactory approach to the whole question.
>
> His Majesty's Government propose accordingly to treat the payment on the 15th December as a capital payment, of which account should be taken in any final settlement; and they are making arrangements to effect this payment in gold as being in the circumstances the least prejudicial of the methods open to them.

The note then urged a final settlement before the 15th June, 1933, the date of the next payment, in order to avoid the risk of a general break-down of inter-governmental payments.

This note produced an immediate reply. On the same day (11th December) the Secretary of State handed to the British Ambassador a note[1], in which he pointed out that the Executive had no power to alter the agreements approved by Congress with regard to War Debts and that, therefore, the amount to be paid by the British Government on the 15th December must be credited to principal and interest, as laid down by law. The British Government replied in a last note[2] on the 12th December, declaring that they had no intention of touching upon any matter affecting the constitutional position of the United States Government, but that they had merely pointed out the consideration under which they would make the payment and to which they would recur when the whole situation came to be examined.

In the meantime the position in France had gone through many changes and was still in doubt. The Government had decided to follow the British lead and recommend payment of the sum due on the 15th December as on capital account only and not as a resumption of payments; but the Financial and Foreign Affairs Commissions of the Chamber had at the last moment passed a resolution inviting the Government to default. The debate began on the 13th December, but Monsieur Herriot's spirited appeal for conditional payment[3] was offset by the American note of the 11th December to Great Britain, which was interpreted as a refusal to accept anything except unconditional payments. In the early morning of the 14th December the Government's proposal was defeated by 402 votes to 187 and Monsieur Herriot resigned. Default on the 15th December was then

[1] *Cmd.* 4216 of 1932. [2] *Cmd.* 4217 of 1932.

[3] The text of the proposed note was actually before the Chamber. It announced payment on the 15th December, on account of the new agreement to be arrived at, and declared that France could not continue the old system. For the text, see *Le Temps*, 14th December, 1932.

a certainty and France notified the United States that negotiations were suspended.

When the date of payment actually arrived, it was found that Great Britain had paid in gold and that Czechoslovakia, Finland, Italy, and Lithuania had also paid, while Belgium, Estonia, France, Hungary, Poland[1] and Jugoslavia were in default. In the case of Austria, Greece and Latvia, postponement had been arranged within the terms of their agreements, while no payment was due from Rumania until June 1933. Meanwhile Great Britain refrained for the time being under the terms of the Gentlemen's Agreement from making any demands for payment from her debtors. The total amount paid to the United States was $98,685,910, while the amount in default was about $25,000,000 and the amount postponed about $1,300,000.

It may be of some value to examine at this point the state of mind of the people and also the relationship between the Executive and the Legislature in the three nations principally concerned. In Great Britain alone were the people, the Legislature and the Executive in general agreement. This may have been due to greater discipline and greater experience in political negotiations; or it might perhaps be thought to have been in large measure owing to the existence of a National Government chiefly composed of members of much the strongest political party at the time and supported by the great majority of the press; or, again, it may merely have been due to the fact that at that time Great Britain was almost equally creditor and debtor. In any case the debate on War Debts in the House of Commons on the 14th December, 1932, made it clear that public opinion was behind the Government in their policy of payment of the December instalment on condition that the whole system was revised and the payment regarded as only on account. It was clear that to default on a single payment of an amount which it was obviously not impossible for Great Britain to pay would administer a most serious shock to her reputation and might also be taken as a precedent not only by her inter-governmental debtors, but also by the many foreign countries which had raised loans on the London market. At the same time the determination was growing not to pay again on anything approaching the existing scale.

In France, on the other hand, the weakness of the *bloc* system was that, with so many alternative Governments, stability no longer existed and the fall of a Government had ceased to be regarded as an event of any great importance. This habit of mind no doubt contributed to the parliamentary revolt which overthrew Monsieur Herriot and resulted in the default of France, as was seen from the surprise exhibited when the consequences of this action began to be realized. At the same time more direct forces were at work, which have already been described, in the form of a real belief that France, who had abandoned Reparations on American initiative (as the French believed) without achieving security, was being held to what became an unjust bond, and that revision was being connected with disarmament. For the rest of December public opinion in France was interested chiefly in internal politics, though behind the scenes attempts were made to renew the negotiations with the United States. These attempts were abandoned, however, when it became clear that the French Chamber would not go back on its decision without some excuse being given to it and that public opinion in the United States was in no mood to provide the excuse.

[1] Poland and Estonia had previously arranged for postponement of part of their instalments.

In the United States the position was even more complicated. The outgoing Administration, which was known to favour revision of the agreements and the postponement of the December payments, was powerless in the face of the unyielding opposition of Congress. There is no doubt that Congress still represented the greater part of public opinion in this respect, though there were signs that a change was slowly coming about. The business and financial centres on the East Coast and, to some extent, on the West Coast had long favoured cancellation or revision, and now reports from the Chambers of Commerce throughout the country and from the cotton-growing areas of the South began to show a realization of the connexions between the state of trade and the movement of vast non-commercial payments over the exchanges. But in the main the Middle West stood firm, and the effect of the depression was merely to strengthen the view so commonly held that this was no moment to transfer a burden of $270,000,000 a year from the European to the American taxpayer. There was also great confusion of thought between the budgetary and exchange problems, it being thought that both Great Britain and France could easily make budgetary provision for debt payments and that the transaction would then be complete. It was natural that public opinion should resent European attempts to educate it, especially when the arguments applied, however true, had so specious an appearance. But it must be remembered that it was the failure of responsible authority in the States to educate public opinion on these matters during the years of plenty which rendered the attempt at education from abroad inevitable during the lean years.

But in addition the Hoover Administration was in a difficult position as the arbiter for the moment on questions which must be one of the main cares of its successor. Indeed, the next phase in connexion with War Debts is concerned with the negotiations between President Hoover and President-Elect Roosevelt regarding the immediate steps to be taken by the United States *vis-à-vis* its European debtors. The outgoing President, knowing that his policy was by no means that of his successor, was unwilling during his last months of office to take steps which might embarrass the new President and which might even be used as a weapon against himself and his party at the next election four years later. Mr. Roosevelt on the other hand was loath to take any sort of responsibility in advance for actions which he could not control. On the 17th December President Hoover telegraphed to Mr. Roosevelt with regard to War Debts which, he pointed out, could not be dissociated from the World Economic Conference. Referring to the machinery for dealing with War Debts, he declared that satisfactory conclusions could only be reached by free and direct round-table discussion with each Government separately, where agreement might be had upon facts and where conclusions could be reached before the World Economic Conference, and that for this purpose it would be necessary to appoint a special delegation, in the selection of which he asked for Mr. Roosevelt's assistance, in order that the machinery might be ready by the 4th March, 1933. Mr. Roosevelt, in his reply on the 19th December, expressed his opinion that the questions of disarmament, inter-governmental debts, and permanent economic arrangements would be found to require selective treatment. He agreed that any debtor nation could approach the United States, but pointed out that the Chief Executive had full authority to conduct the preliminary conversations through diplomatic channels or by special agents without consulting Congress. But he urged that these conversations should only be fact-finding and that permanent delegates should not be appointed until after the 4th March, though even in that case he declined to take any part in their selection beforehand.

On the same day (19th December), President Hoover addressed a Message to Congress,[1] in which he referred to War Debts at some length. In giving his reasons for refusing to postpone the December payments, he said that postponement would have broken the agreements, involved dealing with more than one debtor at a time, recognized the relationship between War Debts and Reparations, given no real relief to the world situation, and would not have been

[1] For the text see *The United States Daily*, 20th December, 1932.

a proper call upon the American people for further sacrifices. After touching lightly on the economic arguments, he said that any adjustment of cash payments must be compensated by definite benefits in markets and in other things, even from those who had honoured their obligations. The question of debts was to be excluded from the agenda of the World Economic Conference, but preparations must be made to deal with it at once, and he proposed that a delegation, consisting partly of members of Congress, should be appointed with Mr. Roosevelt's approval before the 4th March. This delegation would eventually deal with both War Debts and with preparations for the Conference, unless Congress preferred to set up a Commission of its own. On the 20th December he telegraphed again to Mr. Roosevelt, urging his co-operation and pointing out that his proposal referred only to machinery and not to solutions, but Mr. Roosevelt again refused on the 21st December to take responsibility, though he repeated his desire to be kept informed of events. Mr. Roosevelt's refusal was announced by President Hoover in a statement which concluded: 'I will respect his wishes,' so that all hopes of action before the 4th March ended.

(2) *1st January to 4th March, 1933*

Such was the position at the end of 1932. The United States had preserved the principle of the December payment, but was beginning to realize that inter-governmental debt payments were in fact on the wing[1] and that it was faced with the decision as to whether it should abandon the principle of no revision in the hope of getting some form of compensation or whether it should enjoy the somewhat costly moral satisfaction of branding the rest of the world as defaulters.[2] For the debtor countries, while taking their stand on cogent economic arguments, had in any event made up their minds that War Debts, like Reparations, were a relic of the old order which was so fast giving way in every direction to the new. The United States, self-contained as she was, may be forgiven perhaps for feeling some surprise at the sudden reversal of the moral rôle; for, whereas up till now she had been accustomed to tell Europe that, if War

[1] Public opinion in the United States was loud in its applause of the action of Great Britain in making payment, and in denunciation of France for not doing so, especially as so large a part of the French debt was commercial in essence. But official policy refrained from taking any action which would finally close the door for payment in the face of France. In any case, French default undoubtedly helped American public opinion to realize that a situation had developed which would have to be dealt with sooner or later.

[2] A common statement in political quarters was that it was better to get nothing and keep the bond than to get nothing and lose the bond.

Debts were cancelled, the money would only be spent on armaments, now Europe was explaining to the United States the moral and economic evils of collecting these debts.

Very early in 1933, however, it became obvious that matters could not rest as they were, and it was arranged that President Hoover and Mr. Roosevelt should meet at Washington on the 20th January. Their relative positions on the debt question at this time may be summarized briefly. Both were opposed to cancellation and both were agreed that revision in some form would have to be carried out with each debtor individually, but that compensation must be obtained. As far as the nature of the compensation was concerned, President Hoover was believed to favour the return of England to the Gold Standard, while Mr. Roosevelt was pledged to secure some lowering of tariffs, whether unilateral or bilateral was not clear; but in each case the object was to improve the foreign market for American exports. There was a difference, too, as regards the machinery. President Hoover held that Congress must either conduct the negotiations through its own delegates or at least approve them step by step. Mr. Roosevelt, on the other hand, maintained that the Chief Executive had ample authority to conduct the negotiations either himself or through diplomatic channels and that Congress need only be asked to approve the result, though the statement of this view roused so much opposition that he announced his intention of consulting from time to time with an informal committee of Congressmen.

An interesting situation now developed. It had become increasingly clear that international affairs could not be allowed to drift until the 4th March and then be suddenly picked up by a new President without previous contact. So a technique new in American constitutional history was developed, by which Mr. Roosevelt gradually assumed a measure of control behind the retiring President and Secretary of State. A change of parts even more difficult than that recorded of old was carried out by which the voice was the voice of Hoover while the directing hand was that of Roosevelt. In this way the meeting between the two statesmen on the 20th January was followed by the publication of an official statement which read:

> The British Government has asked for a discussion on debts. The incoming Administration will be glad to receive their representative early in March for this purpose. It is, of course, necessary to discuss at the same time world economic problems wherein the U.S. and Great Britain are mutually interested, and therefore that representatives should also be sent to discuss ways and means of improving the world situation. It was settled that these arrangements will be taken up by the Secretary of State with the British Government.

