

EUROPEAN UNIVERSITY INSTITUTE, FLORENCE  
DEPARTMENT OF ECONOMICS

E U I   W O R K I N G   P A P E R   No.84/103

THE INTERNATIONAL DEBT PROBLEM  
IN THE INTERWAR PERIOD

by  
Marcello de Cecco

April 1984

This paper was written while  
the author was a member of  
The Institute for Advanced  
Study, Princeton and presented  
at a Study Group on International  
Debt of the Lehrman Institute,  
New York.

BADIA FIESOLANA, SAN DOMENICO

320

EUI



All rights reserved.

No part of this paper may be reproduced in any form without permission of the author.

Marcello de Cecco  
Printed in Italy in May 1984  
European University Institute  
Badia Fiesolana  
50016 San Domenico (Fi)  
Italy

## THE INTERNATIONAL DEBT PROBLEM IN THE INTERWAR PERIOD

1. The history of international debt is the history of international finance. It is many centuries old and it is closely linked to international political history. The political element was seldom absent from international finance for the very simple reason that in many cases, and for a long time in the majority of cases, although creditors were mostly private financial houses, debtors were political authorities. The purely economic international loan incurred by the individual or firm in order to be used for productive purposes and dispensed by another firm in order to maximize profits, can be safely assigned to a minority shelf, with most episodes belonging either to the pre-1914 or post-1960 periods of world history.

The inter-war period is perhaps the high-noon of politicized international finance. The variety of cases of political and economic interaction in the field of international debt is so great that one can be sure he can find in that period a precedent for whatever case of politicized international economics he is studying.

The years that follow the First World War could be read, for what international financial and monetary affairs are concerned, in the light of continuity with the pre-1914 period. The substitution of British hegemony with American hegemony in the world economy was taking shape in the decade before the war. The International gold standard was a fast degenerating international monetary regime before the war destroyed it. The European major powers had already managed to make their disturbing presence felt in the previously British-dominated world financial market.

The international telegraph had already been introduced and transcontinental cables had been a reality for several decades. Financial markets had moved fast into a new bank-dominated structure in most countries, and direct financing had begun to replace the bill on London.

All these trends continued after the war. But the pace of movement increased and quantitative changes along the lines I have mentioned were so large after the war that quantity definitely became quality.

Moreover, for what concerns the art of government, the First World War marked a transition to a type of generalized control and of mass politics which was not present before and which was to characterize the age that followed, in which we live. What was defined as war-time controls, war-time political mobilization, by a public opinion which hoped they would recede and even disappear after the end of hostilities, was to become the mark of every day life in the following decades.

Referring ourselves back to mercantilism would be no help, if we try to understand the transformation of the art of government during and after the First World War. Governments had never abandoned mercantilism. As the National Monetary Commission found, perhaps to its surprise, when asking the directors of the Bank of England on the operation of Bank Rate Mechanism, those supposed upholders of the highest form of laissez-faire raised bank rate when reserves fell but did not lower it when they rose. They were, like every other monetary authority of the day, convinced believers in the Bagehot opinion that money would not manage itself.<sup>1</sup>

Still, proving the mercantilist spirit of even the high priests of English laissez-faire does not mean that the level of regimentation and

control introduced by countries to fight total war was in any way comparable to what had been experienced before. And mobilizing the masses to fight total war proved such a successful experiment that politicians found it impossible to revert to the easy world of pre-war parliamentary usage. A new rationality in political policy-making and economic policy-making began to emerge, which would dismay Keynes, one of its earliest chroniclers, but would not go away even after he exorcized it in the fulminations of "The Economic Consequences of the Peace."<sup>2</sup>

2. It was, in fact, with the reparations to be exacted from the vanquished nations and in particular from Germany, that the stage of inter-war international finance was set. This is a basic element that must never be forgotten. In the whole period, international financial transactions, even those involving countries not in the least involved with reparations, were powerfully influenced by the reparation problem. Reparations set the agenda for the next twenty years, and gave the whole period the character of high politization, precarious balance, or open crisis which students of international finance invariably detect and remark upon.

Before the first world war individuals, firms and governments had defaulted on their debts. They had done so quite often, leaving their domestic or international creditors in the lurch. But debts had never been considered deprived of legal or moral legitimacy. After the 1870 defeat, the French had paid the huge sum imposed by the victorious Prussians.<sup>3</sup> They now expected the Germans would do the same. Recent evidence unearthed in German archives, however, proves that the Germans did not consider their

reparations obligations as sanctioned by legal legitimacy for a variety of reasons, and that several among the Allies, in particular the British and above all the Americans, shared their conviction, and saw reparations as a big public relations exercise to convince public opinion in the victorious countries that the conclusion of an armistice with Germany did not mean millions of people had fought and died for nothing. The Germans entered, as a result, a heavy financial obligation with the profound conviction that they would not be held to it by the other side. And some of their creditors shared their view, partially or totally. As was patronizingly indicated by "well informed circles" when Keynes' book came out and took the world by storm, the poor economist was taking the issue too seriously. The Germans, of course, would not be asked to pay the exorbitant sums specified at Versailles. It was all necessary to rally public opinion around the Peace Treaty.<sup>4</sup>

Having taken the devil out of the bottle, however, proved to be much easier than putting it back into it. Once the sums specified in the Peace Treaty were totaled up, they began to be counted upon to offset the huge debts the allies had incurred to fight the war. These were real debts, sanctioned by traditional legal procedures, and Britain and the United States let it be clearly known they expected them to be repaid.

It is very difficult not to understand the bitter feelings the asymmetrical behavior of Britain and the United States aroused in countries like France and Italy. They were asked to honor their war debts while at the same time a deal seemed to have been concluded over their heads by Britain and the U.S. to consider the German reparations as unrealistic and

exorbitant. The fact, which Keynes pointed out so eloquently, that Germany would be potentially unable to honor reparations, could only contribute to inflame French and Italian opinion further as the possibility to offset their own debts was shown to have existed only on the parchment of the Peace Treaty.

The reparation issue thus introduced into post-war international finance a strong element of illegality which had not existed before 1916. It introduced, mainly because of the ill-considered actions of Woodrow Wilson and David Lloyd George, the legitimacy of repudiation and default as a means of legitimate international economic policy-making. Countries had defaulted before, but the reparation issue introduced the feeling that default on foreign loans had become a legitimate instrument of the art of government.

This is not the place to inquire why the English and American statesmen opened this Pandora's box. Arno Mayer has convincingly written that they did so in an attempt to roll back or at least contain, the Soviet Revolution.<sup>5</sup> What is relevant for our purposes is the legitimization of financial illegality and irresponsibility it induced.

Saddled with the objectively exorbitant sums the Peace Treaty obliged them to pay, the German political and economic authorities, who had been led to believe they would not be called upon to honor them, responded by flooding Europe with an avalanche of Mark-notes, which the credulous European middle classes, still convinced that the Mark would be stabilized at its pre-war level, happily accepted in payment for goods and services or against other currencies. This behavior is not often stigmatized in works

on the subject of inter-war international finance, while much space is dedicated to the "irresponsibility" of the French monetary authorities, who responded in kind by maneuvering their foreign exchange balances between the various financial centers to further French foreign policy objectives, instead of cooperating with the supposedly "apolitical" actions of the British and American monetary authorities.<sup>6</sup>

Nor has the idea that the great German inflation was a deliberate policy strategy completely conquered the economic historians of this period, although enough abundant archival evidence has been found to validate it. Its sudden stop, however, and the equally sudden restoration of monetary order which followed, ought to have showed economists the light a long time ago.

3. In spite of Arno Mayer's interpretation of British and America's motives with reference to the armistice and the Peace Treaty, one of the most glaring differences between the inter-war period and the decades following the Second World War is the non-existence, in the inter-war years, of an all encompassing military alliance against a perceived enemy, like the post-war NATO alliance. In the inter-war years, as the German behavior with respect to reparations and inflation, abetted by some of the allies, legitimized international illegality, the Western countries began to consider international financial policy as an extension of foreign policy in a way they had not done before, and the scope of the policy would be "à tout ázimout" to repeat an expression coined by General de Gaulle's strategists. This has not happened after the second world war. The existence of the NATO alliance has firmly prevented the Western countries

from contemplating and realizing policies, with respect to international finance, which would be inspired by the logic of zero-sum games, of static power redistribution. This is perhaps too marked a distinction, as some policies, like the French policies with respect to gold, the U.S. unpegging of the dollar in 1971, Japan's hurried disposal of huge dollar reserves soon after, could be considered as being inspired by a non-cooperative zero-sum games philosophy. More examples could be provided. However, the fact of being all in the same strategic camp has meant that, on the whole, Western countries have behaved in a basically cooperative fashion for what concerns the maintenance of some semblance of international financial order. The same cannot be said of the behavior of the same countries in the inter-war period. Real-politik of the most traditional type seems to have triumphed in the international financial relations of those two decades, and to have informed even some episodes which could be interpreted as attempts at cooperative behavior. The return on the part of the major countries, followed by a large number of other ones, to the gold standard, is one of these episodes.

If we look at the chain of events which led to the British return to the gold standard, we can derive from it the superficial conclusion that a high level of cooperation among British and American central bankers rendered the British return to gold possible. But the wealth of research that this episode has elicited does not allow us to reach that conclusion. On the contrary, the return to gold can be seen as an important British defeat in the open fight for international financial supremacy American financiers and politicians (who have rarely again formed such a homogenous

bloc as they did in the 1920s) engaged during and after the First World War.<sup>7</sup>

Britain's postwar policy objective after the end of hostilities had been to extend the pre-war transformation of the international gold standard into a gold exchange standard. And, under heavy British pressure, the Genoa Conference, in 1922, was concluded with such a recommendation. The philosophy which inspired the British policy stance was clear. Even in the last decade before the war, the Bank of England had experienced a continuous pressure on its gold reserve, and the matter of reserves had become an extremely divisive issue in British financial circles. I have shown elsewhere how Britain's giant banks had threatened to go their own way and establish a cooperative gold fund, separate from the Bank of England's reserve, which they considered far too low to support the huge pyramid of credit centered on London.<sup>8</sup> Stop gap measures to solve the problem had been found, in the last pre-war decade, by using India's export surplus. Rather than being transformed into gold, the latter was held in sterling balances, earning an interest. In his book on Indian currency and finance, Keynes had theorized this temporary expedient into a new international monetary system, and hailed it as the way of the future. But a major weakness of the "new system" had not escaped the attention of an early reviewer of Keynes' book, Gustavo del Vecchio. He had noticed that the pre-war experience with the gold exchange standard had involved colonial territories, not sovereign countries, and that the possibility of political management of the foreign exchange balances had not been available, but that it would be once the system was extended to sovereign countries.<sup>9</sup>

Events in the 1920s were to prove Del Vecchio's clairvoyance only too accurately. It would be, however, too superficial to think that the British had not adverted to the danger. Theirs was a policy of despair, as they knew a pure gold standard could not be managed from London. The Bank of England had never controlled the international gold market by the power of a formally owned stock. It had controlled it through the management of South African gold supplies and by compelling the India office to invest the Indian trade surplus in sterling balances. After the war those two instruments were both gone. As it would be unthinkable that the Bank could build up a sufficient buffer stock of gold, keeping a free gold market in London was clearly impossible, while it would be quite possible that the United States, who had ended the war with a huge gold stock, would succeed London as manager of the gold standard, and that the dollar would replace sterling as the world's premier store of value currency.

Inherent in the British reasoning was, of course, a marked pessimism on the functioning of bank rate as an international monetary policy instrument. This went against the conclusions of the Cunliffe Committee, but not against the considerations the Cunliffe Committee had made on how bank rate operated. It was exactly because bank rate was seen by the committee as operating through employment and output changes that the British authorities attempted not to go back to a gold standard where the slimness of the Bank of England's reserve would involve a semi-permanent deflation of the British economy through punitive bank rate levels. They thus tried the gold exchange standard card as a last resort. While the Conference of Genoa resolved to recommend the gold exchange standard and

the main European countries went along with it, the United States, who was on the gold standard since 1919, embarked upon a policy to extend that system to as many countries as possible. Through the unofficial good works of Edwin Kemmerer, the "Princeton Money Doctor," the gold standard was adopted by several Latin American countries. But the really crucial victory was obtained when, upon Kemmerer's advice, the Union of South Africa rejected sterling and adopted the gold standard.<sup>10</sup>

After that England had no choice but to play the game according to the new rules. It was the only chance she had not to decline to second rank financial power. Given her social structure, and the structure of her foreign trade, the possibility that Britain would not follow the course she did was never really there. As to the parity, it is quite reasonable that Britain's authorities had foremost in their minds the fact that a lower parity would mean that the world's banker would be partially defaulting on its sterling debts. And that would certainly be seen as another plus in favor of New York and of dollar-dominated international transactions.

Once we become convinced that Britain and the United States were fighting for the same cake, the international financial history of the inter-war period becomes much easier to understand. The fatal mistake is to interpret it with the values of the 1950s or 1960s. We must realize that the inter-war years, and in particular the 1920s, were the period when the transition from the sterling standard to the dollar standard was made. And it was not an abdication, but a fight to the finish, with no holds barred, which involved all levels of political activity and probably contributed in a substantial way to plunge the world into the Great Depression.

4. The history of international debts in the inter-war period, now that the backdrop of international finance is in place, can be seen as an important part in the transition from a sterling-dominated to a dollar-dominated international finance.

We have already commented on reparations, the most blatantly politicized part of the inter-war international finance. It is now time to deal with the other most important episode of inter-war international finance, the huge flood of American investments which invaded the world in the 1920s and abruptly receded at the end of the decade.

The surge of American international investment, and of international loans in particular, is a phenomenon usually approached by focusing on the demand side of it. Students of the problem have thus focused on the borrowers, who they were, what they did with the money, why they defaulted. This is in accordance with recent monetary theory, which tends to analyze the demand for money much more than the conditions attendant upon its supply.

But the surge of American foreign lending was so abrupt, so indiscriminating, so well circumscribed in time that it is impossible not to switch the analytical focus from the debtors to the lenders. An inquiry into the census of American foreign lending is rendered easier by the recent output of research on the American credit market in the inter-war years.

In order to dispel any lingering doubts that focusing on American foreign lending might be biased and exaggerated it is useful to analyze the relative size of the phenomenon. Before the First World War, although

France and Germany, and more recently the United States, had been engaged in international lending, international bond flotations had been an activity centered in the City of London and performed in sterling. It had been performed through underwriting and issuing houses which were autonomous from the great English clearing banks. Experience in the issue of foreign bonds had been accumulated by the leading English merchant banks in the course of more than a century. Foreign bond issues had come in great spates, in cycles crowned by booms and busts. After the Baring crisis, however, the foreign bond market had grown to a size which would not be regained after the war. The amount of money annually accruing to Britain in the form of interest and the total new foreign capital issues as a percentage of British domestic investment would never be equalled again.

Though the apolitical nature of pre-war British foreign lending has been somewhat exaggerated, it is still true that, by comparison with French and German pre-war lending, British lending was motivated by and large by private profit maximization, and that very few overt and even covert strings were attached to it, even for what concerns the tying of lending to purchases of British-made capital goods. In fact, it can be said that in order to maintain its foreign lending activities on the massive scale they had reached, the City was able to impose upon the rest of the country a monetary policy of semi-permanent deflation, which had, already before the war, seriously undermined Britain's status as a first class international producer and exporter. Preference for higher yielding foreign bonds on the part of British finance and the British public had gone to the detriment of capital intensive modern industry, so that Britain was, by 1914, seriously

lagging behind Germany and the United States in the modern sectors of industry, where the "second industrial revolution" was taking place.

After the war, with the disappearance of the captive Indian trade surplus, with the "liberation" of the South African monetary system, and the liquidation of British foreign assets to pay for the war effort, it was evident that London's role in international lending would be seriously impaired. As to Germany and France, an even more pessimistic forecast could be made about their ability to require their pre-war positions in international lending.

Those who have focused on the demand side of the foreign lending problem have, therefore, been partially justified in explaining the surge of American lending by the pressure of the whole world demand for credit on the U.S. financial system. Having amassed huge gold reserves, and in the forced absence of traditional pre-war lenders, it seemed inevitable that the U.S. would step into this activity, so to speak, by general request.

It would be simplistic, however, to hold such an automatic, deterministic, view of the international adjustment process. After all, when in the 1970s the OPEC countries were suddenly transformed into the world's largest savers, this did not magically transform them into the world's bankers. Bankers and financiers are, after all, called financial intermediaries because they work with their capital but especially with other people's capital. Had the United States, as was the case with the OPEC countries, not possessed a financial system that could rise to the challenge, inter-war financial history would have been written in a very different way. In addition, the fact that Britain's circumstances had been

drastically reduced by the war did not mean that the huge apparatus of the City of London had been destroyed. On the contrary, it was still there, ready, like any other industrial sector which has not seen its capacity reduced, to regain its former output levels. The fight was therefore between London, which had the capacity, and New York, which had the "raw material" and was confident it could also build up its productive capacity.

A very important favorable element on New York's side was represented by the world's permanent hunger for dollars, which had developed in the war years. The United States had, in those five years, become the world's emporium. It had supplied belligerent as well as neutral countries with primary commodities, intermediate products and manufactures. Primary many producers like the Latin American countries and manufacture exporters like Japan had also shared in the bonanza, but only the U.S. was self-sufficient in raw-materials and manufacturers. As had been the case with Britain in the first half of the nineteenth century, the United States had become everybody's supplier. A great "dollar gap" had thus developed, making the dollar the most sought after currency in the world. The dollar having risen to challenge sterling as the most important trading currency, it was up to the American credit system to facilitate its international use. The task was to intermediate between American savers who had profited from the war bonanza and foreign borrowers who needed finance for the most various purposes.

Here again a comparison with nineteenth-century Britain is useful. The great British foreign lending experience crucially depended on the rise of the Victorian middle class. Although British issuing houses sold bonds

to a great number of foreign savers, it is undoubted that the bulk of their sales went to British savers. It was therefore a largely domestic market,

The situation was very similar in the United States after the war. The potential ultimate lenders were American middle class families, who would reckon their lending in their own national currency. Again, it was a domestic market with foreign borrowers.<sup>11</sup>

Still, if anybody in 1913 had ventured to offer a scenario where the U.S. financial system would replace London as the main intermediary in the issue of foreign bonds, he would have been greeted with disbelief. And the disbelief would have been well founded, on a static view of the "technology" of international finance. New York had none of the facilities which constituted the pre-war network of production of international financial assets and liabilities. It was utterly dependent on London for the finance of American foreign trade. It had no issuing houses, no commodities markets, no practice with bills of exchange. It did not even have a central bank. And the law did not allow American banks to establish branches abroad.

But all this reasoning assumed a "static" technology for the "production" of foreign bonds. The secret of the large New York banks' astonishing success in floating huge amounts of foreign bonds is that they treated them exactly as if they had been domestic bonds.

But, granted that this was so, the traditional "technology" postulated an international financial center, whose main features recalled more a mercantile past than an industrial future. The City of London was, and still to a suprising extent is, a financial bazaar, even physically

resemblant of one in Lloyd's or in the Commodities Exchanges, and almost completely based on specialization and pluralism, and united by the pervasive class homogeneity a pluricentennial continuous interchange had permitted. The New York banks' success in managing the huge inter-war foreign lending depended fundamentally on their refusal to ape London. The British example had been forced upon them by the Gold Standard Act of 1900 and by the Federal Reserve Act of 1913. The latter, in particular, had as one of its fundamental propositions that a money market ought to be built on British-type bills of exchange. This never happened. Bills of exchange had been on the retreat as an instrument of domestic finance even in England. What the New York large banks marched decisively towards was the concept of the Universal Bank or, in the local banks jargon, the "financial supermarket."

In fact, what the New York banks did was to cut through the whole structure of British type finance, to intermediate, in only one step, between the ultimate lenders and the ultimate borrowers.

Thus, they extended the potential foreign bond markets lending clientele by substituting a non-existent international financial center, which could not be created in New York in the short-run, with a firm-based structure to link demand and supply. In the language of Oliver Williamson, they used hierarchies rather than markets in the sale of foreign bonds as well as in other international, and domestic financial activities.<sup>12</sup>

Substantial help in this activity came to them from their recent experience as salesmen of American government war bonds. It is in fact quite possible that the organizational structure they had built for this

purpose was the same they used to reserve foreign bonds. And it has been suggested that foreign bonds were the logical follow-up of the government bonds activity, as they would increase the productivity of an otherwise half employed sales force, after government bonds issues dried up.<sup>13</sup>

For the banks, foreign bonds issues were also a highly profitable business. This was highlighted in an early book by Robert Kuczynski.<sup>14</sup> But the availability of a sales force, well-trying by government bonds sales, and the high profits to be reaped in foreign bonds sales would not be enough to explain the incredible fervor with which the large New York banks solicited new issues from all kinds of prospective foreign borrowers and sold them to American middle class savers. A good part of the explanation for that fervor must be found in the dearth of alternative sectors of activity open to the large New York banks in the 1920s. It has been authoritatively suggested that in the 1920s a profound revolution took place in American corporate finance. Firms experienced a new abundance of funds and began a massive practice of trade credit and discount sales. New equity issues were preferred to bank loans.<sup>15</sup>

The large New York banks, which had relied on wholesale banking also expected a rapid falling off of correspondent balances, which had flourished under the pre-war national banking system. They had been held responsible for the crisis of 1907, as they were considered the main element of the American banking system's structural instability. The Federal Reserve Act had devised a new system under which banks would keep their reserves at Federal Reserve Banks, rather than in the form of balances at money center's banks.

For these reasons, the New York large banks foresaw a series of lean years in wholesale and industrial banking, and jumped on the new bandwagon of retail banking. They were, as I said above, induced to do so by the rise of the American middle class, and by the financial affluence which went with it. These new financially affluent people had recently acquired savings which they had to dispose of. The banks began by selling them war bonds. After those dried out, they offered them foreign bonds.

The potential market proved to be so large, and so eager, that the banks had actually to solicit loans from all kinds of foreign borrowers. The image of American banks' representatives sitting at the doorstep of public authorities all over the world, waiting to be received to offer them loans, has been evoked so often that it is not necessary to do it again. It is perhaps a worn, but still a realistic image. It was a phenomenon that had not happened before, and would not happen again for another fifty years.

An equally worn, and still realistic image is that evoked in the Hearings on the Sales of Foreign Securities Inquiry the Congress of the United States set up in the wake of the disastrous defaults of a great number of those bonds.<sup>16</sup> It is the image of embezzlement and graft which these huge sums of money, so liberally disguised, had caused in the receiving countries, and of the wasteful purposes to which much of the money had been offered. Again, the phenomenon had not been known to have occurred on such a scale before and it will take another 50 years before it would occur again.

What was the political aspect of this story, which seems to have been unfolding so far at the sign of profit maximization and extension of the size of the financial retail market?