The importance of this declaration, apart from the repetition of the principle of negotiation, lay in the request for a single representative to discuss War Debts (which implied that Mr. Roosevelt himself would be the American representative), and in the definite separation of the discussion of War Debts from that of world economic problems. Suggestions that other countries should also be invited[1] brought protests from Congress that this should not apply to defaulting countries. At this moment, opinion in Congress and in the country was probably more friendly to Great Britain than it had been since the debts first became an immediate problem. Great Britain's determination to pay in December was contrasted with France's action in defaulting, and added to the feeling that Great Britain had both started to make payments earlier and paid on a much higher scale than any other debtor. In fact there seemed to be a probability that Congress would be ready to make some concession to Great Britain in March. The main restraint had previously been the difficulty of helping Great Britain without doing anything for France, and that difficulty was now held to have been removed by France's own action.

At this stage the Chancellor of the Exchequer, Mr. Chamberlain, made a speech at Leeds on the 24th January, in which he dealt with the debt position, explaining that the United States had only been paid by means of their foreign loans and tourist expenditure, both of which had now ceased, and that in future payment could only be made if exports from the United States were reduced or imports into the United States increased. He welcomed the American invitation and declared the readiness of Great Britain to discuss revision on two conditions: that the settlement must be final and that it must not involve the reopening of the Reparations question. Mr. Chamberlain's speech was welcomed in England as an indication that Great Britain did not intend to make an unfavourable settlement, but it was resented in the United States, where it was interpreted as an attempt to instruct the United States—and particularly the Middle West—and as the laying-down of terms by a debtor nation about to ask for a revision of its debt on the ground of inability to pay. This irritation was increased by the terms of the British reply[2] to the American invitation, which was delivered on the 25th January. The note accepted the invitation, but after saying that the British Government would be glad to take the opportunity of exchanging

[1] Invitations were actually sent to Italy, Lithuania and Czechoslovakia on the 24th January.

[2] The text was published in *The New York Times*, 26th January, 1933.

views on those other matters in which the two Governments were so closely interested, it proceeded: 'It will be recognized that decisions on matters which constitute the subject of the approaching World Economic Conference and which affect other States cannot be reached before discussions take place at that Conference between all the States represented there.' This sentence, which was probably intended as a statement of fact and as a reassurance to France, was widely interpreted in the United States as 'banging the door' on all discussion of compensation for debt revision. Compensations were being eagerly discussed in the United States at the time and many schemes were canvassed, but of more immediate importance was the revival of a Republican demand for a further raising of the tariff to protect the United States against foreign imports from countries with depreciated currencies. In addition, the discovery that Great Britain would not be content to take a small scaling-down of the debts, for which she would readily make compensation, but that she took her stand firmly on the Lausanne Agreement, came as an unpleasant shock. For the Lausanne Agreement was based on a German payment of only some 10 per cent. of the debt as fixed under earlier agreements, and if Great Britain received only 10 per cent. of her present Reparations claim and only 10 per cent. of her claims on her ex-allied debtors,[1] it was obvious that she could not pay more than 10 per cent. of her liabilities to the United States unless she did so out of her own pocket, contrary to the principle of the Balfour Note. And a 10 per cent. payment appeared to American public opinion as equivalent to cancellation. In France on the other hand the British stand was warmly welcomed.

At this point the British Ambassador in Washington, Sir Ronald Lindsay, was called back to London for consultation. Before he sailed, however, another American constitutional precedent was set by his visit on the 20th January to the President-Elect at the latter's request and with the approval of the existing Administration. Under normal circumstances consultation, however informal, between the President-Elect and a foreign Ambassador was obviously undesirable, but in the present emergency the advantages were obvious. He would arrive in England armed with some knowledge of the

[1] When France defaulted on her payments to the United States in December, there was at first a sense of freedom in Great Britain, but it was soon realized that unless France finally came to terms with the United States she would not, under the terms of the Gentlemen's Agreement, be bound either to make payments to Great Britain or to ratify the Lausanne Agreement. And if Great Britain were not paid by her debtors, she in turn could not pay her creditor.

policy to be adopted by the new Administration; and it was commonly reported that he bore with him an invitation from Mr. Roosevelt to Mr. MacDonald to come himself to Washington in March as the British representative. It may also be surmised that he was made acquainted with Mr. Roosevelt's view that the only hope of getting Congress to agree to debt revision was to accompany it with some *quid pro quo* and with some guarantee that the United States and Great Britain would enter the World Economic Conference with a measure of understanding as to policy. It was agreed on all sides that the approach to the problem was almost as important as the problem itself, and Mr. Roosevelt was already being attacked for having allowed the British thesis of debts first and economic problems after to take the field, whereas in reality nothing had yet been settled.

On the 1st February, before Sir Ronald Lindsay reached London, the Chancellor of the Exchequer made another speech, this time to the American journalists in London. In this speech he said that the conception of compensation for the scaling-down of War Debts was not the conception of the British Government. The Government's view was that these obligations were not those of an ordinary debtor and creditor, but that adjustment was as much in the interest of the creditor as of the debtor nation. He also made it clear that Great Britain would not go back to the Gold Standard until a number of far-reaching conditions had been fulfilled. On the other hand he welcomed the opportunity of discussing mutual tariff concessions with the United States. This speech, which was in part a reflection of a certain hardening of opinion which had occurred in England, produced a very unfavourable reaction in the United States. Public opinion there regarded it again as an attempt on the part of the debtor to dictate terms to the creditor, and the refusal to consider compensation destroyed much of the good impression which the December payment had created and made the hope of agreement recede still farther. American opinion had expected that Great Britain would, while taking her stand on the sanctity of the Baldwin–Mellon Funding Agreement of 1923, ask for revision on the grounds of mercy and incapacity to pay, which would have left the extent of the revision more or less in American hands. Great Britain, however, in view of the Lausanne Agreement, felt that she could not let the initiative rest entirely with her creditor, but that it was better to state firmly beforehand the nature and extent of her case. As so often in international affairs, ignorance in each country of the psychology of the other created unnecessary misunderstandings and left unnecessary bitternesses. The uncertainty was increased by rumours of various sorts, and political opinion in the United States was particularly agitated by one rumour which credited the British Government with the intention of offering as their sole solution a lump sum payment of approximately 10 per cent. of the debt in the form of bonds to be negotiated on the New York market. Opinion in England on the other hand was perturbed by a report that Mr. Roosevelt favoured cancellation of interest, but the retention of the capital liability less payments already made (whether this included payments made on account of interest or not was uncertain), which at the best would have left Great Britain with a liability of some $2,000,000,000.

The visit of Sir Ronald Lindsay to England, however, helped to remove some of the psychological misunderstandings, as was evident from the Prime Minister's statement in the House of Commons on the 13th February, shortly after the Ambassador sailed again for the United States. The Prime Minister said:

> As has already been announced, we have agreed that, concurrently with the discussion of War Debts between His Majesty's Government and the United States Government, there should be a discussion of the world economic problems in which the two Governments are mutually interested.
>
> The object of the discussions will be to promote the revival of world trade and prosperity. While a settlement of War Debts is an essential condition of such revival, we have always recognized that there are a number of other factors, economic as well as financial, which will also have to be dealt with, and we shall be glad to exchange views with the United States Government on the whole field.

While there was little new in this statement, the manner of its presentation and the more prominent position given to the other factors held out hopes that the British Government, having once made their position clear, were willing to co-operate with the new American Administration in the approach to the negotiations, and to help to smooth the thorny path towards congressional approval, if possible, by the presentation of a debt agreement (if and when achieved) as only one—but still an essential—item in a programme of economic rehabilitation. It was satisfactory to note that the Prime Minister's statement was welcomed in the United States, as was also the suggestion which had then appeared that the Prime Minister should pay an early visit to Washington, though in his capacity as Chairman of the World Economic Conference rather than as a negotiator over War Debts.

On Sir Ronald Lindsay's return to New York conversations were reopened with Mr. Roosevelt. At the same time the President-Elect began discussions with the French Ambassador with regard to economic problems and also with regard to War Debts, a proceeding which was welcomed in France as an indication that the new Administration would not insist on payment before negotiation with defaulting countries. Hopes were entertained that negotiations would be opened with each of the debtor countries immediately after the 4th March, but as that date approached it became clear that the growing seriousness of the internal economic crisis would make some postponement necessary.

What then had been achieved in the realm of Reparations and War Debts in the period between the Hague Conferences and the end of the term of office of the Republican Administration in the United States in March 1933? Had these problems been more than the football of world economic events, kicked hither and thither about the field in the hope that, if landed safely between the goalposts of extensive revision, the moral effect would be sufficient to win the economic match and save the world? As it was, all that the exhausted players achieved were short rests when the ball was kicked into touch either by some brilliant individual effort like the Hoover Moratorium or by some long piece of team work like the Lausanne Conference. But the pauses had never been long enough really to restore sorely tried winds, and the principal players had a disconcerting habit of changing sides, as if in some scene out of 'Alice in Wonderland'. But under all the confusion a purpose could be discerned and a steady impetus towards the goal. When the sides lined out on the 4th March for the last time, there was a possibility that the mobilization of spectators in the guise of the World Economic Conference, mutual tariff concessions and so forth might carry the ball between the posts by a concerted rush and so render effective the former efforts of the Hoover Moratorium, the Lausanne Conference, and the prolonged exchange of trans-Atlantic notes. But the players were all keenly aware that the last struggle would need not only all their strength but the support of Fate as well; and it would be true to say that there were many misgivings as to the outcome.

(ii) Non-German Reparations

By Jules Menken

(a) Introductory

Complex as is the history of German Reparations, the tangled tale of non-German Reparations is far more intricate and obscure. This fact arises from the large number of states concerned, the diversity of claims involved, and, in the early years of the problem, the looseness with which settlements were sometimes drafted in consequence of the general knowledge that they were in fact largely unreal and would never be entirely carried out. Concerned in non-German Reparations were first eleven creditor Powers—Belgium, the British Empire (which included no fewer than six separate signatory states), France, Greece, Japan, and Portugal; next the pure debtors, three in number—Austria, Hungary, and Bulgaria—though a shadowy joint obligation rested upon Germany also; and finally the successor states, inheritors from the former Hapsburg Monarchy—Italy, Poland, Rumania, Czechoslovakia, and Jugoslavia—which were debtors on certain accounts and creditors on others.

The diversity of claims originated in the Peace Treaties. These provided in the first place for Reparations from Austria, Hungary, and Bulgaria—of which, however, only the sum originally claimed from Bulgaria was ever definitely fixed. Next came the indebtedness of the Austro-Hungarian legatee states for the Royal and Imperial properties taken over in the territories ceded to them. The indebtedness which thus arose was complicated by arrangements for dealing with the pre-war public debt of the Hapsburg Monarchy. Finally, the Treaties signed at Paris in 1919 provided for payments by Czechoslovakia, Italy, Jugoslavia, Poland and Rumania to the Allied and Associated Powers in respect of the territories which they had acquired as a result of the War. But in addition to this complex of problems, which would in any event have been hard enough to sort out, non-German Reparations came to include other issues arising in the post-war settlement of Central and South-Eastern Europe. The thorniest and most contentious of these extraneous issues was the problem of the Hungarian Optants; while the most important on many accounts—and notably because it raised far-reaching questions of foreign investment fundamental to the post-war economic order—was the difficult problem of payments on post-war relief loans made by Governments and reconstruction loans floated under the auspices of the League of Nations and in one case (that of Austria in 1923) internationally guaranteed.