It is perhaps worth noting, first of all, that the dynamic behavior of the large New York banks could have not been sustained for so long had the Federal Reserve Act not lowered substantially the reserve requirements of the U.S. banking system.

And the promotion of foreign loans would have been very difficult had the U.S. authorities not actively fostered the return, on the part of a large number of countries, to convertibility under the gold standard.

Finally, the U.S. authorities, perhaps unwillingly, helped to allay the American savers' fears of lending to unknown foreign borrowers by vetting all foreign bonds issues in the United States through a specially constructed section of the Department of State. The fact that this vetting only concerned the political appropriateness of the proposed loans was not widely publicized, and the State Department's approval was quite naturally seen as extending to the financial qualities of the transaction.<sup>17</sup>

It is easy to see how some of the reasons that help to explain the U.S. banks' astonishing success in peddling foreign loans to the American public were also the reasons for the early and disastrous demise of the experiment.

The U.S. banks were behaving as if they were concerned with purely domestic operations and were pushed excesses by the competitive structure of the banking industry in the 1920s and the lack of alternative investments. In the frenzied atmosphere of the American 1920s, it is very easy, and very appealing, to apply George Akerlof's theory of asymmetrical information to the foreign bonds market.<sup>18</sup> The banks had very imperfect knowledge of the borrowers' financial conditions. The ultimate lenders had

almost no knowledge of the borrowers' financial conditions. They trusted the banks and the State Department. In such a situation it would have been essential that no defaults be allowed to occur, because the finding of one "lemon" would have caused the whole market to contract disastrously. But the competitive structure of the American banking industry in the 1920s did not make this type of cooperative behavior possible. Had the large banks colluded, they definitely would have not been able to build up such a huge operation in such a short time.

For the same reasons it would have been impossible for the large banks not to shift their competitive race to the Stock Exchange. When the Wall Street boom began, the banks started to promote the retail sales of common stock to the same people they had sold foreign bonds hitherto. But the attraction of American shares was much greater, as the new middle class could see its paper profits grow at a pace which was not thinkable with foreign bonds.

The disastrous end of the great foreign bond adventure thus came when the American public changed the mix of its portfolio, away from bonds and into shares. This would have not necessarily meant trouble had the great majority of foreign borrowers not been pushed by the U.S. banks' dynamic behavior, into a state of indebtedness where new loans were needed just to service the old ones.<sup>19</sup> Since new money was not forthcoming, defaults were inevitable. And, inevitably they occurred. It has been maintained, with satisfactory evidence, that, since foreign loans prices and interest rates reflected some widely respected index of risk, ultimate lenders had been warned, by the customary means, that they were running higher risks than

they would be if they had stuck to U.S. government paper.<sup>20</sup> However, the spread between the riskiest and the safest loans was not very large. And it is not clear how an interest rate differential would represent a differential default risk. It would, if it represented anything, represent a differential illiquidity risk.

If the differential interest rates represent only an illiquidity risk, the borrower has insufficient information about the possibility of default. Against his natural reactions when one default occurs and he tries to protect himself by dumping all sorts of foreign bonds, banks should provide by not letting defaults occur or by providing for the security of borrowers with some mutual assistance scheme if they did. Central banks could be drafted to run such schemes.

Nothing of the sort was done in the late 1920s. The large banks did not realize what could be the reactions of a public they had initiated to foreign bonds and quoted shares when the possibility of default, with consequent write-off for the loans, or of precipitous fall, with equally ruinous losses, for the shares, became realistic.

As I said above, however, the conditions which permitted the meteoric rise of foreign bond sales in America were the same which caused their sudden and precipitous fall. When the foreign bond market dried up in the U.S., as the public switched to Wall Street, U.S. large banks tried to keep their main borrowers afloat by short-term loans. This was particularly true of Germany, which was also by far the main borrower in the U.S. But very little could be done to stem the outflow. Matters were made much worse by American monetary policy. High interest rates in the U.S. for the

whole of 1928 and 1929 caused the amassing of huge foreign balances in New York, mostly at short term. The fear that those balances might be withdrawn induced the authorities to push rates even higher and finally this killed the already tottering stock exchange boom and ushered in the Depression.

This is not the place to revive the old debate about who was responsible for the Depression. Here it is only relevant to say that having entrusted the recycling mechanism to a credit system in constant turmoil, as the American then was, meant that fast multiplication was possible but also that fast de-multiplication was equally possible. Both occurred. The world was thus spared a Depression in the 1920s, and the day of reckoning was delayed for at least ten years. But it finally arrived. Could the accumulation of the credit superstructure built in the 1920s have occurred at a less distressingly fast rate? Could the world have been spared the sudden quasi-cessation of foreign trade which made the default of many foreign borrowers, good or bad, necessary?

This is a problem of counterfactual history for which I have little taste. Some lessons however, can be drawn from the international debt experience of the inter-war years. First I would remark on the destructiveness of non-cooperative behavior among the Western countries. Once the fatal mistakes of the Peace Treaty had been made and the Wartime Alliance had been dissolved, international financial policy became indissolubly linked to foreign policy. It was then too late to promote real cooperation, and what goes under the name of "Central Bank" cooperation in the 1920s should not delude us into believing that it was

anything like what goes under the same name in the post 1945 world. Central bankers met with one another in the spirit of camaraderie which is typical of people performing the same functions, but the same could be said of the officers who had been killing one another in the First, and would do the same in the Second World War. It was, after all, the Soviet Army which trained and re-equipped the German Army in the inter-war period.<sup>21</sup>

A second consideration worth making is that there is a marked difference between the default of Germany and that of other peripheral borrowers, like the South American countries.

Germany's default was brought about by the drying up of American long-term lending much less than by the impossibility of maintaining the gold standard in spite of massive destabilising short-term capital movements. J.M. Keynes and H.D. White were then right when they attributed to short term capital movements the role of Chief Villain in the inter-war international monetary play, and tried to exorcise them in the post-war international monetary order they designed.<sup>22</sup>

The German stand-still agreements were thus the consequence of the speculative excesses of short term finance. Peripheral countries, on the contrary, defaulted when international trade contracted as ruinously as it did after 1929 and their exports accordingly precipitated to depths which could not possibly allow them to service, let alone repay, their debt.

It is equally important to note that, by its skillful manipulation of the debt problem, Germany managed, in the 1930s, to repudiate most of the debt and even to build on blocked balances a network of bilateral trade which has been the subject of concern, admiration and study ever since.<sup>23</sup>

The Latin American countries had much worse luck. They were the principal victims of the Johnson Amendment and they ended up re-paying much more than it is generally believed.

Again we are confronted with an asymmetrical reality. The largest borrower, being one of the most industrialized and, on the whole, best run countries of the period, is always in a position to control its own destiny and those of many other countries, lenders as well as borrowers. It can turn events into policies.

Peripheral countries, on the contrary, remain at the receiving end. They are flooded with money when the tide is high, and they cannot do anything when the tide ebbs. Germany could turn to autarky and Britain to imperial preference. The U.S. retreated into its huge market and Japan resorted to "co-prosperity" in Asia. But the Latin American countries could either default on their debts and embark upon some import-substitution schemes or adopt, like Argentina, savage deflation in order not to default. Their lower classes thus bore most of the brunt of both schemes, when the financial merry-go-round stopped.

Of some interest, when compared with the present international debt problem, is the fact that a large part of international debt was constituted by long term bonds. This should not be exaggerated as a difference because there was a very large quantity of short-term (under five years) bank credit and an also very large quantity of inter-bank credit.

Compared to the Euro-bond market, pre-war bond issues undeniably represented a much higher ratio of total international debt. Whether the

fact that the prevalence of bonds meant that there were literally millions of foreign bond holders made the international financial market more unstable is debatable. It should be, first of all, noted that it is impossible for lenders to do anything about default. Default is, technically, a decision of the borrower, and it has such dire consequences for lenders to sovereign debtors that the former, in the case of sovereign loans, tries everything it can to prevent it from happening. Certainly, in the case of individuals, if their foreign loans are defaulted, they just incur a loss. If the lenders are banks, however, or other corporate firms default can easily have direct multiplicative effects on the financial system. Unlike individuals, however, banks being more "discrete" entities than individuals, they can get together much more easily, and have, in principle, the powers, if they agree, to stave off default indefinitely by rescheduling. Bonds, however, much more easily than loans, can be sold on secondary markets, even if they are defaulted. Even if they are formally repudiated by the governments that have incurred them, they can be purchased, at very low prices in the expectation that governments may change and decide to honor their debts.<sup>24</sup>

Off-loading loans is much more difficult, because there is much less experience with secondary markets for them, and because they tend to be of much shorter life than bonds (though this may not necessarily be so, in practice it is so).

On the assumption that foreign bonds had not been used as collateral for domestic credit, the solution of the international debt problem in the inter-war period would have been easier, when the collaboration of the

borrowing country or agency could be secured, in the the sense that it would not repudiate its bonds. That is, however, exactly what Germany did with Hitler's accession to power.

A couple of more general considerations are also in order. On the assumption that it was the disastrous effect of the slump in raw material and primary commodities prices that induced default in primary producing countries, all those countries ought to have defaulted. As it turned out, none of the British dominions did. Nor did Argentina, where Britain had a capital stake much larger than that of the U.S. and British finance was very influential on the banking system. Where dollar bonds prevailed, as in Germany and especially in South America, defaults generally occurred. This differential behavior is further evidence of the danger inherent in the vagaries of U.S. finance and also of the greater stability of British-controlled or influenced financial systems, like those of the Dominions and Argentina. Argentina was the only Latin American country which did not default.<sup>25</sup>

From the more political point of view, it can be said that when the disastrous fall in foreign revenues occurred because of the slump in prices, and of the withdrawal of foreign balances, the democratic governments in power in various countries reacted by deflating their economies, and by trying to re-negotiate the foreign debt. The resultant failures and unemployment, however, soon induced revolution and the revolutionary governments' first action was almost invariably a repudiation, either outright or in stages, of foreign debt.

Default can be thus inversely connected to political stability, as far as the 1930s are concerned. But, in turn, political stability was

maintained where the borrowers had a well organized financial and fiscal system and faced lenders, like the British, with greater experience of foreign lending.<sup>26</sup> This can be seen by the analysis of successful conversion operations conducted in the 1930s. Most of them involved Dominions or European countries. Most of them took place in London. Very few conversions were possible in New York. Of course the Johnson Act approved by Roosevelt on April 13, 1934, made conversions difficult, as it prohibited loans to foreign governments in default on their debts to the U.S. government. It was hoped, when the act was passed, that it would put pressure on debtors, to repay their debts, but this did not happen.



## FOOTNOTES

1. See U.S. Monetary Commission: Interviews on Banking, Publications of the N.M.C.I., Washington, 1910, p. 26.

2. Keynes' own candor, however, has been seriously doubted by S. Schucker, who has done extensive archival research in Germany. See his review of Keynes's works in Journal of Economic Literature, 1980.

3. On French reparations to Germany after the Franco-German War of 1870, see the careful compilation made by C.P. Kindleberger in his Financial History of Europe, London, 1984.

4. On the German attitude to reparations, see Keynes's Collected Writings, Vol. XVII, Activities 1920-22, London, 1977 and S. Schucker, The End of French Predominance in Europe, Chapel Hill, 1976. Also E.W. Bennett, Germany and the Diplomacy of Financial Crisis, Cambridge, Mass., 1972.

5. See, Arno Mayer's classic, Politics and Diplomacy of Peace Making, New York, 1967.

6. The best known vindication of French motives is Etienne Mantoux, The Carthaginian Peace, New York, 1952. See also, S. Schucker, op. cit.