Though earlier volumes of this *Survey* have dealt with particular parts of this contentious complex of problems which had to be cleared up before the War could be finally liquidated, the subject has not hitherto been examined as a whole. Moreover, before the date at which these problems are taken up in the present chapter, the fact that the payments originally contemplated had never been carried out in full had necessitated various changes. Thus, in 1923 the Reparation Commission postponed for twenty years its prior charge upon Austrian revenues in order that a Reconstruction Loan, which was essential to preserve the life of post-war Austria, might be issued under international guarantee.[1] In 1924 a provisional Reparations settlement was made with Hungary and a Reconstruction Loan was issued, similar in character to the Austrian Loan.[2] A provisional arrangement as regards Reparations was come to with Bulgaria in 1923.[3] When these settlements had been made, the other problems involved in the complex of non-German Reparations fell for the time being into the background,[4] until the entire question was raised again in 1929 by the Young Committee and was brought to what looked like a final settlement in the series of Conferences which began with the Hague Conference in August 1929. The world crisis, which broke in 1929 and deepened in 1930, destroyed in 1931 the agreements about non-German Reparations which had been reached in the previous year, just as it destroyed the similar agreements about German Reparations; and, though the problems which thus arose were discussed at Lausanne in June 1932, at the moment of writing (in the Spring of 1933) neither these questions, nor the problems arising from moratoria and defaults in international loans in 1932, had been finally settled.

(*b*) From the Young Committee to the Second Hague Conference

The problem of non-German Reparations was raised as a whole in 1929 by the Young Committee. The expert members of the Committee 'in their unanimous desire that the remaining financial questions arising out of the war should be settled as soon as possible, in order to promote the spirit of international harmony and collaboration, . . . unanimously' recommended to the creditor Governments 'that, within the first year of operation of the new Plan, they complete the work of the Experts' Committee by dealing with and disposing of the claims and debts for ceded properties and liberation bonds, held in the hands of the Reparation Commission against the so-called Succession States'.[5] In accordance with this recommendation,

[1] See the *Survey for 1920–3*, Part III, section (iii) (5), p. 311.

[2] See the *Survey for 1924*, Part II B, section (iv), p. 423.

[3] See *op. cit.*, pp. 438–9.

[4] An apparent exception to this is the Hungarian Optants Question, which troubled international conferences from 1923 onwards; but at this stage the problem of the Hungarian Optants was not directly bound up with that of non-German Reparations.

[5] *Report of the Committee of Experts on Reparations* (Cmd. 3343 of 1929), pp. 27–8.

the First Hague Conference[1] decided to include non-German Reparations in the agenda of the subsequent Conference which was to prepare a final settlement of Reparations and kindred problems; and accordingly the Protocol drawn up at the First Hague Conference and signed on the 31st August, 1929, provided for the appointment of a Technical Committee 'charged with the duty of preparing detailed recommendations in regard to . . . the final settlement of the reciprocal claims of the Creditor Governments in respect of ceded properties and liberation debts, and the final settlement of the liabilities of the Debtor Governments under the Treaties of St. Germain, Trianon, and Neuilly'.[2]

This Technical Committee met in Paris on the 17th September, 1929. At the outset it consisted of representatives of the creditor Powers only, but on the 26th September it was enlarged by the inclusion of representatives of Austria, Bulgaria and Hungary.

The Austrian problem gave the Paris Committee comparatively little difficulty, but trouble soon arose over the terms of settlement with Bulgaria and Hungary. In the case of Bulgaria, the plan first considered by the creditor Powers contemplated a total payment of 750,000,000 francs (£30,000,000 at par) to be paid in 36 annuities rising from 15,000,000 francs at the outset to a maximum, and tapering off at the close. This offer was reported to the Bulgarian Government, and Monsieur Liapčev, the Bulgarian Prime Minister, instructed the Bulgarian delegation at Paris to refuse it. A Bulgarian offer was then made which envisaged annuities rising from 6,000,000 gold francs to a maximum of 10,000,000 gold francs; but the Bulgarians proposed that the first payment should not be made until after a five years' moratorium. This offer was rejected and the Conference then returned to a British compromise proposal of 36 annuities of 12,500,000 gold francs, and on the 18th November the French and British Ministers in Sofia visited Monsieur Liapčev and advised the acceptance of this scheme. Despite this Anglo-French *démarche*, however, the Bulgarians stood firm and the Paris Committee was unable to reach agreement on the total of Bulgaria's payments. A similar position arose over Hungarian Reparations, the settlement of which was prevented by the apparently insoluble dispute over the problem of the Hungarian Optants.[3] On this matter deadlock was reached as early as the 17th October and persisted, despite protracted discussions, during the rest of the Committee's sittings.

[1] See the *Survey for 1930*, Part VI, section (iii) (*b*).
[2] *Hague Protocol* (*Cmd.* 3392 of 1929), p. 3.
[3] The Optants Question is dealt with below on pp. 150–3.

In view of these difficulties with Bulgaria and Hungary, the Paris Committee in the end was able to reach agreement only with regard to part of the problems which had been submitted to it by the First Hague Conference. The principal points on which agreement proved to be possible were as follows:

(1) The obligations of Jugoslavia and Rumania in respect of ceded properties were to be cancelled.
(2) Rumania was to keep her full share of Hungarian and Bulgarian Reparations. On the other hand, Jugoslavia's share was to be reduced from 10 per cent. to 2 per cent., so as to offset her receipts to date of deliveries in kind.
(3) Greek war debts were to be covered by reductions in the share of the other Allies excepting Rumania.
(4) The Czechoslovak Liberation Debt was to be fixed at 37 annuities of 11,000,000 gold marks (£550,000 at par). In return Czechoslovakia asked for a share in non-German Reparation payments; and it was reported that Rumania had agreed to this request in principle.
(5) The Great Powers offered to abandon their share of non-German Reparations after 1943 with a view to reaching a settlement of the Hungarian Optants Question.

All these points of agreement were to depend upon the definite acceptance of the Young Plan.

While the Paris Committee was sitting, public feeling in the debtor countries ran high and hostile demonstrations took place in Sofia on the 18th November and in Sopron in Hungary on the 26th November. Thus the outlook for a settlement of non-German Reparations when the problem was reported from the Paris Committee to the Second Hague Conference did not appear unduly bright.

(c) The Hague Settlements

(1) *Introductory.*

The Second Hague Conference assembled on the 3rd January, 1930, and the Committee on non-German Reparations held its first meeting on the 4th January. The Committee had to deal with the problems of Austrian, Bulgarian and Hungarian Reparations; and in the outcome only the last was to prove really difficult. In the early stages, demands were made on Austria by the Rumanian, Czechoslovak and Polish delegations for payments in settlement of other than Reparation claims, which Herr Schober, the Austrian Chancellor, found impossible. Private conversations on this subject, however, ultimately disposed of the problem with comparative ease.

The question of Bulgarian Reparations was somewhat more troublesome. The informal Paris proposal, from the creditor Powers, of annuities of 12,500,000 gold francs was reduced on the 6th January to 11,000,000 gold francs (£440,000 at par) for 36 years through an undertaking by the Great Powers to renounce their share in the difference of 1,500,000 gold francs; and though on the 7th January Bulgaria rejected this offer and proposed instead annuities of '"round about" 10,000,000 gold francs',[1] in the end an agreement was reached on the slightly higher basis.[2]

The Hungarian negotiations were far more difficult. At the Second Hague Conference of 1930, as at the Paris Conference of the preceding autumn, the serious stumbling-block was the Optants Question. But difficulties also arose about Hungarian Reparations after 1943. In this year Hungary was to have completed the payment of 200,000,000 gold kronen in accordance with the decision taken by the Reparation Commission in February 1924, when the Commission released certain Hungarian assets for the Reconstruction Loan. At The Hague the Little Entente countries argued that Hungary should make further payments after 1943. The Hungarian reply, as stated by Count Bethlen, the Hungarian Prime Minister, was that in February 1924 the Hungarian Government were given to understand 'that there was no need to worry about what would happen after 1943'; and he claimed that in any case by that date Hungary would have paid about 4,000,000,000 gold kronen (£167,000,000 at par), of which the ceded properties as valued on behalf of the Reparation Commission accounted for from 2,500,000,000 to 3,000,000,000 gold kronen. Count Bethlen therefore maintained that by 1943 Hungary would have paid more in proportion to her size and capacity than any other country liable to Reparation payments. Moreover, at the Second Hague Conference, as at the Paris Conference, Hungary continued her refusal to renounce the right of Hungarian nationals to assert their claims under article 250 of the Treaty of Trianon before Mixed Arbitral Tribunals and to be compensated by other states in the event of favourable judgment by those tribunals. In order, however, that the attitude of Hungary at the Hague Conference should not be merely obstructive, Count Bethlen agreed as early as the 12th January to pay a definite limited amount for the liquidation of special claims against Hungary and at the same time 'to contribute a modus procedendi for the liquidation by mutual understanding of the agrarian cases under

[1] *The Times*, 8th January, 1930. [2] See below, pp. 147–8.

Article 250 before the Mixed Tribunals'. This offer was conditional *inter alia* on the release of Hungary's assets from the Reparation charge imposed under the Treaty of Trianon.

The discussions to which the Hungarian problem gave rise were long, arduous and heated. Ultimately, a compromise plan was invented, viz., that all claims brought before the Mixed Arbitral Tribunals under Article 250 of the Treaty of Trianon should be included in a financial arrangement, the funds for which should be provided mainly by the post-1943 payments in respect of special claims which Hungary had agreed to make.[1] In the end this proposal was adopted as the basis of settlement.

As the Hague Conference wore on, other difficult questions also arose, notably as to the amount of the Czechoslovak liberation payment to Italy, which, in turn, was linked with the amount which Italy had agreed at the First Hague Conference to pay Great Britain. After strenuous debates, and by means of a process 'described unofficially as piracy, brigandage and blackmail',[2] a solution in principle of the Hungarian difficulties was finally reached at an all-night sitting[3] on the eve of the close of the Conference; the Czechoslovakian stumbling-block and all the other contentious questions were cleared away; and the agreements were signed on the 20th January, 1930.[4]

The agreements on non-German Reparations were embodied in five documents—agreements with Austria,[5] with Bulgaria[6] and with Hungary,[7] an agreement relating to the Czechoslovak liberation debt,[8] and an agreement with creditor Powers relating to the distribution of non-German Reparation receipts.[9] These various arrangements are summarized and analysed in the sections that follow.