7. See Frank Costigliola, "Anglo-American Financial Rivalry in the 1920s," in Journal of Economic History, 1977. Also the relevant parts in Kindleberger, op. cit., for further references.

8. Marcello de Cecco, Money and Empire, St. Martin's Press, 1984.

9 Gustavo del Vecchio's review of Keynes' book is in Giornale degli Economisti, 1914.

10 Although South Africa went officially on the Gold Standard after Britain, E. Kemmerer and G. Vissering submitted a report commissioned by the Hertzog Government, advocating South Africa's return to gold on January 8, 1925. This crucial episode is well treated in B.R. Dalgaard, South Africa's Impact on Britain's Return to Gold, New York, 1981. It is also dealt with in Costigliola, op.cit.

11 For an inquiry on who were the ultimate lenders of foreign dollar bonds, see, D.E. Morrow, "Who Buys Foreign Bonds?," Foreign Affairs, Jan. 1927.

12 On the micro and macroeconomic reasons for the U.S. large banks' ability to expand their international operations in the inter-war period, much can be learned from Eugene N. White's excellent book, The Regulation and Reform of the American Banking System, 1900-1929, Princeton, 1981. I have had the privilege of also seeing White's unpublished paper "Banking Innovation in the 1920s," which he presented at the Business History Conference at Hartford, in March, 1984. White's findings coincide with those of Thomas Huertas and H. van B. Cleveland, whose History of City Bank I have been fortunate to read in its pre-publication edition.

13 This view is confirmed by White and Huertas-Cleveland. It was also advanced by William A. Brown in The International Gold Standard, NBER, Princeton, 1943.

14 R. Kuczynski, *Bankers' Profits from German Loans*, Washington, 1932.

15 This view is based on White and Huertas-Cleveland, op. cit.

16 The competitive excesses of U.S. banks in pushing loans on to foreign governments local authorities and corporations, and the often wasteful utilization of the proceeds, are well described in the Hearings before the Committee on Finance, Sales of Foreign Securities, U.S. Senate, 72nd Congress, pursuant Res. no. 19, Government Printing Office, Washington, 1932.

17 This was brought out forcefully by several of the witnesses called before the aforementioned Senate Committee. The State Department's role is also analyzed in J. Madden, M. Nadler, H. Sauvain, America's Experience as a Creditor Nation, New York, 1937.

18 See, George Akerlof, "The Market for 'Lemons': Quality Uncertainty and the Market Mechanism," in Quarterly Journal of Economics, 1970. In their paper, "The Political Economy of International Lending," presented at the CATO Conference on "World Debt and Monetary Order," P. De Graue and M. Fratianni also use Akerlof's paper, but rather differently from the way I do here.

19 However, this system had been praised as late as 1928 by George P. Auld, Accountant General of the Reparation Commission, with the following words:

"The dollar exchange created by the new loans takes care of the old loans and finances new American exports... This expansion, the English tell us,

is dangerous to the U.S. But I have yet to hear any sensible reason advanced why it is dangerous and why it cannot go on indefinitely to levels scarcely yet dreamed of... So long as the debtor countries have no export surplus, they will be in the market for new foreign loans, and the debts will be paid by new loans." See G.P. Auld, The Mythical Transfer Problem, The National Foreign Trade Council, N.Y., 1928, p. 13. Quoted by Madden, Nadler, Sauvain, op. cit., p. 169.

20 See Huertas and Cleveland, op. cit.

21 Steven Clarke's Central Banking Cooperation, 1924-31, New York, 1967, provides a vivid account of the limits of that exercise.

22 See, on the subject, Marcello de Cecco, "Origins of the Post-War Payments System," in Cambridge Journal of Economics, 1979.

23 On the subject, see Albert O. Hirschman's classic work, National Power and the Structure of Foreign Trade, Berkeley, 1945.

24 It can be gleaned from the Table "Estimates of American Holdings of Foreign Dollar Bonds," that by 1935, only less than 50% of foreign dollar bonds were still in American hands. There is evidence of many countries repurchasing their bonds on the American market at highly discounted prices. But they were also purchased by non-American private individuals and financial intermediaries, who had better hopes in their final redeemability than the American public.

25 In their work on America's experience as a creditor country, Madden, Nadler and Sauvain also noted that the British foreign lending

operations were in the hands of an unofficial syndicate of London issuing houses, who controlled the issues very carefully. They contrasted this with the high numbers, and disorganized competition, of U.S. financial intermediaries involved in foreign lending. According to a RIIA study, (quoted below), of £298 million British investments in foreign government bonds £100 million was in default in 1933. Of \$7490 million foreign dollar bonds outstanding in 1935, 1810 million were in default.

26 The consideration that governments which attempted deflation and re-negotiation were soon replaced by revolutionary governments which repudiated debt is made by all contemporary writers on Interior Debt Problems. See, for instance, in addition to Madden, Nedler and Sauvain, C.R.S. Harris, Germany's Foreign Indebtedness, London, 1935, R.I.I.A., The Problem of International Investment, London 1937, C. Lewis, America's Stake in International Investment, Washington, 1938, and H.B. Lary, The U.S. in the World Economy, Washington, 1943.



Table 1

**THE INTER-NATION INDEBTEDNESS IN 1923**  
In dollars at par of exchange—00,000 omitted

THE BORROWERS	THE LENDERS	Great Britain	Canada	France	Italy	Russia	United States	Grand Total
British Empire								
Great Britain		430.8	69.7	359.8	133.8	1,265.2	4,661.0	6,480.5
Australia		430.8						430.8
Canada		67.2						67.2
New Zealand		143.5						143.5
South Africa		57.8						57.8
British South Africa Co.		9.7						9.7
Newfoundland		1.9						1.9
Crown Colonies		3.7						3.7
<b>Total British Empire</b>		<b>733.6</b>	<b>69.7</b>	<b>359.8</b>	<b>133.8</b>	<b>1,265.2</b>	<b>4,661.0</b>	<b>7,213.1</b>
Armenia		4.3					14.3	18.6
Austria		62.3		0.1	62.6		28.4	153.4
Belgium		43.8	6.3	711.0			454.5	1,215.6
Belgian Congo		17.3						17.3
Czecho-Slovakia		6.7		110.8	34.8		110.9	263.2
Ethiopia		1.2		9.0			16.8	20.0
Finland							0.0	0.0
France		2,927.6	5.7		96.6		3,000.7	7,020.6
Franco Polish					2.4			2.4
Germany		109.0	0.1		6		16.5	209.2
Greece		0.6		166.2				166.8
Hungary		2,568.6		163.0			2,015.0	4,747.5
Italy		0.1		2.2			6.0	8.3
Latvia							6.0	6.0
Lithuania							0.2	0.2
Nicaragua							182.4	182.4
Poland		20.7		203.8	13.7			238.2
Portugal		99.8						99.8
Roumania		125.9	20.5	227.9	32.6		43.8	450.7
Russia		4,325.0		1,165.7	7.2		241.9	5,739.8
Serbia, Croatia and Slovenia		137.9		348.0	3.4		61.6	551.8
Ukraine								
United States								
<b>Grand Total</b>		<b>11,171.4</b>	<b>109.8</b>	<b>3,463.7</b>	<b>390.0</b>	<b>1,265.2</b>	<b>11,861.0</b>	<b>28,261.1</b>

\$182,000. \$555,000. \$95,000. \$37,000. \$18,000.  
\$31,000.—These are whole figures.

Source: Bankers Trust Company  
The Inter Ally Debts,  
New York, 1923

# The Inter-Ally Debts

## CHAPTER I Eighty Billion Dollars

THE war cost \$80,680,000,000 gold. The purchasing power of the currencies of every combatant nation was affected in varying degrees by inflation caused by the use of paper money and bank credits in financing the war. Taking the figures of each nation as reported from year to year and reducing them to dollars at par of exchange, the expenditures for war totalled \$208,600,000,000 in currency. To arrive at a uniform basis of statement, we have divided the figures for each nation for each year of the war by the wholesale price index number of that nation. Thus we have obtained a statement for each nation in terms of 1913 prices. The sum of these figures, \$80,680,000,000, may be called the gold cost of the war.

How can we realize the magnitude of such a sum? Eighty billion dollars would reproduce all of the railway mileage of the world and there would still be over twenty billion dollars to spare for some other use—enough to build and equip a railway system as great as that of the United States.

In 1914 English economists estimated the wealth of the people of Great Britain to be about seventy billion dollars. All of the property of every kind in England, Wales, Scotland and Ireland, the railways, the docks, the shipping trav-

TABLE 2

Gold Reserves of Central Banks and Governments  
(Millions of \$)

	Total	U.S.	U.K	France	Germany	Russia	Austria Hungary	Italy	Japan
1913	4859	1290	165	678	278	786	251	266	65
1921	8044	3221	754	690	237			212	610
1927	9593	3977	737	954	444			242	541
1928	10058	3746	748	1253	650			265	540
1929	10336	3900	709	1633	543			273	542
1933	12004	4011	928	3022	92			373	211

Source: Federal Reserve System, Banking and Monetary Statistics,  
Washington 1943.

TABLE 3

## 324 INTERNATIONAL INVESTMENTS IN DEPRESSION

and South America (except Argentina), which were principally agricultural producing countries, maintained during these years a large export surplus, not to the United Kingdom, but to the industrial countries of Europe and the United States, and Britain's import surplus arose chiefly out of her trade with these industrial countries rather than out of trade with her larger debtors. Indeed, such countries as India, Australia, Brazil, China, and Japan had, more often than not, a surplus of imports from Great Britain, so that, not only a part, but the whole of their considerable service payments had to be met by means of export surpluses to other countries.

*United Kingdom: Import surplus and Income from Overseas Investments, 1913 and 1922-35*

(£ millions)

<i>Year</i>	<i>Import surplus</i>	<i>Net income from overseas investments</i>
1913 . . . . .	145	210
1922 . . . . .	176	175
1923 . . . . .	208	200
1924 . . . . .	337	220
1925 . . . . .	392	250
1926 . . . . .	463	250
1927 . . . . .	386	250
1928 . . . . .	352	250
1929 . . . . .	381	250
1930 . . . . .	386	220
1931 . . . . .	408	170
1932 . . . . .	287	150
1933 . . . . .	263	160
1934 . . . . .	294	175
1935 . . . . .	261	185

In terms of goods, then, the interest on British overseas investments was paid by goods sent by the agricultural debtor countries to industrial Europe and the United States and passed on by these countries through exports of manufactured goods to the United Kingdom. A part of the British import surplus arose, of course, as the result of direct trade with her debtors, but by far the largest part was the result of triangular trade, and a part, at least, of both the following quadrilateral routes: Agricultural debtors—Germany—other European countries—Great Britain; or, Debtors—United States—continental Europe—Great Britain.

In 1931 this system broke down, and it is interesting briefly to trace the history of its fall. In June 1928 the French franc was legally stabilized on a gold basis, and with the stabilization large short-term

Source: RIIA o.c.

TABLE 4

232

THE DEBTORS

*League Loans\**

<i>Date</i>	<i>Name</i>	<i>Amount (£ millions)</i>
1923	Austrian Government Guaranteed Loan . . . . .	33.6
1924	State Loan of the Kingdom of Hungary . . . . .	14.2
1924	Greek Government 7 per cent. Refugee Loan . . . . .	12.2
1925	Municipality of Danzig 7 per cent. Mortgage Loan . . . . .	1.5
1926	Kingdom of Bulgaria 7 per cent. Settlement Loan . . . . .	3.4
1927	Free City of Danzig 6½ per cent. (Tobacco Monopoly) State Loan . . . . .	1.9
1927	Republic of Estonia 7 per cent. (Banking and Currency Reform) Loan . . . . .	1.5
1928	Greek Government 6 per cent. Stabilization and Refugee Loan . . . . .	7.5
1928	Kingdom of Bulgaria 7½ per cent. Stabilization Loan . . . . .	5.4
	<b>Total . . . . .</b>	<b>81.2</b>

*Creditors for League Loans\**

	<i>Per cent. of total loans</i>
Austria . . . . .	3.2
Belgium . . . . .	1.2
Czechoslovakia . . . . .	4.8
France . . . . .	3.0
Great Britain . . . . .	49.1
Greece . . . . .	3.3
Holland . . . . .	1.8
Hungary . . . . .	0.4
Italy . . . . .	5.9
Spain . . . . .	2.6
Sweden . . . . .	1.6
Switzerland . . . . .	4.0
United States . . . . .	19.1
	<u>100.0</u>

\* League Loans Committee (London), *Third Annual Report*, June 1935, pp. 60 and 61.

Secondly, they enabled the newly created states of Europe to attain that modicum of economic independence without which their political independence would have been an empty sham, and it enabled them to do this quickly, without any loss of prestige, and in a manner compatible with the strongly nationalistic sentiments of their inhabitants.

Thirdly, the League Loans involved several novel features which, in the years before the depression, promised well for the furtherance of financial co-operation between nations. These features, some of which were not entirely unknown before the war, were concomitants of the existence of any such extra-national body as the League

Source: RIIA, o.c.

TABLE 5

## THE CREDITORS—GREAT BRITAIN

153

*British Overseas Investments in Quoted Securities, 1913, 1930, and 1934*

(£ millions)

	1913 <sup>a</sup>	1930 <sup>b</sup>	1934 <sup>c</sup>
Dominion and colonial governments . . . . .	675.5	985.5	1,078.9
Foreign governments . . . . .	297.0	320.1	303.6
Dominion and colonial municipalities } . . . . .	152.5	{ 95.0	84.2
Foreign municipalities } . . . . .		{ 38.7	32.5
Governments and municipalities . . . . .	1,125.0	1,437.3	1,499.2
Indian railways . . . . .	140.8	89.7	88.2
Railways in other British countries . . . . .	306.4	245.8	250.8
United States railways . . . . .	616.6	23.2	34.8
Railways in other foreign countries . . . . .	467.2	460.2 <sup>d</sup>	438.9 <sup>d</sup>
Railways . . . . .	1,531.0	823.9	812.7
Electric light and power . . . . .	27.3	56.5	67.3
Gas } . . . . .	29.2	{ 11.0 <sup>d</sup>	11.4 <sup>d</sup>
Waterworks } . . . . .		{ 8.4 <sup>d</sup>	5.7 <sup>d</sup>
Tramways and omnibus . . . . .	77.8	55.1	52.6
Telegraphs and telephones . . . . .	43.7	47.3	37.9
Public utilities . . . . .	178.0	178.3	174.9
Shipping . . . . .	•	27.3	21.9
Canals and docks . . . . .	7.1	7.7	7.3
Shipping, &c. . . . .	..	35.0	29.2
Commercial and industrial . . . . .	163.4 <sup>f</sup>	181.5	170.2
Iron, coal, and steel . . . . .	35.2	47.3	22.2
Breweries . . . . .	18.0	6.9	8.3
Commerce and industry . . . . .	216.6	235.7	200.7
Mines . . . . .	272.8	145.9	178.9
Nitrates . . . . .	11.7	11.5	17.5
Oil . . . . .	40.6	150.8	129.0
Rubber . . . . .	41.0	90.0	87.4
Tea and coffee . . . . .	22.4	42.1	41.7
Raw materials . . . . .	388.5	440.3	454.5
Banks and discount companies . . . . .	72.9	71.2	71.1
Financial, land and investment . . . . .	244.2	162.8	155.1
Banks and finance . . . . .	317.1	234.0	226.2
Total . . . . .	3,763.3	3,424.6 <sup>d, g</sup>	3,414.0 <sup>d, g</sup>

<sup>a</sup> Dr. Feis's estimates; cf. *Europe, the World's Banker*, p. 27.

<sup>b</sup> Sir Robert Kindersley's estimates; cf. *Economic Journal*, June 1933.

<sup>c</sup> *Ibid.*, Dec. 1936. The author very kindly allowed us to see an advance copy of this article, so that we might use his latest figures before going to press.

<sup>d</sup> Owing to the preponderance of bearer shares it is not possible accurately to estimate the amount of British-owned share capital in colonial and foreign railway, gas, and waterwork companies. In 1930 approximately £40 millions was invested in these three categories, and in 1934 approximately £16.6 millions. These amounts have been included in the totals.

TABLE 6

## THE CREDITORS—GREAT BRITAIN

157

prise within the Empire obtained its maximum amount of capital in 1927, when £44 millions was issued on this account, and in foreign countries in 1922, when it obtained £41 millions.<sup>1</sup> Despite large fluctuations from year to year, only in 1929 and 1934 were the amounts raised by Empire governments not in excess of any other class of investment.

*New Capital Issues for Overseas Borrowers in London, 1923-34<sup>a</sup>*

(£ millions)

	Governments	Municipalities and public boards	Railways	Industrial undertakings	Total
1923 . .	89.0	5.4	9.0	32.8	136.2
1924 . .	91.5	8.7	3.9	30.1	134.2
1925 . .	30.5	3.4	5.9	48.0	87.8
1926 . .	46.7	9.3	7.6	48.8	112.4
1927 . .	63.6	13.2	11.3	50.6	138.7
1928 . .	57.7	14.1	13.7	57.9	143.4
1929 . .	30.4	4.3	12.3	47.3	94.3
1930 . .	65.8	2.7	15.3	25.0	108.8
1931 . .	30.7	..	3.9	11.5	46.1
1932 . .	24.6	1.0	1.3	2.3	29.2
1933 . .	30.2 <sup>b</sup>		7.6 <sup>c</sup>		37.8
1934 . .	11.0 <sup>b</sup>		32.4 <sup>c</sup>		43.4

<sup>a</sup> From League of Nations, *Balances of Payments*. Excludes conversions.

<sup>b</sup> 'Public authorities'.

<sup>c</sup> 'Private undertakings'.

In his articles Sir Robert Kindersley has classified British commercial capital abroad under two heads:

- (1) Bonds and shares of companies (as classified in the *Stock Exchange Official Year Book*) operating entirely or mainly abroad and registered in the United Kingdom.
- (2) Bonds and shares of companies in overseas countries quoted and/or dealt in on the Stock Exchanges of the United Kingdom but registered abroad.

Capital invested in companies falling within the first category—roughly designated 'British companies'—remains largely under direct British control. In the latter class, however, some concerns are 'virtually British-owned and controlled while in other instances British participation is insignificant, as, for example, in the case of American Railroad companies'.

In 1933 the volume of capital invested in British companies abroad

<sup>1</sup> *Economist* figures.

Source: RIIA, o.c.

TABLE 7

The Balance of International Payments of the United States, 1919-35\*  
(In millions of dollars)

	1919	1920	1921	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931	1932	1933	1934	1935
<b>Current Account:</b>																	
1. Merchandise	+4,016	+2,980	+1,976	+719	+378	+981	+683	+878	+681	+1,037	+841	+782	+834	+289	+328	+478	+336
2. Shipping and freight	+73	+98	+53	+7	+8	+8	+8	+61	+68	+80	+60	+90	+72	+46	+16	+35	+80
3. Tourist expenditures	+50	+160	+200	+300	+400	+500	+600	+498	+528	+558	+638	+603	+466	+378	+331	+345	+393
4. Immigrant remittances, charity, &c.	+600	+700	+800	+400	+300	+355	+360	+264	+265	+278	+285	+318	+302	+163	+139	+131	+116
5. Interest and dividends	+60	+50	+80	+235	+250	+305	+355	+487	+519	+534	+568	+616	+636	+393	+384	+307	+378
6. War debt receipts	+243	+53	+87	+147	+268	+193	+187	+195	+208	+207	+207	+241	+115	+99	+30	+37	+65
7. Government transactions	+837	+118	+51	+16	+19	+5	+187	+43	+39	+57	+81	+100	+70	+70	+8	+37	+65
8. Miscellaneous items	+176	+26	+11	+58	+77	+98	+94	+18	+21	+68	+106	+16	+7	+8	+8	+63	+98
9. Balance on Current Account	+8,008	+2,304	+1,414	+460	+107	+713	+388	+156	+507	+738	+447	+639	+160	+131	+315	+461	+308
<b>Capital Account:</b>																	
10. New issues for foreign borrowers	+827	+481	+817	+686	+880	+832	+948	+999	+1,203	+1,111	+831	+822	+212	+27	+10	+22	+44
11. Direct investments	+800	+300	+300	(5)	(5)	(5)	(5)	+187	+178	+268	+261	+188	+182	+23	+24	+40	+51
12. Foreign securities purchased from foreigners	+39	+481	+327	+326	84	+114	+90	+116	+184	+268	+363	+800	+347	+226	+688	+408	+478
13. U.S. securities repurchased from foreigners	+195	+269	+327	+326	84	+114	+90	+509	+600	+1,136	+1,084	+918	+498	+308	+880	+480	+970
14. Foreign securities resold to foreigners	(6)	(6)	+46	+316	+412	+319	+411	+386	+399	+449	+474	+600	+689	+388	+868	+610	+425
15. U.S. securities sold to foreigners	(6)	(6)	+46	+316	+412	+319	+411	+636	+831	+1,661	+1,489	+1,036	+689	+300	+700	+480	+1,305
16. Redemption and sinking fund payments and receipts	+816	+871	+255	+78	+23	+45	+140	+257	+234	+291	+199	+379	+307	+122	+78	+89	+170
17. Net movements of long-term capital	+870	+929	+671	+717	+1	+602	+487	+602	+723	+662	+137	+267	+319	+317	+492	+203	+463
18. Government capital account	+1,781	+210	+86	+876	+3	+318	+61	+350	+900	+188	+80	+488	+709	+609	+388	+184	+1,076
19. Net movements of short-term capital	+2,187	+1,069	+767	+343	+4	+336	+648	+262	+177	+860	+317	+782	+490	+192	+336	+386	+1,637
20. Balance of 'known' capital items	+3,660	+60	+786	+336	+248	+368	+42	+112	+99	+332	+136	+368	+160	+91	+88	+1,320	+2,078
21. Net movements of gold and currency	+1,168	+1,185	+130	+137	+74	+80	+120	+208	+785	+107	+98	+381	+164	+182	+38	+483	+381
22. Errors and omissions	+8,008	+2,304	+1,414	+460	+107	+713	+388	+156	+507	+738	+447	+639	+160	+131	+315	+461	+308
23. Balance on Capital Account	+8,008	+2,304	+1,414	+460	+107	+713	+388	+156	+507	+738	+447	+639	+160	+131	+315	+461	+308

a. Compiled from estimates of the U.S. Dept. of Commerce, cf. *The Balance of International Payments of the United States in 1935* (Washington, Government Printing Office, 1936), pp. 82-6. The annual figures for certain items notably currency movements, long term and short-term capital movements, silver movements, and interest and dividends are not fully comparable owing to revisions in estimates, changes in methods of collecting data, and (in the case of silver) the shift of the item from one category to another.

b. Includes such items as: silver movements (prior to 1933), parcel post, motion-picture royalties, bunker-fuel sales, sales of vessels, ship chandlery, insurance transactions, imports of electric power from Canada, trade in newspapers and periodicals, patent and copyright fees, advertising, telegraph and telephone services, stock-transfer fees, fiscal agents' commissions, brokerage fees, &c.

c. Excludes underwriters' commissions, discounts, and refunding.

d. Not estimated.

e. Included in figures for purchases of American and foreign securities, which are net figures.

f. Includes net estimated transfer of funds in arbitrage operations.

g. A small unclassified part of this figure represents movements of long-term capital.

h. Includes net imports of silver valued at \$86 millions in 1931 and \$350 millions in 1935.