(2) *Austria.*

Early in the post-war period the peculiar situation and economic weakness of Austria led to the effective abandonment, or at least postponement, of claims on her by her Reparation creditors and to

[1] See the *Pester Lloyd*, 17th January, 1930.
[2] *The Times*, 20th January, 1930. [3] *Cmd.* 3484 of 1930, p. 10.
[4] In the case of Hungary, the Hague arrangement was not complete in all respects, but it provided a firm basis for the final agreement, the details of which were worked out at a subsequent Conference held in Paris from the 6th February to the 28th April, 1930. This Paris Conference was presided over by Monsieur Loucheur, who was also chairman of the non-German Reparations Committee at the Second Hague Conference.
[5] *Agreements Concluded at the Hague Conference, January 1930* (*Cmd.* 3484 of 1930), Document No. 11.
[6] *Op. cit.*, Document No. 12. [7] *Op. cit.*, Document No. 13.
[8] *Op. cit.*, Document No. 14. [9] *Op. cit.*, Document No. 15.

the conversion of the Reparation Commission, in so far as Austria was concerned, from an agency for exacting payments into an agency for organizing relief. The history of these developments and of the part played by the League of Nations in organizing the financial and economic reconstruction of Austria down to the issue of the Austrian Reconstruction Loan of 1923 has already been recounted in a previous volume of this *Survey*.[1] From that time onwards until the summer of 1926, Austrian affairs developed satisfactorily, at least on the economic side; and in June 1926 the termination of the functions of Dr. Zimmermann, the Commissioner-General appointed under the League Reconstruction Scheme, was recommended by the Financial Committee of the League. This recommendation was considered by the Council on the 9th June, 1926, and the Council, 'having ascertained that the financial stability of Austria is assured', decided to terminate the functions of the Commissioner-General on the 30th June, 1926.[2]

The impossibility of obtaining Reparations from Austria, which had been admitted as long ago as 1922, the attitude of her Reparation creditors, and the international efforts which had been made to secure her reconstruction, made a settlement of the Austrian question at The Hague a relatively easy problem. The Hague Agreement naturally did not touch arrangements made in connexion with the guaranteed Austrian Loan of 1923, the Austrian Relief Bonds, or the pre-war Austrian debt. Nor did it affect certain special arrangements, mainly to settle administrative questions, arising from the dismemberment of the former Austro-Hungarian Monarchy. Apart, however, from these provisions, all of Austria's financial obligations arising under the Treaty of St. Germain, and consequently the charges on Austrian assets in favour of Reparations, were swept away; relations between the Reparation Commission and Austria were terminated and the Reparation Commission's accounts with Austria were finally closed; and all outstanding claims and counter-claims between Austria and other signatory Powers or their nationals were reciprocally waived. The latter provision in effect meant that the question of the properties ceded by Austria to Italy and the successor states was finally closed. Austrian claims against Germany, Hungary and Bulgaria, and these Powers' claims against Austria, were likewise mutually cancelled. In return Austria was

[1] See the *Survey for 1920–3*, Part III, section (iii) (5), pp. 311–27.

[2] See the *Survey for 1926*, Part II B, section (iv). See also League of Nations: *Financial Reconstruction of Austria: Termination of the Functions of the Commissioner-General* (C. 385. 1926. II. F. 290).

released from the first charge on her assets and revenues created by Article 197 of the Treaty of St. Germain in favour of Reparations and other war costs, while the creditor Powers for their part agreed to cease to apply their rights under the Treaty of St. Germain to retain and liquidate the property and interests of Austrian nationals in so far as this liquidation had not been carried out already.

(3) *Bulgaria*.[1]

From Bulgaria alone amongst the defeated Powers was a definite amount demanded in Reparation. Under the Treaty of Neuilly, the sum claimed for this purpose was 2,250,000,000 gold francs (£90,000,000 at par); and the task of superintending its payment, together with the execution of the Reparations Chapter of the Neuilly Treaty, was entrusted to a special Inter-Allied Commission resident at Sofia and responsible to the Reparation Commission. After two years of investigation, the Inter-Allied Commission, by a protocol signed at Sofia on the 21st March, 1923, reduced the amount effectively demanded from Bulgaria as Reparations by dividing the total into two parts, Tranche A of 550,000,000 gold francs (£22,000,000), for the payment of which a definite schedule was laid down, and Tranche B of 1,700,000,000 gold francs (£68,000,000), the payment of which was postponed indefinitely.[2] A year later the contentious question of occupation costs was settled by a protocol dated the 28th March, 1924, under which the Inter-Allied Commission accepted from Bulgaria a lump sum of 25,000,000 gold francs (£1,000,000) in full settlement of Allied claims in respect of costs of the Armies of Occupation. This total was spread over ten years on a graduated schedule of payments.[3]

Apart from a settlement of Bulgaria's accounts with Jugoslavia in respect of war requisitions and with Greece in respect of refugees, three main transactions with Bulgaria affected the payment of Reparations between the 1923 protocol and the Hague Conferences.[4]

[1] The history of Bulgarian Reparations and of Bulgaria's Financial and Economic Reconstruction is admirably surveyed by Leo Pasvolsky in *Bulgaria's Economic Position* (Washington, 1930, The Brookings Institution). See also H. Moulton and Leo Pasvolsky: *War Debts and World Prosperity* (Washington, 1932, The Brookings Institution) and Henri Prost: *La Liquidation Financière de la Guerre en Bulgarie* (Paris, 1925, Giard).

[2] See the *Survey for 1924*, pp. 438–9.

[3] See Pasvolsky, *Bulgaria's Economic Position*, pp. 71–3.

[4] The Bulgarian–Jugoslav settlement was reached on the 26th November, 1923. Bulgaria agreed to pay Jugoslavia 300,000,000 leva, half in cash and half in kind, the total payment to be concluded by 1927. The Graeco-Bulgarian refugee problem was not settled definitely until the 9th December, 1927, when an agreement was signed at Geneva by Monsieur Molov and Monsieur

The first of these transactions was the arrangement concluded by Bulgaria with the League of Nations in 1926 for the issue of a Refugee Loan.[1] This loan arose from the financial needs of Bulgaria in connexion with the repatriation of Bulgarian refugees from Greece. The necessary plans were drawn up following an investigation by Monsieur René Charron on behalf of the Financial Committee of the League; it was decided that a sum of £2,250,000 sterling would be required for the work; and the scheme thus devised was approved by the Council of the League on the 7th September, 1926. Before this loan could be issued, however, it was necessary to safeguard the Bulgarian currency from any instability of the exchange which might be caused by Reparation transfers; and the Reparation Commission accordingly decided on the 23rd July, 1926, that during the period for which the proposed Refugee Loan was outstanding the Bulgarian Government should have the right to request the suspension of Reparation payments in foreign currency. The granting of this request, which was to be addressed to the Inter-Allied Commission, involved the acceptance by the Bulgarian Government of transfer control.[2] Ultimately the loan was floated simultaneously in London and New York on the 21st December, 1926, part of the sterling amount being offered in Italy, Switzerland and Holland. The net yield of the loan was £2,873,091 sterling, of which £2,247,201 was available for refugee settlement after deducting a sum required for the liquidation of a pre-war financial obligation.[3]

The second event affecting Reparations was consequential on the earthquake which occurred in southern Bulgaria in April 1928. In October of that year the Inter-Allied Commission permitted the Bulgarian Government to postpone the Reparation payment due on the 1st October, 1928, while by a later decision the Commission halved Bulgaria's payments during the year 1929–30 and added the uncollected portion to Tranche B.[4]

Thirdly, in 1928, following exhaustive investigations by the League, a Bulgarian Stabilization Loan was issued; and during the course of the discussions prior to this issue the Inter-Allied Commission agreed to release certain revenues, which were required in connexion

Kaphandáris, the Finance Ministers of Bulgaria and Greece respectively. On these agreements see Pasvolsky, *Bulgaria's Economic Position*, pp. 74–6. See also the *Survey for 1927*, p. 216, and the *Survey for 1931*, p. 348.

[1] See the *Survey for 1926*, Part II B, section (vi).

[2] Reparation Commission Decision No. 3313, *Loan for Bulgarian Refugees*, contained in League of Nations, *Minutes of the 23rd Session of the Financial Committee*.

[3] See Pasvolsky, *Bulgaria's Economic Position*, pp. 94–5.

[4] See Pasvolsky, *op. cit.*, pp. 79–80.

with the Stabilization Loan, from the general charge laid down in Article 132 of the Treaty of Neuilly, and from the special charges laid down in the Reparation Protocol of the 21st March, 1923, and in the Occupation Costs Protocol of the 28th March, 1924. The Inter-Allied Commission's resolution was confirmed by a protocol between the Bulgarian Government and the Inter-Allied Commission signed on the 24th September, 1928.[1]

Such was the position relating to Bulgarian Reparations at the time when the Second Hague Conference opened. Under the Hague Agreement the creditor Powers definitely waived their rights to Tranche B of the Bulgarian Reparation debt, and Great Britain, France and Italy waived their claims to payment of the outstanding balance in respect of Armies of Occupation. For the unpaid portion of Tranche A the annuities were reduced and Bulgaria, by paying 5,000,000 gold francs on the 1st April, 1930, ten annuities of 10,000,000 gold francs between 1930 and 1940, ten annuities of 11,500,000 gold francs between 1940 and 1950, and sixteen annuities of just over 12,500,000 gold francs between 1950 and 1966, obtained the complete and final settlement of her outstanding Reparation debt.[2] The reduction in the Bulgarian Reparation payments under the Hague settlement, first by reducing the annuities actually payable between 1930 and 1966, and second by cancelling entirely payments due under the Protocol between 1966 and 1982, is shown in the following table:[3]

Fiscal Years.	*Annual Payments under the 1923 Arrangements.*			*Annual Payments under The Hague Settlement.*	*Annual Reduction.*
	Reparation.	*Occupation.*	*Total.*		
			(millions of gold francs)		
1930–1 . . .	10·0	4·0	14·0	10·0	4·0
1931–2 . . .	10·0	4·0	14·0	10·0	4·0
1932–3 . . .	20·0	1·0	21·0	10·0	11·0
1933–4 . . .	32·9	1·0	33·9	10·0	23·9
1934–5 to 1939–40	43·4	..	43·4	10·0	33·4
1940–1 to 1949–50	43·4	..	43·4	11·5	31·9
1950–1 to 1965–6 .	43·4	..	43·4	12·5	30·9
1966–7 to 1982–3 .	43·4	..	43·4	..	43·4

The annuities fixed at The Hague were to 'constitute an unconditional obligation'; and both sides agreed to waive the powers of the

[1] See Pasvolsky, *op. cit.*, p. 329.

[2] The sterling equivalents of these amounts at par are respectively £200,000, £400,000, £460,000, and £500,000.

[3] Pasvolsky, *op. cit.*, p. 85.

Inter-Allied Commission under Article 122 of the Treaty of Neuilly to 'recommend . . . reduction or postponement of any particular payment due, or a reduction of the total capital sum to be paid by Bulgaria'. On the other hand, Bulgaria retained the right to request a postponement of transfer under the arrangements concluded in 1926 when the Refugee Loan was issued. The Hague annuities were to enjoy the benefit of the special securities provided under the Protocols of the 21st March, 1923, and the 24th September, 1928, and the Bulgarian Government agreed to increase these securities at request, if their product fell below 150 per cent. of the sums necessary for the service of the annuity.[1] In return, the creditor Powers released the first charge upon all the assets and revenues of Bulgaria for the cost of Reparations and other war charges which had been established by Article 132 of the Treaty of Neuilly. Apart from certain minor claims with regard to which agreements had already been concluded, all claims between the creditor Government and the Bulgarian Government and their respective nationals were completely cancelled, and the creditor Powers waived their rights to liquidate the property and interests of Bulgarian nationals in so far as such property had not previously been disposed of finally.[2] Bulgaria likewise waived any claims against Germany, Austria and Hungary arising under the Treaty of Neuilly, and conversely the claims of Germany, Austria and Hungary against Bulgaria were cancelled. The rights and powers conferred on the Reparation Commission and on the Inter-Allied Commission in Bulgaria were transferred in so far as was necessary to the Bank for International Settlements, and the relations between the two Commissions and the Bulgarian Government were wound up.

At the Hague Conference an additional concession was also granted to Bulgaria by the creditor Powers. As in the case of Germany, the question arose of what should happen to Reparations if the American Government reduced the amounts claimed from the European Allied

[1] The most important of the Bulgarian revenues so pledged were the customs revenues. The first charge upon these was the 1928 Stabilization Loan, and reparation annuities were the second charge. Reparations, however, were a first charge upon the yield of certain other taxes.

[2] The principal claims thus excepted were (1) an arrangement whereby Bulgaria undertook to pay Rumania 110,000,000 lei in two equal instalments in respect of Bulgarian property for liquidation. One of these payments was made in March 1931, and the other fell due in March 1932. (2) Payments in respect of the Jugoslav and Greek portions of the pre-war Bulgarian debt. These payments, which arose in respect of territories ceded by Bulgaria to the two Powers respectively, amounted in the case of Jugoslavia to the equivalent of $482,414, and in the case of Greece to the equivalent of $70,527, both payable on the 1st July, 1931. See Moulton and Pasvolsky, *War Debts and World Prosperity*, p. 251, footnote 14.

Powers in respect of War Debts. The Bulgarian Government requested that they should benefit on Reparations account in this event; and the creditor Powers declared themselves willing to meet the Bulgarian claim in part. The terms of this declaration were as follows:

> The Creditor Governments have taken note of the Bulgarian Government's request to benefit by a remission of a portion of its debt in the event of the Creditor Governments themselves obtaining remission of the inter-allied debts. They state their readiness collectively, if necessary, to consider favourably the possibility of allowing Bulgaria to have the benefit of advantages proportional to those which the Special Memorandum of the Experts of the Principal Creditor Powers and Germany concerning out-payments, appended to the Experts' Report of the 7th June, 1929, grants to Germany, without, however, any Power having its share in Bulgarian annuities reduced by more than 50 per cent. as a result of this possible reconsideration.[1]

Thus, as the outcome of the Hague Agreement, Bulgaria was left with a reduced Reparation debt which at the time was regarded as well within her capacity of payment. This debt was made definite and final; and simultaneously Bulgaria received back her financial independence.

(4) *Hungary*.

As in the parallel case of Austria, the first inclusive settlement of Hungarian Reparations was made in view of the dangerous financial and economic situation which developed in Hungary in the early post-war years, and which demanded action by the Reparation Commission before the necessary international measures of financial assistance could be taken. The history of this transaction, which was completed in 1924, has already been told in an earlier volume of this *Survey*.[2] Again, as in the case of Austria, the measures for League control of Hungarian finances under the supervision of a Commissioner-General were continued until 1926, when the improvement in Hungary's financial position permitted the work of the Commissioner-General to be terminated. On the 6th June, 1926, the Financial Committee of the League reported favourably upon the then state of Hungary; and on the 10th July, 1926, the Council adopted a resolution moved by Signor Scialoja, the Italian representative, which declared that, 'the financial stability of Hungary being assured', the functions of the Commissioner-General were to terminate as from the 30th June, 1926.[3] It was still necessary, however, for control to be exercised

[1] *Agreements Concluded at the Hague Conference, January 1930* (*Cmd.* 3484 of 1930), p. 154. [2] See the *Survey for 1924*, Part II B, section (iv), p. 423.

[3] See the *Survey for 1926*, Part II B, section (v).

'over the revenues from the assets assigned for the service of the loan, which is entrusted to the trustees and their representative in Budapest' as well as over 'the balance of the loan, which cannot be disposed in whole or in part, except in accordance with the plan recommended by the Financial Committee and approved by the Council'.[1] An official—Mr. Royall Tyler—was accordingly appointed to watch over the expenditure of these funds.

Although the vitality of the Hungarian people and the conservative policy of the Hungarian Government had won back for them by the middle of 1926 a substantial measure of their financial independence, Hungary's relations with the other Powers of South-Eastern Europe were in 1926 still seriously disturbed by the thorny problem which had come to be known as the Optants Question.

Under the Treaty of Trianon pre-war Hungarian nationals residing in territories transferred to other states automatically became nationals of the state to which their territory was transferred, unless within one year from the coming into force of the Treaty they exercised the right to opt for Hungarian citizenship. Such persons, who were known as 'Optants', were obliged to transfer their residence to Hungarian territory within twelve months, but they were entitled to retain their immovable property in the territory of the state in which they had previously resided. The Optants clauses[2] of the Treaty of Trianon gave rise to the claims in respect of agricultural land; but other Hungarian claims which were also in dispute during the post-war period arose under Article 250 of the Treaty, which provided that the property and interests of Hungarian nationals in transferred territories should not be retained or liquidated by the states to which these territories were transferred, and arranged that claims by Hungarian nationals in respect of such property and rights should be settled by a Mixed Arbitral Tribunal, the constitution of which was also laid down by the Treaty. The problem of the Optants thus related to the property of Hungarian nationals in Rumania, Czechoslovakia and Jugoslavia. It began its troubled history in 1921, and first came before the Council of the League in March 1923. For five years it continued to reappear frequently before the League, partly because general questions of principle and of the competence of the Council of the League of Nations arose out of the specific controversy between Hungary and Rumania over the Optants.[3] By 1928, however, these

[1] League of Nations: *The Financial Reconstruction of Hungary* (Geneva, 1926), p. 161.

[2] Articles 61 and 63.

[3] On the Optants problem down to December 1928, see the *Survey for 1928*, Part II, section (iii).

matters of general interest had been largely exhausted, and the dispute returned to its former status of a squabble between two minor Powers, each possessed of remarkable obstinacy. The subsequent history of the Optants Question requires brief examination if the settlement reached at The Hague and in Paris in 1930 is to be understood.

In September 1928 the Council of the League of Nations recommended that the Hungarian and Rumanian Governments should attempt to arrive at an amicable settlement by direct negotiations; and a Conference between these Powers was accordingly arranged which finally opened, after several postponements, at Abbazia on the 15th December, 1928. At this Conference Rumania was represented by Monsieur Langa-Rascanu, her Minister at Athens, and Hungary by Baron Joseph Szterenyi. The preliminary discussions were favourable; and, after deciding to appoint a sub-committee composed of two representatives of each of the two negotiating Powers, the Conference adjourned on the 22nd December, and fixed a date for its next meeting for the following January. On the 13th January, 1929, negotiations were resumed at San Remo and the Conference proceeded to examine 350 cases covering 300,000 hectares of land. After a few days the Conference again adjourned until the 10th February, when Hungary put forward a demand for a substantial cash payment, reported by one source as amounting to 10,000 lei per cadastral jugar, or a total of some 6 milliard lei.[1] Rumania, on the other hand, proposed that the Hungarian Optants whose land had been appropriated under the Rumanian Agrarian Reform Laws should be dealt with in the same way as her own nationals, i.e. that the Optants should be allowed to repurchase their land at the low purchase price fixed by Rumanian law. Other claims arising under Article 250 of the Treaty of Trianon were to be settled by compensation, payable partly in cash and partly in timber and in deliveries of petroleum. On the 18th February negotiations were suspended for consideration by the two Governments. The Rumanian negotiators considered that they had offered a sufficient sacrifice by proposing a payment of 100,000,000 gold kronen (roughly £4,200,000 sterling at par). Hungary, on the other hand, demanded finally 130,000,000 gold kronen (roughly £5,400,000 sterling at par), payment of which she was prepared to accept partly in cash and partly as a credit against the Rumanian share of Hungarian Reparations. Thus the San Remo Conference reached an agreement in principle as to the extent of the

[1] At the then current rate of exchange this represented roughly £8 8*s*. per acre or a total of some £7,500,000. As the negotiations were secret, this figure may well have been substantially exaggerated in the press report.

properties which had been expropriated by Rumania and for which compensation was to be paid, and as to the method of indemnifying the Hungarian claimants. Only the amount to be paid was left unsettled.

At the meeting of the Council of the League of Nations in March 1929 the Hungarian Government requested that the discussion of the Optants Question should be postponed in view of the fact that direct negotiations were still proceeding;[1] and on the 5th April direct negotiations were resumed at Vienna. Hungary maintained her demand for 130,000,000 gold kronen, while Rumania was not prepared to advance beyond her former offer of 100,000,000 gold kronen. At this meeting, however, the terms of payment again came into dispute; Hungary requested payment in cash, whilst Rumania put forward a plan for deducting compensation from Hungarian Reparations owing to Rumania.[2] The parties were unable to reach an agreement on this point and the Conference was therefore adjourned on the 12th April, in order that they might again consult their respective Governments. On the 31st May the Conference was resumed at Vienna, Monsieur Langa-Rascanu's place being taken by Monsieur Charles Davila, the Rumanian Minister at Washington. Hungary and Rumania stood by the amounts which they respectively claimed and offered; and on the 22nd June negotiations were broken off for the fourth time. As the deadlock which had been reached appeared to be insuperable, at least by direct negotiations, the Hungarian Government sent a note to the Rumanian Government on the 28th July, suggesting that the question should be brought again before the Financial Committee of the League. The Rumanian Government replied that they would not feel justified in taking that course since they had been advised by the League Council to find a settlement by direct negotiation. Accordingly, on the 10th August, 1929, the Hungarian Government requested that Rumania should make new proposals for a direct settlement. Rumania, however, found herself unable to do this, and the matter was therefore referred back to the League.

At the September meeting of the Council of the League the Optants Question was again considered, and on this occasion the Council

[1] *League of Nations Official Journal*, April 1929, p. 504.

[2] At one juncture Rumania proposed that payment should be made out of the proceeds of a joint Hungaro-Rumanian Mining Company which was to be formed in order to exploit Rumanian gold, silver, and iron deposits. The profits of this company were to be paid to Hungarian Optants for twenty years, at the end of which time the assets were to pass to Rumania. See *The Manchester Guardian*, 6th April, 1929.

appointed Mr. Arthur Henderson, the Foreign Secretary of Great Britain, as *Rapporteur*. On the 19th September, Mr. Henderson advised direct negotiations between Hungary and Rumania under his guidance, and undertook to appoint a financial expert if need be.[1]

This recommendation was made two days after the assembly in Paris of the Committee on non-German Reparations, the appointment of which had been arranged at the First Hague Conference. In the outcome, the Council's decision was to prove inoperative, for, as has been shown above,[2] the discussion in Paris of the problem of Hungarian Reparations as a whole inevitably raised the Optants Question. Rumania, supported by Jugoslavia and Czechoslovakia, insisted in Paris upon a discussion of the Optants Question before any general settlement was approached. The Hungarian Government steadfastly refused to agree to this course; and in the end the deadlock at Paris was carried to the Second Hague Conference in January 1930. The problem proved no less vexatious at The Hague than in its previous appearances; but on this occasion the intervention of the Great Powers enabled the basis of an agreement to be reached, though time was not sufficient at the Hague Conference for the final details to be worked out, and the matter had again to be adjourned for a further Conference in Paris. This second Paris Conference, which met on the 6th February, 1930, under the chairmanship of Monsieur Loucheur, did not complete its discussion until the 28th April. The agreements in principle already concluded in considerable detail at the Second Hague Conference, however, and the fact that under the terms of the Hague Agreement matters in dispute could be settled in case of need by 'the unanimous decision of France, Great Britain and Italy',[3] enabled a final settlement of the thorny problems of the Hungarian Optants and of other Hungarian claims under Article 250 of the Treaty of Trianon to be settled at long last in the agreement finally signed in Paris on the 28th April, 1930.

In summarizing the Reparations settlement with Hungary, it is convenient not to distinguish between the position reached at the Second Hague Conference and the final text agreed upon in Paris on the 28th April. The difference for the most part lies in matters of detail. The summary which follows is accordingly based upon the final agreement of the 28th April, 1930.[4] This agreement comprises

[1] *League of Nations Official Journal*, November 1929, p. 1673.