Source: RIIA, O.C.

TABLE 8

CAPITAL ISSUES IN THE UNITED STATES

(Exclusive of refunding issues, U. S. Government issues, and mortgages; in millions of dollars)

Year	Domestic Issues		Foreign Issues		Total
	Amount	Per Cent of Total	Amount	Per Cent of Total	
1920.....	3,235	80.7	497	13.3	3,732
1921.....	3,021	82.0	623	17.1	3,644
1922.....	3,027	82.0	704	17.4	4,391
1923.....	4,016	90.5	421	9.5	4,437
1924.....	4,588	82.6	969	17.4	5,557
1925.....	5,125	82.6	1,076	17.4	6,201
1926.....	5,189	82.2	1,125	17.8	6,314
1927.....	6,210	82.3	1,337	17.7	7,550
1928.....	6,780	84.4	1,251	15.6	8,040
1929.....	9,420	93.3	671	6.7	10,091
1930.....	6,004	80.9	905	13.1	6,909
1931.....	2,800	92.3	230	7.7	3,009
Totals.....	60,093	85.0	9,878	14.1	69,971

Although foreign loans represented only a relatively small portion of total capital issues, they did undoubtedly compete with domestic issues, particularly those which offered a higher yield. On the other hand, the competition of foreign borrowers was partly offset by the participation of foreign investors in the American security markets. During the period 1921-31, foreign purchases of securities in the United States were about two-thirds as large as total purchases of foreign securities by this country, according to estimates of the Department of Commerce.<sup>15</sup> What was the effect on the cost of capital? Moody's bond averages show that yields on all grades of bonds declined steadily from 1921 to 1927, when foreign lending reached its peak. Subsequently, as foreign issues declined, yields rose under the influence of the stock market boom, which caused high call loan rates and higher

<sup>15</sup> Annual Report of the Federal Reserve Board, 1931, p. 199.

<sup>16</sup> The Balance of International Payments of the United States in 1934, loc. cit., p. 70.

Source: Madden, Nadler, Souvain, O.C.

interest rates in general. The trend of bond yields is shown in Table 13.

TABLE 13<sup>14</sup>

BOND YIELDS

(Average of daily or weekly figures)

Year	Number of issues	Corporate, by Ratings					
		Municipal (high grade)		Corporate			
		Aaa	Aa	A	Baa	Ba	Baa
1920.....	4.98	0.12	0.59	7.41	30	30	8.20
1921.....	5.09	5.98	6.55	7.27	30	30	9.35
1922.....	4.23	5.12	5.59	6.03	30	30	7.08
1923.....	4.25	5.12	5.62	6.17	30	30	7.24
1924.....	4.20	5.00	5.44	5.93	30	30	6.83
1925.....	4.09	4.88	5.20	5.55	30	30	6.27
1926.....	4.08	4.73	4.97	5.24	30	30	5.87
1927.....	3.98	4.57	4.77	5.04	30	30	5.48
1928.....	4.05	4.55	4.71	5.00	30	30	5.51
1929.....	4.27	4.73	4.93	5.27	30	30	5.90
1930.....	4.07	4.55	4.77	5.13	30	30	5.00

These figures clearly indicate that foreign loans did not result in any absolute increase in the cost of new capital to domestic borrowers. On the other hand, it is possible that without such a large volume of foreign loans the demand for investments in this country would have driven interest rates down further and thus made it possible for American borrowers to obtain capital at a still lower rate. It is, however, questionable whether such a development would have been to the advantage of the United States. Throughout the post-war period up to the end of 1930, with the exception of the latter part of 1927 and 1928, this country was confronted with a steady influx of gold, and the credit policies of the Federal Reserve banks were influenced by the desire to prevent the concentration of gold in this country. To achieve this aim the Reserve banks in 1927 adopted an easy money policy designed to check the influx of foreign funds and to encourage an out-

<sup>14</sup> Moody's Investors Service, published in Annual Report of the Federal Reserve Board, 1934, p. 185.

TABLE 9

## APPENDIX II

STATUS OF ALL PUBLICLY OFFERED FOREIGN  
DOLLAR BONDS AS OF DECEMBER 31, 1935

	I	II	III	IV	V	VI
Country	Debt Service Paid in Full to Dec. 31, 1935	Interest in Default <sup>a</sup>	Principal Also in Default	In Default on Sinking Fund Only (Interest Be- ing Paid)	Total Amount in Default (Sum of Columns II and IV)	Total Amount Outstanding (Sum of Columns I and V)
<b>Latin America:</b>						
Argentina.....	\$255,223,000	\$88,795,400	.....	\$7,139,500	\$95,934,900	\$351,157,900
Bolivia.....	.....	59,422,000	.....	.....	59,422,000	59,422,000
Brasil.....	.....	325,117,800	.....	24,122,500	349,240,300	349,240,300
Chile.....	.....	307,991,000	\$8,089,000	.....	307,991,000	307,991,000
Colombia.....	.....	156,088,400	.....	.....	156,088,400	156,088,400
Costa Rica.....	.....	8,781,000	.....	.....	8,781,000	8,781,000
Cuba.....	20,650,500	74,970,700	3,126,500 <sup>b</sup>	27,315,800	103,186,500	123,837,000
Dominican Republic.....	.....	.....	.....	16,292,000	16,292,000	16,292,000
El Salvador.....	.....	12,619,300	.....	.....	12,619,300	12,619,300
Guatemala.....	.....	2,214,000	.....	.....	2,214,000	2,214,000
Haiti.....	9,842,780	.....	.....	.....	.....	9,842,780
Mexico.....	.....	295,549,830	139,417,140	.....	295,549,830	295,549,830
Panama.....	4,173,000	14,449,000	.....	.....	14,449,000	18,622,000
Peru.....	.....	91,286,000	.....	.....	91,286,000	91,286,000
Uruguay.....	.....	63,367,500	.....	.....	63,367,500	63,367,500
<b>Total Latin America...</b>	<b>289,889,280</b>	<b>1,500,651,930</b>	<b>150,632,640<sup>b</sup></b>	<b>74,869,800</b>	<b>1,576,421,730</b>	<b>1,866,311,010</b>
<b>Europe:</b>						
Austria.....	64,180,900	.....	.....	.....	.....	64,180,900
Belgium.....	153,514,200	.....	.....	.....	.....	153,514,200
Bulgaria.....	.....	16,869,500	.....	.....	16,869,500	16,869,500
Czechoslovakia.....	25,758,500	1,083,500	.....	.....	1,083,500	26,842,000
Danzig, Free City.....	3,885,000	.....	.....	.....	.....	3,885,000
Denmark.....	147,762,000	995,000	.....	.....	995,000	148,757,000
England.....	20,067,400	.....	.....	.....	.....	20,067,400
Estonia.....	3,592,500	.....	.....	.....	.....	3,592,500
Finland.....	40,931,500	.....	.....	.....	.....	40,931,500
France.....	135,663,400	.....	.....	.....	.....	135,663,400
<b>Total Europe.....</b>	<b>1,153,572,600</b>	<b>1,222,520,610</b>	<b>98,547,100</b>	.....	<b>1,222,520,610</b>	<b>2,376,093,210</b>
<b>Far East:</b>						
Australia.....	255,103,500	.....	.....	.....	.....	255,103,500
China.....	.....	5,500,000	5,500,000	.....	5,500,000	5,500,000
Japan.....	368,457,700	.....	.....	.....	.....	368,457,700
<b>Total Far East.....</b>	<b>623,561,200</b>	<b>5,500,000</b>	<b>5,500,000</b>	.....	<b>5,500,000</b>	<b>629,061,200</b>
<b>North America:</b>						
Canada.....	2,532,142,310	81,219,800	416,500	.....	81,219,800	2,613,362,110
Newfoundland.....	5,164,000	.....	.....	.....	.....	5,164,000
<b>Total North America ..</b>	<b>2,537,306,310</b>	<b>81,219,800</b>	<b>416,500</b>	.....	<b>81,219,800</b>	<b>2,618,526,110</b>
<b>Grand total.....</b>	<b>\$4,604,329,390</b>	<b>\$2,809,892,340</b>	<b>\$255,096,240<sup>b</sup></b>	<b>\$74,869,800</b>	<b>\$2,885,662,140</b>	<b>\$7,489,991,530</b>

<sup>a</sup> Most issues in default as to interest are also in default as to sinking fund.<sup>b</sup> Including \$900,000 of bonds on which interest is being paid. This amount must be added to the amounts in Columns I and II in computing Columns V and VI.<sup>c</sup> Estimated amount of American tranche of Kingdom of Rumania Monopolies Institute Loan now outstanding.

TABLE 10

APPENDIX VII  
BANKERS' GROSS SPREADS ON DOLLAR BONDS OFFERED IN EUROPE

	Number of Issues	Nominal Amount	Amount Paid to Issuer	Amount Paid by Investors	Average Spreads (per cent)
Europe:					
Austria.....	5	\$ 59,000,000	\$ 51,334,100	\$ 54,020,000	5.57
Belgium.....	8	280,000,000	253,385,000	266,525,000	4.70
Czechoslovakia.....	6	66,500,000	60,077,500	64,758,750	7.04
Danzig, Free City.....	1	4,500,000	3,802,500	4,050,000	5.50
Denmark.....	13	201,000,000	189,737,030	195,267,225	2.75
Finland.....	5	62,000,000	55,642,000	58,225,000	4.16
France.....	13	507,770,300	452,152,030	474,404,005	4.38
Germany.....	63	818,275,000	734,388,000	768,845,897	4.21
Irish Free State.....	1	15,000,000	14,100,000	14,550,000	3.00
Greece.....	2	28,000,000	24,312,500	25,150,000	2.90
Hungary.....	5	23,000,000	20,080,000	21,425,000	5.85
Italy.....	9	193,500,000	174,899,375	181,787,500	3.56
Netherlands.....	4	130,000,000	110,312,500	123,325,000	3.09
Norway.....	11	166,000,000	157,151,000	162,020,000	3.29
Poland.....	1	47,000,000	40,420,000	43,240,000	6.00
Sweden.....	3	105,000,000	100,361,000	103,725,000	3.21
Switzerland.....	3	61,000,000	57,040,000	59,816,000	4.50
Total Europe.....	153	\$2,768,154,300	\$2,507,817,735	\$2,622,333,407	4.13

Source: Madden, Nadler, Souvain

TABLE 10 (cont.)