[2] See p. 140 above.

[3] *Cmd.* 3484, Document 13, p. 156.

[4] See *International Agreements regarding the Financial Obligations of Hungary resulting from the Treaty of Trianon*, Paris, 28th April, 1930 (*Cmd.* 3910 of 1931).

a preamble, four main agreements, three special agreements, and a number of documents embodying certain minor reservations.

The preamble to the agreement settling the question of the Optants and of the Mixed Arbitral Tribunal,[1] while concluded by Czechoslovakia, Jugoslavia and Rumania 'in a spirit of conciliation' and by Hungary 'in the same desire for conciliation and peace', expressly withheld the recognition by the Little Entente Powers of 'the justice of the said claims', expressly reserved 'their legal point of view', and specifically barred the use of the agreement 'as justification of any fresh action or claim' or 'as a surrender of the rights' which Czechoslovak, Jugoslav and Rumanian nationals derived 'directly from the Treaty of Trianon' in respect of other questions. The Hungarian Government for their part maintained the legal position which they had 'previously adopted on these questions' and similarly safeguarded the rights of Hungarian nationals derived from the Treaty of Trianon in respect of other questions than those settled by the agreement. Subject to these reservations, the questions at issue were settled by substituting a new fund called the Agrarian Fund or Fund A as defendant in all legal proceedings with regard to the Agrarian Reforms in the place of the Czechoslovak, Jugoslav, and Rumanian Governments. Rumania, Jugoslavia and Czechoslovakia were relieved of their responsibility (Art. 1).[2] The fund was to have legal personality and was to be financially autonomous (Art. 2); unsettled claims involving legal proceedings against Czechoslovakia, Jugoslavia and Rumania were henceforth to be treated as having been made against the Agrarian Fund; and judgments given in favour of claimants were to be carried into effect solely against the fund (Art. 2 and 3). The fund was not to be called upon to make any payment until it had received notification of the whole of the judgments, which were to be expedited as much as possible (Art. 4), though powers were also taken for provisional payments on account in suitable circumstances (Art. 6). Legal proceedings before Mixed Arbitral Tribunals were henceforth to be concerned solely with the questions whether claimants were Hungarian nationals duly qualified by virtue of the Treaty of Trianon, whether their property had been expropriated through agrarian legislation, and, if so, what compensation, if any, should be allotted (Art. 8); but the Tribunals were expressly prohibited from interpreting Article 250 of the Treaty of Trianon. For the rest, the agreement settled certain matters of dates

[1] Agreement No. 2: *Settlement of Questions Relating to the Agrarian Reforms and Mixed Arbitral Tribunals.*

[2] In the case of Czechoslovakia certain special provisions applied.

and procedure and made an important provision for appeal without further arrangement to the Permanent Court of International Justice at The Hague in the event of any difference.

The financial arrangements relating to the Agrarian Fund were extremely complicated. The original Hungarian claim as stated in a memorandum submitted at the Second Hague Conference was for a total of 310,000,000 gold kronen (£12,900,000 at par).[1] At the Hague Conference this figure was reduced to 240,000,000 gold kronen (£10,000,000 at par) and the basic figures per cadastral jugar were accordingly likewise reduced in the proportion of 310:240. As a result of fresh inquiries and agreed changes in the Czechoslovak areas in question, the capital of the fund was further reduced in Paris to 219,500,000 gold kronen (£9,140,000 at par), the same reduced basic figures for the value of the jugar being retained.[2] This total represented the capital of the Agrarian Fund; and Agreement No. 3, concluded on the 28th April, 1930, was concerned with its organization and the provision of the necessary contributions to the fund. The complexities of Agreement No. 3 arose from the natural desire of the contributing Powers to limit their maximum obligations, while at the same time providing for contingent risks, the amount of which could not be measured at the time, so as to enable the fund, set up with so much trouble, to work satisfactorily.

The main contributions to the Agrarian Fund were to be drawn from five sources:

(1) From defined maximum payments by Jugoslavia and Rumania on account of local indemnities;

(2) From the share of the Western Powers[3] in Hungarian Reparations annuities down to 1943;

(3) From the Hungarian payments commencing in 1944 in respect of special claims;

[1] This sum was arrived at by Hungary on the basis of 578,556 cadastral jugars expropriated by Rumania and valued at 225 gold kronen per cadastral jugar; approximately 150,000 cadastral jugars expropriated by Jugoslavia and valued at 500 gold kronen per cadastral jugar; and approximately 500,000 cadastral jugars expropriated by Czechoslovakia and valued at approximately 292 gold kronen. (See Annex A to Agreement No. 3 in *Cmd.* 3910 of 1931, p. 47.) The original Hungarian figures of 225 gold kronen per cadastral jugar in the case of Rumanian claims, 500 gold kronen in the case of Jugoslav claims and 292 gold kronen in the case of Czechoslovak claims are equivalent to roughly £6 6s., £14 7s., and £8 6*s*., per acre respectively. The reduced figures referred to in the next sentence of the text and ultimately adopted as a basis of settlement were, of course, $\frac{24}{31}$sts of these amounts.

[2] A jugar is 1·422 acres.

[3] By this term are designated for the present purpose, in the case of Hungarian Reparations, Belgium, the British Empire, France, Italy, Japan and Portugal.

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(4) From the share of the Western Powers[1] in Bulgarian Reparations annuities;

(5) From annuities payable by the British Empire, France and Italy and drawn in effect from Czechoslovakia's payments in respect of liberation debts.

In addition to these payments provision was made for two special reserves.[2] It will be observed that Czechoslovakia did not undertake

[1] By this term are designated for the present purpose, in the case of Bulgarian Reparations, Belgium, the British Empire, France and Italy; but *not* Japan or Portugal.

[2] The details of these payments and reserves were as follows:

(i) (*a*) The maximum Rumanian payment to the Agrarian Fund was to be 500,000 gold kronen a year from 1931–43, and 836,336 gold kronen from 1944–66 inclusive. This payment was subject to reduction in respect of the capital value of local Rumanian indemnities already accepted by certain Hungarian claimants, or of the value of rejected claims, if any.

(*b*) The maximum Jugoslav annuity was to be 1,000,000 gold kronen from 1931–43 inclusive, and 1,672,672 gold kronen from 1944–66 inclusive. These payments were likewise subject to reduction in certain cases.

(ii) Belgium, the British Empire, France, Italy, Japan and Portugal were entitled under Agreement 15 concluded at The Hague on the 20th January, 1930, to 7·27 per cent. of Hungary's Reparation annuities between the 1st July, 1930, and 1943. Since these annuities rose from 7,000,000 gold kronen in 1930 to 13,000,000 gold kronen in 1936–41, and to 14,000,000 gold kronen in 1942 and 1943, this percentage thus represented an average of roughly 850,000 gold kronen a year.

(iii) During each of the 23 years from 1944–66, Hungary undertook to pay 13,500,000 gold kronen in respect of special claims. Of this sum 6,100,000 gold kronen were assigned to the Agrarian Fund.

(iv) Belgium, the British Empire, France and Italy were entitled under Agreement 15 concluded at The Hague on the 20th January, 1930, to 4·222 per cent. of Bulgarian Reparations, amounting on the average to roughly 485,000 gold francs. This sum was payable to the Agrarian Fund from the 1st April, 1930, until the 1st April, 1966.

(v) The maximum annuities payable by the British Empire, France and Italy were as follows: 1932 and 1933—800,000 gold kronen per annum to be divided equally between France and Italy; 1933–43 inclusive—a total of 4,137,640 gold kronen per annum, of which 827,528 was to be paid by the British Empire, 1,680,000 by France, and 1,630,112 by Italy; 1944–66 inclusive—a total of 3,179,296 gold kronen per annum, of which 579,269 was to be paid by the British Empire, 1,340,000 by France and 1,260,027 by Italy.

The special reserves referred to related to (*a*) a special area of 145,000 cadastral jugars, concerning which a direct settlement had been negotiated prior to the Paris settlement. This settlement had, however, again come into dispute, and in April 1930 the ultimate fate of the land in question was uncertain. France, Italy and the Czechoslovak section of Fund B were to bear the risk contingent upon settlement of this dispute, up to a maximum of 13,000,000 gold kronen, of which France and Italy were to contribute 45 per cent. each and the Czechoslovak section of Fund B 10 per cent. (*b*) Another special reserve was also to be created in accordance with Article 20 in order to deal with certain categories of Hungarian claimants and potential claimants against Czechoslovakia, and was to amount to a maximum of 326,000 gold kronen per annum from 1933–43, and 545,291 gold kronen per annum from 1944–66, these total

to make any definite direct contribution to the Agrarian Fund. In lieu thereof, the Czechoslovak Government agreed to pay directly to Hungarian claimants indemnities due under local Czechoslovakian legislation, and in effect sums so paid were to be considered as equivalent to payments to the Agrarian Fund.[1] For the management of the fund a Managing Commission was provided and given various powers with regard to payments, the issue of loans, and so forth.

The outstanding differences between Hungary and Czechoslovakia, Jugoslavia and Rumania in respect of other types of claims under Articles 63, 191, and 250 of the Treaty of Trianon, e.g. claims in respect of properties belonging to the Hungarian Archdukes, claims as to church properties, the local railway companies and miscellaneous industrial claims, were settled by the creation of another fund entitled 'Fund B'. Fund B was to have a nominal capital of 100,000,000 gold kronen (£4,200,000 at par), and payments to Hungarian nationals under decisions by the Mixed Arbitral Tribunals and agreed settlements were to be made out of the resources of the fund.

Fund B was to be constituted by means of annuities payable on a 3 per cent. basis during 1931–43 inclusive, and on a 5 per cent. basis, together with sinking fund, during 1944–66 inclusive. During the first thirteen years of the fund the total annuities of 3,000,000 gold kronen (£125,000) per annum were to be provided by Great Britain, France and Italy, which were to contribute 20 per cent., 40 per cent., and 40 per cent. respectively. During 1944–66 the total annuity including sinking fund was to be 7,400,000 gold kronen (£3,100,000) per annum, or the remainder of the Hungarian payment of 13,500,000 gold kronen in respect of special claims after deducting the 6,100,000 gold kronen payable to Fund A. In addition, Fund B might in certain circumstances receive certain surpluses from the Agrarian Fund.[2]

contributions being made by France and Italy together. Special conditions were laid down in Annex D to Agreement 3 for the use of this special reserve. (See *Cmd.* 3910 of 1931, pp. 52–4.)

[1] Czechoslovakia was only bound to make direct payments to the fund in the event that a claimant to whom an indemnity was due by virtue of local legislation decided not to accept payment (see Article 14 of Agreement No. 3 in *Cmd.* 3910 of 1931).

[2] On the 21st August, 1931, international conventions were signed at Berne by the Swiss Government on the one hand, and Great Britain, France, Hungary, and Italy on the other hand, providing that Funds A and B should be domiciled at Basle; that their juridical personalities should be recognized by the Swiss Government, and that the funds (but not the funds' employees) should be exempted, subject to certain minor exceptions, from Swiss taxation, and should be free from hindrance and confiscation in peace and war. See *International Conventions for the Establishment of Funds A and B* (*Cmd.* 3407 of 1932).