BANKERS' GROSS SPREADS ON DOLLAR BONDS (Continued)

	Number of Issues	Nominal Amount	Amount Paid to Issuer	Amount Paid by Investors	Average Spreads (per cent)
<b>Latin America:</b>					
Argentina.....	33	\$ 728,120,000	\$ 696,066,923	\$ 715,731,074	2.58
Bolivia.....	2	37,000,000	33,997,000	36,215,000	6.00
Brazil.....	18	274,010,000	244,525,350	261,486,550	6.18
Chile.....	10	210,912,000	192,535,360	200,702,720	3.87
Colombia.....	11	40,364,000	41,595,195	43,886,015	4.95
Cuba.....	7	134,000,000	128,600,000	132,665,980	2.97
Dominican Republic.....	6	26,000,000	23,806,910	24,528,000	2.61
Panama.....	1	4,500,000	4,207,500	4,387,500	4.00
Peru.....	6	112,720,000	98,734,200	105,108,325	5.60
Salvador.....	1	6,000,000	5,400,000	6,000,000	10.00
Uruguay.....	5	58,982,000	55,210,594	57,051,337	3.12
<b>Total Latin America.....</b>	<b>100</b>	<b>\$1,638,208,000</b>	<b>\$1,525,729,032</b>	<b>\$1,587,762,501</b>	<b>3.70</b>
<b>Far East:</b>					
Australia.....	11	\$ 253,250,000	\$ 239,662,750	\$ 245,370,875	2.26
Japan.....	17	419,000,000	366,985,725	384,391,125	4.15
Netherlands East Indies.....	6	169,250,000	152,101,750	158,865,000	3.90
<b>Total Far East.....</b>	<b>34</b>	<b>\$ 842,100,000</b>	<b>\$ 758,750,225</b>	<b>\$ 788,633,000</b>	<b>3.55</b>
<b>Canada.....</b>	<b>104</b>	<b>\$1,596,952,000</b>	<b>\$1,521,679,251</b>	<b>\$1,571,066,625</b>	<b>3.09</b>
<b>Grand Total.....</b>	<b>301</b>	<b>\$6,845,414,300</b>	<b>\$6,313,976,243</b>	<b>\$6,569,795,593</b>	<b>3.73</b>

Source: Madden, Nadler, Souvain

TABLE 11

## THE DEBTORS

223

*Foreign Capital Employed in Certain Countries, 1930<sup>a</sup>*

Country	Foreign capital employed		Interest and Dividend payments		Foreign capital employed per head
	Gross	Net <sup>b</sup>	Gross	Net <sup>b</sup>	
	(£ millions)				£
Germany . . . . .	1,350 <sup>c</sup>	925	68	49	20
Canada . . . . .	1,330	955	56	38	127
Australia . . . . .	817 <sup>d</sup>	753	36	34	122
China . . . . .	660	580	20	20	1½
Argentina . . . . .	640	635	32	32	55
India . . . . .	575	565	28	25	2
Brazil . . . . .	520	520	16 <sup>e</sup>	16 <sup>e</sup>	13
Dutch East Indies . . . . .	320	320	22	22	5
Cuba . . . . .	295	295	(1)	(1)	74
South Africa . . . . .	260	260	15	15	34
Japan . . . . .	260	50	12	2	4
Chile . . . . .	250	250	11 <sup>f</sup>	11 <sup>f</sup>	64
Poland . . . . .	234 <sup>g</sup>	205	11	10	7
Roumania . . . . .	200	200	8	8	11
New Zealand . . . . .	197 <sup>h</sup>	189	9	9	128
Hungary . . . . .	143 <sup>i</sup>	143	7	7	11
Norway . . . . .	126 <sup>j</sup>	94	5	4	45
Austria . . . . .	120	80	5	3	18
Peru . . . . .	115	115	(1)	(1)	17
Greece . . . . .	115	115	6	6	18
Denmark . . . . .	94 <sup>k</sup>	53	5	3	27
Czechoslovakia . . . . .	88	46	7	3	6
Colombia . . . . .	85	85	(1)	(1)	9
Venezuela . . . . .	80	80	(1)	(1)	25
Uruguay . . . . .	60	60	4	4	3
Yugoslavia . . . . .	60	60	5	5	5

<sup>a</sup> Major Sources: League of Nations, *Balances of Payments*; Corporation of Foreign Bondholders, *Reports*; *Statistical Yearbooks* of Canada, Australia, New Zealand, India, and South Africa; *Statistical Yearbooks* of League of Nations; Staley, *War and the Private Investor*, App. I; *South American Journal*; Moody's *Manual of Investments*; Kimber's *Record of Government Debts*.

<sup>b</sup> i.e. after deductions on account of each country's investments abroad.

<sup>c</sup> Of which about £575 millions consisted of short-term capital.

<sup>d</sup> Of which short-term capital, £34 millions.

<sup>e</sup> These figures refer to 1932.

<sup>f</sup> These figures refer to only six months of 1930.

<sup>g</sup> Of which short-term capital, £71 millions.

<sup>h</sup> " " " £25 - "

<sup>i</sup> " " " £49 "

<sup>j</sup> " " " £40 "

<sup>k</sup> " " " £23 "

<sup>l</sup> No accurate estimate can be made because a large part of the foreign capital consists of 'direct' investments.

Source: RIIA, O.C.

TABLE 12

## THE DEBTORS

225

ments; but for a number of countries about which less information is available, only the debts of central governments have been included. Reparations are excluded, but war and relief debts are included. These figures must be regarded as little more than approximations, like those already put forward in this chapter.

*External Public Indebtedness of Certain Countries, 1930*

	<i>External public indebtedness (£ millions)</i>	<i>External public indebtedness as percentage of total foreign capital employed</i>	<i>External public indebtedness as percentage of total public debt</i>
Germany . . . . .	260	20	..
Canada . . . . .	270	20	25
Australia . . . . .	599	73	52
China . . . . .	86	13	75
Argentina . . . . .	240	38	38
India . . . . .	390	68	44
Brazil . . . . .	166	32	61
Dutch East Indies . . . . .	99	31	..
Cuba . . . . .	30	11	64
South Africa . . . . .	161	62	63
Japan . . . . .	192	74	24
Chile . . . . .	80	32	85
Poland . . . . .	90	38	90
Roumania . . . . .	157	78	91
New Zealand . . . . .	159	81	57
Hungary . . . . .	55	38	86
Norway . . . . .	42	33	50
Austria . . . . .	60	50	90
Peru . . . . .	22	19	70
Denmark . . . . .	32	34	55
Czechoslovakia . . . . .	51	35	19
Colombia . . . . .	30	35	68
Venezuela . . . . .	nil	nil	nil
Uruguay . . . . .	30	50	..

*Sources:* See note to table on p. 223.

Despite the nature of much of the material on which it is based, the table serves to emphasize the magnitude of the sums lent to debtor governments. In certain cases such as Australia, India, Japan, and New Zealand, over two-thirds of the imported capital has been for the use of public authorities. Only in a few cases has a large part of the investment not been in government bonds; Cuba, China, and Venezuela may be particularly mentioned. Those countries which have not financed the major part of their government debts by foreign borrowing are those in which there has been enough

q

Source: RIIA, o.c.

TABLE 13

**Long-term Foreign Loans to Germany, 1924 to 30th June 1931<sup>a</sup>**  
(Nominal value in millions of Reichsmarks)

	U.S.A.	Great Britain	Holland	Switzerland	Sweden	France	Belgium	Italy	Other countries	Total	Percentage
Dawes and Young Loans . . . . .	875	490	174	136	152	475	51	46	..	2,309	25.2
States, municipalities, &c. . . . .	800	210	256	53	530	..	..	..	10	1,919	20.1
Public utilities . . . . .	1,073	48	115	114	3	..	..	..	32	1,385	14.5
Municipal banks, &c. . . . .	188	6	30	8	4	..	..	..	14	250	2.6
Private borrowers . . . . .	2,269	346	599	201	108	..	..	..	69	3,592	37.6
Total . . . . .	5,205	1,100	1,174	512	707	475	51	46	125	9,545	100
(£ millions) <sup>b</sup> . . . . .	(258)	(54)	(57)	(25)	(39)	(23)	(2)	(2)	(6)	(465)	
Percentage distribution . . . . .	55.2	11.5	12.3	5.4	8.3	5.0	0.5	0.5	1.3	100	

Note: This table shows where the loans in question were issued, but does not indicate their present domicile.

<sup>a</sup> *The Economist*, 23 Jan. 1932, Reparations and War Debts Supplement, quoted by Harris, op. cit., p. 95.

<sup>b</sup> Converted at the rate, Rm. 20.43 = £1.

Source: RIIA, O.C.

THE DEBTORS

237

TABLE 14

238

## THE DEBTORS

which came from them must have originated in other European countries such as France, Czechoslovakia, and Sweden.

*Short-term Foreign Loans to Germany, July 1931\**

(Rm. millions)

<i>Due to</i>	<i>Acceptance credits</i>	<i>Other short-term loans</i>	<i>Total</i>	<i>Percentage</i>
U.S.A. . . . .	1,405	1,738	3,143	26.3
Great Britain . . . . .	886	1,167	2,053	17.2
Holland . . . . .	263	1,806	2,069	17.3
Switzerland . . . . .	236	1,642	1,878	15.7
Other countries . . . . .	188	2,638	2,826	23.5
<b>Total . . . . .</b>	<b>2,978</b>	<b>8,991</b>	<b>11,969<sup>b</sup></b>	<b>100.0</b>

\* *The Economist*, Reparations and War Debts Supplement, 23 Jan. 1932, p. 11, quoted by Harris, op. cit., p. 9.

<sup>b</sup> Approximately £585 millions (Rm. 20.43 = £1).

As the table on p. 237 shows, the United States was also Germany's largest creditor on long-term, with Holland and Great Britain second and third. Over half of all the foreign long-term loans to Germany during the period 1924 to 30th June 1931 were floated in the United States.

How these vast imports of capital affected the balance of Germany's foreign payments is shown in the following consolidated balance of payments for the years 1924-30 inclusive:

*The German Balance of Payments 1924-30\**

<i>Current account:</i>		<i>Rm. millions</i>
Merchandise . . . . .		- 6,224
Shipping and other services . . . . .		+ 2,928
Armies of occupation, &c. . . . .		+ 907
Interest payments . . . . .		- 2,723
Reparations payments . . . . .		- 10,146
Balance on current account . . . . .		- 15,263 <sup>b</sup>
<i>Capital account:</i>		
Long-term loans and bonds repurchased . . . . .		+ 7,174
Movements of securities . . . . .		+ 1,008
Other German investments abroad (net) . . . . .		+ 698 <sup>c</sup>
Short-term capital movements . . . . .		+ 4,756
Indefinable capital movements . . . . .		+ 3,734 <sup>d</sup>
Balance of capital movements . . . . .		+ 17,370
Gold and foreign exchange . . . . .		- 2,107
Balance on capital account . . . . .		+ 15,263

\* Calculated from estimates given in the *Sonderheft zu Wirtschaft und Statistik*, No. 14, 1934.

<sup>b</sup> £745 millions (Rm. 20.43 = £1).

<sup>c</sup> This is accounted for by the repatriation of pre-war investments in the U.S.A.

<sup>d</sup> Includes Rm. 1,200 millions of United States bank-notes exported in 1924 and 1925.

Source: RIIA, o.c.

TABLE 15

ANNEX I. WORLD TRADE IN MERCHANDISE, IN \$ (000,000's).