It remains to summarize the financial arrangements concluded between Hungary and her creditors. In the first place Hungary confirmed her obligation to pay the Reparation annuities laid down in 1924.[1] While refusing, as has already been stated,[2] to make any further payment on Reparations account after 1943, Hungary recognized the special claims advanced by her creditors and agreed to make a payment of a constant annuity of 13,500,000 gold kronen during the 23 years 1944–66 inclusive. This payment, as has already been shown, was in fact utilized to finance Funds A and B. The payments due up to 1944 were subject to the provisions relating to transfer control which had been laid down at the time of the Financial Reconstruction of Hungary in 1924; but the payments due after 1944 constituted an 'unconditional obligation, that is to say, without any right of suspension whatever'; and they were to be made 'to the Bank for International Settlements in gold or in currency equivalent to gold' (Art. 4). In exchange for these payments, the creditor Powers waived the first charge which was granted to Reparations and war costs by Article 180 of the Treaty of Trianon, and Hungary thus recovered her financial independence. Hungary undertook, however, to reserve from her state revenues sums equal to 150 per cent. of the annuities which she was to pay. The creditor Powers undertook to cease to apply their rights of retaining and liquidating the property and interests of Hungarian nationals; the mutual and converse claims of Hungary against Germany, Austria and Bulgaria were cancelled; and the relations between the Reparation Commission and Hungary were closed, subject, however, to the transfer of certain of the powers of the Reparation Commission, which were required for the carrying out of the agreement, to the Bank for International Settlements. By this agreement a 'complete and final settlement' was at last reached of a question which, apart from that of

[1] It may be convenient to summarize these annuities:

Year.	*Gold Kronen.*	*Year.*	*Gold Kronen.*
1930	7,000,000	1937	13,000,000
1931	8,000,000	1938	13,000,000
1932	9,000,000	1939	13,000,000
1933	10,000,000	1940	13,000,000
1934	11,000,000	1941	13,000,000
1935	12,000,000	1942	14,000,000
1936	13,000,000	1943	14,000,000

In addition, provision was made for any deficiency between 21,000,000 gold kronen and the value of Hungary's deliveries in kind in the years 1924, 1925 and 1926, a quarter of such deficiencies being added to payments due in each of the years 1940–3 inclusive.

[2] See p. 142 above.

German Reparations, was perhaps the most thorny complex of all the financial problems created by the Peace Treaties.

(5) *Liberation Debts, Ceded Properties and the Distribution of Non-German Reparations.*

There remained for settlement at The Hague the tangled skein of problems connected with the liberation debts, the properties ceded by Austria and Hungary to the successor states, and the shares of the various Reparations creditors in the payments to be received under the Hague Agreements.

The liberation debts arose from agreements[1] concluded on the 10th September, 1919, between the Allied and Associated Powers and the successor states of the Hapsburg Monarchy. Under these agreements Italy, Czechoslovakia, Poland, Rumania and Jugoslavia undertook to pay the Principal Allied and Associated Powers a maximum of 1,500,000,000 gold francs (£60,000,000 gold) 'as a contribution towards the expenses of liberating' those states or the territories which they acquired from the former Hapsburg Monarchy. Subject to a maximum payment by Czechoslovakia of 750,000,000 gold francs (£30,000,000 gold), the total contribution was to be apportioned between the liberation debtors on the basis of the pre-war revenues of the territories which they acquired.

Article 208 of the Treaty of St. Germain and Article 191 of the Treaty of Trianon provided that the successor states to which territory of the former Hapsburg Monarchy was transferred should acquire all property and possessions situated within those territories and belonging respectively to the Austrian and Hungarian Governments. The value of properties thus acquired was to be fixed by the Reparation Commission and placed to the credit of Austria or Hungary respectively and to the debit of the successor states. To this general rule exception was made in the case of the possessions of provinces and other local authorities (including public schools and hospitals) and certain other minor items. Provision was also made for the transfer of the pre-war Austrian and Hungarian debt.[2] The debt secured against specific properties, for example salt mines or railways, was to be taken over by the successor state which acquired the mortgaged properties. The unsecured debt was to be taken over by each state on the basis of the pre-war revenues of the territories acquired; and, in order to avoid double counting, each successor state was to set

[1] *Cmd.* 458 and *Cmd.* 459 of 1919.

[2] In Article 203 of the Treaty of St. Germain and Article 186 of the Treaty of Trianon.

off the value of unsecured debt thus taken over against the value of properties ceded to it as fixed by the Reparation Commission.

The first arrangement for sharing the proceeds of non-German Reparations was made in the Liberation Debt Agreements signed at St. Germain-en-Laye on the 10th September, 1919.[1] These agreements provided that each successor state (and Italy) should set off its total share of the liberation debt, together with the value of properties ceded to it, against 'the approved claims, if any, of these states for Reparation'. If in any case the value of the liberation debt and ceded properties was greater than approved Reparation claims, then the state in question undertook to issue 5 per cent. bonds against the excess to a person or body designated by the Principal Allied and Associated Powers. If, however, approved Reparation claims exceeded the sums due for liberation and ceded properties, then the latter amounts were to be 'reckoned as payments by way of Reparation' and no further Reparation payments were to be made to these States until other Reparation creditors had received a like proportion of their approved claims.

The next step in the treatment of Reparations was at the Spa Conference in July 1920. Under the Spa Agreement the Reparations from Austria, Hungary and Bulgaria and liberation payments by Italy, Czechoslovakia, Rumania and Jugoslavia were to be pooled. The aggregate sum available in the pool was then to be divided, 41·75 per cent. going to Belgium, the British Empire, France, Japan, and Portugal, and an undefined share to Greece, these states being pure creditors on both Reparation and liberation payment accounts, while the balance was to be apportioned between Italy, Rumania, Jugoslavia, Czechoslovakia and 'the other Powers entitled to reparation which' were 'not signatories of this agreement' and which were creditors on Reparation account, but debtors in respect of liberation payments.[2] The shares assigned by the Spa Agreement to the purely creditor countries were as follows: British Empire, 11 per cent.; France, 26 per cent.; Belgium, 4 per cent.; Japan and Portugal, 0·375 per cent. each. Of the states which were creditors on Reparation

[1] The agreements in question were between the Allied and Associated Powers 'with regard to the contributions to the cost of liberation of the territories of the former Austro-Hungarian Monarchy' (*Cmd.* 458 of 1919) and between the Allied and Associated Powers 'with regard to the Italian reparation payments' (*Cmd.* 459 of 1919). Both these agreements were signed at St. Germain-en-Laye on the 10th September, 1919. The Italian agreement of the 10th September, 1919, departed slightly from the agreement with the other successor states; and accordingly, on the 8th December, 1919, the necessary amendments were made to bring it into line. (See *Cmd.* 639 of 1919.)

[2] Spa Agreement (*Cmd.* 1615 of 1922), Articles 1 and 2.

account, but debtors in respect of liberation payments, only the share of Italy was fixed in the Spa Agreement at a total of 25 per cent. Greece, the other pure creditor country, did not have her share fixed (at 12·7 per cent.) until 1925, when definite shares were also allotted to Rumania (10·55 per cent.) and Jugoslavia (10 per cent.)[1]. Owing to her special position in respect of liberation debt, Czechoslovakia of course received no share either under the Spa Agreement of 1920 or under the Finance Ministers' Agreement of 1925.

It will be observed that the arrangement concluded at Spa was tantamount to a reduction by roughly one-half of the net contribution to the costs of liberation payable by the successor states and Italy to the British Empire, France, Belgium, Japan, Greece and Portugal; for obviously if the liberation debts were to be put into a pool and if nearly 50 per cent. of the pool were then to be returned to the liberation debtors, that arrangement was equivalent to a cancellation of this part of the debt—subject, however, to minor readjustments as between themselves of the respective shares of the total owed and the total claimed.

The next stage in the treatment of these questions was accomplished in an agreement between the Finance Ministers of Belgium, Jugoslavia, Great Britain, Italy and France, which was signed at Paris on the 11th March, 1922.[2] It will be remembered that the Paris Peace Treaties placed a joint Reparations liability on Germany and her former allies. The Schedule of Payments of the 5th May, 1921, imposed upon Germany a total liability of 132 milliard gold marks divided into bonds of three series. Series 'C' of these bonds totalled 82 milliard gold marks and the German share in them was to be reduced by 'any sums received from other enemy or ex-enemy powers in respect of which [the Reparation] Commission' might 'decide that credit should be given to Germany'.[3] The Paris Agreement of the

[1] In the Finance Ministers' Agreement signed at Paris on the 14th January, 1925 (*Cmd.* 2339 of 1925). The shares of Greece and Rumania were fixed by Article 7 of this agreement. The same article fixed the shares of these countries in German Reparations at 0·4 per cent. of German payments in the case of Greece and 1·1 per cent. in the case of Rumania. As an historical curiosity, it may be noted that, although the Jugoslav delegate signed this agreement, and although it was therefore presumably understood that Jugoslavia was to receive the unapportioned 10 per cent. of non-German Reparations, as well as the unapportioned 5 per cent. of German Reparations, these allocations were not explicitly made in the agreement of the 14th January, 1925, nor, so far as the present writer can discover, in any subsequent published agreement down to the final settlement at The Hague in 1930. [2] *Cmd.* 1616 of 1922.

[3] Schedule of Payments, 5th May, 1921, Article 1. (Reparation Commission: *Official Documents relative to the Amount of Payments to be Effected by Germany under Reparation Account*, p. 5.)

11th March, 1922, linked the German 'C' bonds with non-German Reparations and the liberation debt, and provided that Italy, Jugoslavia and Rumania might discharge their obligations for payment of liberation expenses by handing over 'C' bonds (less the reduction appropriate under the Spa percentages) for re-allocation amongst the other creditor Powers. Inasmuch as the 'C' bonds were never paid and were ultimately cancelled, this arrangement was tantamount to cancellation of the liberation liabilities of all the successor states except Czechoslovakia and Poland. A final clearance of all these claims and counter-claims was made at The Hague.[1]

The only one of the liberation debtors whose debt had not been

[1] It may be convenient to summarize here the arrangements finally reached for the distribution of the pre-war Austrian and Hungarian debt. The debt secured against specific properties—mainly a railway debt—was apportioned between all the successor states (including Austria and Hungary) in accordance with the properties taken over. A list of the bonds in question and of their allocation may be found in the Seventh Report of the Reparation Commission (*Distribution of the Pre-War Austrian and Hungarian Debt*). The unsecured debt was ultimately calculated at a total of roughly 7·8 milliard kronen in the case of Austria and 6·7 milliard kronen in the case of Hungary. In accordance with the provision of the treaties for apportioning the debt on the basis of the pre-war revenues of the territories respectively taken over by the successor states and remaining to Austria or Hungary, the Reparation Commission apportioned the unsecured pre-war Austrian debt as follows:

	per cent.
Austria	36·827
Italy	4·087
Poland	13·733
Rumania	1·610
Jugoslavia	2·043
Czechoslovakia	41·700

(*op. cit.*, pp. 18 and 41); while the Hungarian debt was apportioned on a somewhat different basis, allowance being made in the case of certain securities for the special status of Croatia-Slavonia and the participation of Poland. (For this provision see *op. cit.*, pp. 19–20 and p. 43.) The treaties provided that the bonds representing the unsecured debt should be stamped by the state in whose territories the bonds were held, the stamping to be terminated on the 1st June, 1924. The adjustments of debit and credit balances in respect of excesses or deficiencies of stamped bonds over the allocated shares were then to be made; while in order to secure the position of holders of pre-war Austrian and Hungarian securities domiciled outside post-war Austria, Hungary and the successor states, a *Caisse Commune des Porteurs étrangers des Dettes Publiques* was created under a protocol known as the Innsbruck Protocol (dated the 25th June, 1923). The articles of the *Caisse* were signed in Paris, and the rules for its operation were laid down in an agreement signed at Prague on the 14th November, 1925. (See the Reparation Commission: Supplementary Volume No. 13 on the *Distribution of the Pre-War Austrian and Hungarian Debt*.)

previously cancelled and who therefore was called upon in the end to make a payment under this heading was Czechoslovakia.[1] In addition to her share of the liberation debt, fixed at a maximum of 750,000,000 gold francs,[2] which Czechoslovakia had been trying for years to reduce to 250,000,000 gold kronen, she had incurred a War Debt of £1,200,000 to Great Britain, 600,000,000 francs to France, and 170,000,000 lire to Italy. Moreover, at the First Hague Conference Italy had undertaken to meet the British claims advanced by Mr. Snowden by offering a payment of 9,000,000 gold marks which Italy in turn counted on receiving from the Czechoslovak liberation payments.[3] In the end 'a complete and final settlement' of all these claims was made at The Hague by a Czechoslovak undertaking to pay 37 annuities of 10,000,000 gold marks from 1930 to 1966.[4] The Hague arrangement was explicitly stated to be 'a final settlement of all the obligations of Czechoslovakia which may result from the Treaties of Versailles, St. Germain, Trianon, Neuilly, from the Agreement of the 10th September, 1919, and from all arrangements supplementary to the said Treaties and Agreements'.

There remained to be arranged at The Hague the final clearance of all matters concerned with ceded properties and the apportionment of German and non-German Reparations. This was accomplished in the last of the Hague Agreements, which was made between the creditor Powers.[5] This instrument provided as follows:

1. The major share of the Czechoslovak annuity was apportioned

[1] The treatment accorded to Poland is obscure. Under the Liberation Agreement of the 10th September, 1919, Poland was to have been a contributor. Moreover, no percentage of German or non-German Reparations was assigned to Poland under the Spa Agreements, Article 10 of which, however, recognized and reserved the 'right of Poland to reparation for damage suffered by her as an integral part of the former Empire of Russia'. Subject to this reservation the same article expressly excluded Poland from the provisions of the Spa Agreement. Furthermore, Poland was liable to Germany and Austria for ceded properties in pre-war German and Austrian territory; and the Spa Agreement provided that the amounts in question should be entered provisionally in suspense accounts. In the end, claims were practically wiped out on both sides and Poland was granted by the Young Committee and the Hague Conference a trifling percentage in the Young annuities during the years 1929 to 1965 inclusive. The average annuity assigned to Poland during these years was 0·025 per cent. of the total of German Reparations.

[2] By the Agreement of the 10th September, 1919, signed at St. Germain-en-Laye. (*Agreement between the Allied and Associated Powers with regard to the Contributions to the Cost of Liberation of the Territories of the Former Austro-Hungarian Monarchy* (*Cmd.* 458 of 1919), Article 2.)

[3] See the *Survey for 1930*, p. 497.

[4] *Cmd.* 3484 of 1930, Document No. 14.

[5] *Op. cit.*, Document No. 15.

between France, Great Britain, Italy, Greece and Belgium, Japan and Portugal receiving minor shares.[1]

2. As regards Hungarian Reparations under the 1924 agreement, Jugoslavia received the whole of the sums paid up to and including the 30th June, 1930, less a small deduction to cover the administrative expenses of the Reparations Commission. The balance of Hungarian Reparations from the 30th December, 1930, up to 1943 was to be apportioned as to 76·73 per cent. to Greece, 13 per cent. to Rumania, 1 per cent. to Czechoslovakia, and 2 per cent. to Jugoslavia. The balance, 7·27 per cent., was assigned to the other creditor Powers,[2] and was transferred by them as a contribution to Fund A.[3]

3. Bulgarian Reparations were assigned in the first instance to Greece, which received the liquid assets realized by the Reparation Commission in pursuance of the Treaty of Neuilly and not yet distributed at the time of the Hague Conference, and the first payment of 5,000,000 gold francs to be made by Bulgaria on the 1st April, 1930, under the agreement concluded at The Hague. The remaining Reparation payments by Bulgaria up to 1943 were apportioned as to 76·73 per cent. to Greece, 13 per cent. to Rumania, 1 per cent. to Czechoslovakia, and 5 per cent. to Jugoslavia. The balance of 4·27 per cent. was assigned to the other creditor Powers. In the outcome, however, the other creditor Powers[4] sacrificed their share of Bulgarian Reparations by assigning them to Fund A.[5]

The large share of Greece in the Czechoslovak, Hungarian and Bulgarian payments will be noted. This arose in consequence of a

[1] The actual apportionment was as follows:

	Gold Marks
France	3,187,854
Great Britain	1,384,519
Italy	3,146,632
Belgium	418,816
Japan	51,920
Portugal	51,920
Greece	1,758,339
	10,000,000

[2] Belgium, British Empire, France, Italy, Japan and Portugal.

[3] Under Article 5 of Annex 2 of Agreement 13 concluded at The Hague (*Cmd.* 3484 of 1930, p. 161) and under Article 2 of Agreement 3 of the Paris Agreement signed with Hungary on the 28th April, 1930 (*Cmd.* 3910 of 1931).

[4] Except Japan and Portugal. The share contributed to Fund A by Belgium, the British Empire, France and Italy amounted to 4·222 per cent. of Bulgarian Reparations. Japan and Portugal remained entitled to a trifling payment out of Bulgarian Reparations—some 5,000 gold francs per annum, or roughly £100 each at par.

[5] In Article 2 of the Paris Agreement signed on the 28th April, 1930. (*Cmd.* 3910 of 1931.)

promise by the British, French and Italian Governments at the First Hague Conference to endeavour to obtain for Greece out of non-German Reparations a sum adequate to cover her out-payments on War Debts to Great Britain and the United States (the necessary additional amount averaged 9,000,000 Reichsmarks [£450,000 at par]) and a capital sum not exceeding 80,000,000 Reichsmarks (£4,000,000 at par) to meet her claim for damage during the period of Greek neutrality.[1]

Since the distribution so fixed was 'final and inclusive' and since the agreement between the creditor Powers constituted 'a final settlement as between the signatory Governments of all their claims' in respect of ceded properties, liberation debts and non-German Reparations, it was to be hoped that the close of the Second Hague Conference on the 20th January, 1930, had cleared away these ensnarled and contentious questions for good and all.

(6) *Conclusion.*

It would be pointless to prepare a detailed balance-sheet of the gains and losses of the non-German Reparations settlement at the Second Hague Conference. On the financial side the principal gains were first the complete wiping out of Austrian Reparations and the fixing of definite and final Reparations settlements for Hungary and Bulgaria; secondly, the recovery by these three Powers of their financial freedom from the Reparations liability which was imposed on them as a first charge under the Peace Treaties; thirdly, the settlement of the controversial and embittered Hungarian Optants Question; fourthly, the final clearance of all the tangled and (except in the case of Czechoslovakia) unreal claims and counter-claims for ceded properties and liberation debts; and finally, an agreed apportionment of the various payments decided upon. The Second Hague Conference thus disposed of a complex of most contentious and difficult financial problems which had been troubling Europe for over a decade. Still more important, perhaps, was the political *détente* which resulted.[2]

On the accomplishment, as it appeared to participants, probably no better summary can be found than that which Mr. Snowden prefixed to the British Blue Book containing the Hague Agreements.[3]

[1] Mr. Snowden's statement in the summary preceding the Hague Agreements (*Cmd.* 3484 of 1930, p. 12).

[2] On these political advantages see particularly Dr. Beneš's statement in the *Prager Presse* for the 22nd January, 1930.

[3] *Cmd.* 3484 of 1930. The summary is printed in *Documents on International Affairs, 1930.*

'The political importance of these settlements', said Mr. Snowden, 'and their effect on the credit and economic stability of the countries of Central and Eastern Europe need not be emphasized. From the financial point of view the sums at stake were relatively insignificant and the Great Powers agreed to sacrifice a large proportion of their shares in the prospective payments in order to attain a general settlement.'

With regard to Austria, Mr. Snowden pointed out that while it had 'long been generally recognized that Austria' was 'not in a position to pay Reparations', it had previously 'been impossible to secure agreement on the definite cancellation of her liabilities under the Treaty of St. Germain. The continued existence of these liabilities . . . hampered the recovery of Austrian credit and made it impossible for the Austrian Government to raise loans without the consent of the Reparation Commission. The Agreement made at The Hague definitely and finally' discharged 'Austria from her financial obligations under the Treaty'.

With regard to Bulgaria, Mr. Snowden pointed out that the scale of payment adopted was, 'in the opinion of the best authorities, well within the capacity of Bulgaria', and he said that it might be 'hoped that, with their Reparation liabilities definitely and satisfactorily settled, the Bulgarian Government' would 'take the necessary measures to re-establish the financial and economic position of their country on a secure and sound basis'.

'The agreement with Hungary', Mr. Snowden observed, 'raised the most difficult problems in non-German Reparations. It involved a settlement not only of the obligations of Hungary under the Treaty of Trianon, but of the claims of Hungarian nationals against Rumania, Czechoslovakia and Jugoslavia, particularly those arising in consequence of the Agrarian Reforms. The problem of the Hungarian Optants in Rumania' had 'been before the Council of the League of Nations in one form or another for over six years and' had 'become a matter of acute political controversy in all the countries concerned. The solution of this controversy by the Hague Conference therefore' represented 'a political achievement of capital importance. A solution was only reached at an all-night sitting on the eve of the close of the Conference . . .'

After summarizing the details of the Hague Settlement, Mr. Snowden proceeded to justify the contribution which Great Britain had made to a final clearance of the Optants Question. 'While last August I insisted', he said, 'that Great Britain should receive her proportionate share of the German annuities, I have never refused to accept proportionate sacrifices, where a just case could be established for such concessions, and in this instance I am fully satisfied that the limited contribution which it is proposed Great Britain should make is fully justified as an essential factor in securing a settlement of the protracted and dangerous controversy between Hungary and her neighbours.'

Mr. Snowden further pointed out that the Czechoslovak Liberation Debt and a number of other questions had been finally settled, and that the liabilities of the successor states in respect of ceded properties of the old Hapsburg Monarchy 'which represented a wholly irrecoverable claim' were definitely cancelled as well as all liberation debt claims except for that of Czechoslovakia. 'Broadly speaking', he observed, 'the Great Powers have renounced practically all their shares in non-German Reparation receipts in order to secure the acceptance by Greece, Rumania, Czechoslovakia and Jugoslavia of the settlements proposed both with Germany and with the other ex-enemy states.'

Mr. Snowden's 'rapid summary' of the settlements with regard to both German and non-German reparations would suffice, he said, 'to indicate both the importance and the wide scope of the agreements reached at The Hague. The conclusion of these agreements was made possible by the large amount of preparatory work ably done by the technical committees set up after the adjournment of the Conference' in August 1929. 'But in every case these committees had had to leave important and difficult questions still to be settled at the Conference itself. Some of these questions' had 'been the subject of bitter contention for years, and, in the case of the Hungarian Optants' claims, repeated efforts had been made under the auspices of the League of Nations to find a settlement without success. That agreement should have been reached on all these points, without exception, at The Hague' indicated 'the spirit of mutual conciliation that prevailed at the Conference and' was 'the best augury for that future collaboration between the nations of Europe which is essential for the maintenance of our prosperity.'

(*d*) From the Second Hague Conference to the Lausanne Conference

Unhappily, the settlement reached with so much trouble at The Hague was not to last. Non-German Reparations, like German Reparations, were to be overwhelmed by the tempest which the economic crisis loosed upon the world. During the first year following