Area km <sup>2</sup> (000,000's)	Population end of 1937 (000,000's)	Continental group and country	Imports				Exports			
			1928	1928 new \$ gold	1935	1938	1928	1928 new \$ gold	1935	1938
132.93	2,125.60	World Total.....	35,482	60,080	21,042	24,533	32,615	55,222	19,025	21,917
30.30	154.17	AFRICA.....	1,615	2,734	1,373	*1,566	1,305	2,210	1,022	*1,021
5.83	34.91	North Africa.....	656	1,110	567	498	576	977	473	417
1.00	16.03	Egypt.....	249	422	161	184	281	476	178	148
2.21	7.40	French Territories:	198	335	189	143	165	280	174	162
0.40	6.43	Algeria.....	79	134	76	61	50	85	41	43
0.16	2.67	French Morocco.....	66	112	82	45	48	82	51	39
1.76	0.85	Italian Territories:	13	22	17	46	1	2	2	*3
—	0.56	Cyrenaica.....	14	23	16	—	2	3	3	*3
0.28	0.02	Tripolitania.....	—	—	—	—	—	—	—	—
0.02	0.87	Spanish Territories:	16	27	13	10	23	39	19	17
—	0.08	Canary Islands..... G	—	—	—	—	—	—	—	—
4.07	15.61	Ifni, Río de Oro, Spanish Sahara.....	15	26	9	6	4	7	4	2
0.12	1.64	Spanish Morocco.....	6	9	4	3	2	3	1	—
0.75	1.40	Tangier.....	—	—	—	—	—	—	—	—
0.39	1.32	South Africa.....	454	769	440	577	272	460	190	236
0.83	0.36	British Nyasaland.....	4	7	3	4	4	6	3	5
1.98	10.89	Northern Rhodesia.....	11	19	14	25	4	7	23	49
—	—	Southern Rhodesia.....	32	55	27	41	19	32	14	24
—	—	South-West Africa (mand.).....	14	23	7	12	17	27	12	17
—	—	Union of South Africa <sup>1</sup> , as recorded.....	391	662	385	491	227	385	135	138
—	—	Adjustment for freight, etc.....	2	3	4	4	2	3	3	3
20.40	103.65	Other Africa.....	505	855	366	491	457	773	359	368
2.36	10.22	Belgian Territories:	45	76	19	35	32	54	33	50
0.05	3.72	Belgian Congo.....	1	2	1	2	1	1	1	2
2.51	6.19	Ruanda-Urundi (mand.).....	30	51	25	29	28	48	23	27
0.18	0.35	British Territories:	3	5	1	2	3	5	1	1
0.01	0.20	A.-E. Sudan (condominium).....	4	7	2	1	5	9	2	1
0.24	3.75	British Somaliland.....	54	92	36	36	63	106	33	30
0.83	7.05	Gambia.....	41	70	24	34	32	54	32	38
—	0.41	Gold Coast and British Togo (mand.).....	17	29	11	13	17	28	10	12
0.97	20.48	Kenya-Uganda.....	76	129	37	41	82	140	55	46
0.07	1.95	Mauritius.....	8	14	5	7	8	13	6	10
0.97	5.18	Nigeria and British Cameroons (mand.).....	16	28	13	15	18	31	15	15
—	0.24	Sierra Leone.....	5	8	3	4	5	9	3	3
—	0.03	Tanganyika (mand.).....	1	1	1	1	1	2	1	1
0.90	5.50	Zanzibar.....	5	8	6	24	8	14	9	8
0.42	2.40	Other British (Seychelles, St. Helena)..... G	8	14	6	6	10	7	7	7
2.49	3.50	Ethiopia.....	9	15	11	8	6	10	12	7
0.02	0.05	French Territories:	23	40	8	4	22	38	8	2
0.06	0.78	French Cameroons (mand.).....	4	6	2	2	4	6	2	2
4.70	14.75	French Equatorial Africa.....	56	94	44	47	45	76	43	33
0.59	3.80	French Somaliland..... G	27	46	19	17	19	32	20	24
—	0.21	French Togo (mand.).....	6	10	9	8	5	8	7	6
0.20	1.00	French West Africa.....	14	24	*71	*112	8	13	*8	*8
0.61	1.10	Madagascar.....	7	12	*35	*3	2	4	2	2
0.12	2.50	Reunion.....	*4	*6	*2	*3	*1	*2	*1	*2
1.28	3.25	Italian Territories:	11	19	7	10	13	21	10	15
0.77	0.16	Eritrea.....	4	6	2	5	—	—	—	—
0.04	4.28	Cape Verde Islands.....	22	37	13	22	17	29	10	8
—	0.42	Mozambique.....	2	3	1	1	2	4	1	1
0.03	0.06	Portuguese Guinea.....	1	1	1	1	1	1	1	2
—	0.12	Sao Tomé e Príncipe.....	*1	*2	*1	*1	*3	*5	*3	*2
—	—	Spanish Guinea.....	—	—	—	—	—	—	—	—
48.70	271.74	AMERICA.....	8,510	14,411	4,265	4,936	9,802	16,597	4,963	6,048
19.66	143.57	North America.....	5,791	9,806	2,848	3,011	6,618	11,206	3,092	4,027
9.54	11.17	Canada, as recorded.....	1,222	2,070	2,552	676	1,364	2,509	738	845
—	—	Adjustment for freight, etc.....	121	205	82	115	48	81	29	35
—	0.02	Greenland.....	1	1	1	1	2	4	1	2
—	0.29	Newfoundland*.....	27	46	20	25	34	58	27	32
9.39	132.09	United States of America <sup>1</sup> , as recorded.....	4,078	6,904	2,039	1,950	5,029	8,515	2,243	3,057
—	—	Adjustment for freight, etc.....	336	569	152	243	135	229	51	55
—	—	St. Pierre et Miquelon (French)..... G	6	11	2	1	6	10	3	1
21.04	128.17	Latin America.....	2,719	4,605	1,417	1,925	3,184	5,391	1,871	2,021
7.12	41.49	Mineral Producing Countries.....	667	1,130	437	673	904	1,531	668	834
0.23	0.34	British Guiana.....	12	20	9	11	15	25	10	12
1.31	3.30	Bolivia.....	23	38	18	26	41	70	37	35
0.74	4.60	Chile, as recorded.....	146	247	61	103	236	400	96	139
—	—	Adjustment for freight, etc.....	17	30	9	15	—	—	—	—
0.46	3.00	Ecuador.....	16	27	9	10	18	31	10	10
0.09	0.04	French Guiana.....	2	4	3	2	1	2	1	1
1.97	19.32	Mexico, as recorded..... G	168	285	104	110	243	411	147	110
—	—	Adjustment for freight, etc.....	17	29	12	13	—	—	—	—

For footnotes, see page 101.

Source: League of Nations, the Network of World Trade  
Geneva, 1942

TABLE 15 (cont.)

ANNEX I. WORLD TRADE IN MERCHANDISE, IN \$ (000,000's)—(continued).

Area km <sup>2</sup> (000,000's)	Population end of 1937 (000,000's)	Continental group and country	Imports				Exports				
			1928	1928 new \$ gold	1935	1938	1928	1928 new \$ gold	1935	1938	
		<b>Latin America (continued)</b>									
		<b>Mineral Producing Countries (continued)</b>									
		<b>Netherlands Territories:</b>									
		Curacao.....G	111	188	118	*214	104	176	108	*180	
0.16	0.09	Surinam.....G	4	6	4	4	5	8	3	3	
1.25	7.10	Peru.....G	70	119	44	59	125	212	75	76	
0.91	3.53	Venezuela, as recorded.....G	73	124	41	95	116	196	181	268	
		Adjustment for freight, etc.....G	8	13	5	11	—	—	—	—	
18.46	79.88	<b>Tropical Agricultural Countries.....G</b>	<b>1,132</b>	<b>1,917</b>	<b>582</b>	<b>736</b>	<b>1,125</b>	<b>1,904</b>	<b>615</b>	<b>677</b>	
8.51	43.25	Brazil.....G	441	747	226	296	474	803	272	296	
		<b>British Territories:</b>									
	0.06	British Honduras.....G	2	4	1	3	2	4	1	2	
0.06	1.15	Jamaica.....G	31	55	25	32	20	34	18	24	
	0.46	Trinidad and Tobago.....G	24	41	21	35	28	47	20	30	
	0.65	Other British West Indies.....G	34	58	25	30	16	26	12	13	
1.14	8.60	Colombia.....G	161	273	65	89	128	217	70	81	
0.06	0.61	Costa Rica.....G	18	30	7	13	19	32	7	9	
0.11	4.20	Cuba, as recorded.....G	G213	G360	G 95	G106	278	471	128	142	
		Adjustment for freight, etc.....G	21	36	11	13	—	—	—	—	
0.05	1.59	Dominican Republic, as recorded.....G	27	45	10	11	29	49	16	15	
		Adjustment for freight, etc.....G	3	5	1	1	—	—	—	—	
0.03	1.66	El Salvador.....G	18	31	9	9	24	41	11	10	
	0.56	Guadeloupe and Martinique (French).....G	15	25	16	14	17	29	22	17	
0.11	3.00	Guatemala.....G	G31	G52	G12	G21	28	47	12	16	
0.03	2.60	Haiti.....G	20	33	8	8	22	37	7	7	
0.15	1.00	Honduras, as recorded.....G	12	21	10	11	22	37	9	6	
		Adjustment for freight, etc.....G	1	2	1	1	—	—	—	—	
0.13	0.90	Nicaragua, as recorded.....G	14	23	5	5	12	20	5	4	
		Adjustment for freight, etc.....G	1	2	1	1	—	—	—	—	
0.08	0.55	Panama, as recorded.....G	15	26	14	14	4	7	4	4	
		Adjustment for freight, etc.....G	2	3	2	2	—	—	—	—	
	0.04	Panama Canal Zone.....G	*28	*47	*17	*21	*2	*3	*1	*1	
3.46	15.80	<b>Non-Tropical Agricultural Countries.....G</b>	<b>920</b>	<b>1,558</b>	<b>398</b>	<b>516</b>	<b>1,155</b>	<b>1,956</b>	<b>588</b>	<b>510</b>	
2.79	12.76	Argentina.....G	807	1,367	340	443	1,018	1,723	501	438	
0.02	—	Falkland Islands (British).....G	3	5	1	1	20	35	2	2	
0.46	0.95	Paraguay.....G	13	23	9	10	15	26	9	9	
0.19	2.09	Uruguay.....G	97	163	48	62	102	172	76	61	
26.06	1,108.52	<b>ASIA.....G</b>	<b>4,837</b>	<b>8,190</b>	<b>2,987</b>	<b>3,360</b>	<b>5,026</b>	<b>8,509</b>	<b>3,004</b>	<b>3,337</b>	
4.95	390.41	<b>India, Burma and Ceylon.....G</b>	<b>1,061</b>	<b>1,796</b>	<b>594</b>	<b>597</b>	<b>1,356</b>	<b>2,295</b>	<b>678</b>	<b>733</b>	
4.27	367.85	India.....G	837	1,418	459	467	1,084	1,835	510	554	
0.61	15.80	Burma.....G	75	127	49	38	123	208	74	79	
0.07	5.86	Ceylon.....G	139	235	81	85	137	232	85	96	
	0.30	French India.....G	4	6	8	2	10	17	8	3	
	0.60	Portuguese India.....G	6	10	6	5	2	3	1	1	
3.82	125.73	<b>South-East Asia.....G</b>	<b>1,244</b>	<b>2,107</b>	<b>677</b>	<b>861</b>	<b>1,521</b>	<b>2,576</b>	<b>911</b>	<b>1,000</b>	
		<b>British Territories:</b>									
0.08	0.30	<b>British Borneo:</b>									
	0.03	British North Borneo.....G	3	8	3	4	6	11	4	5	
	0.03	Brunei.....G	1	2	1	1	1	1	2	4	
0.11	0.60	Sarawak.....G	12	21	9	13	*19	*33	11	14	
0.14	5.14	British Malaya.....G	493	835	270	314	482	817	329	326	
0.74	23.55	French Indo China.....G	100	169	60	55	115	195	86	81	
1.91	67.40	Netherlands Indies.....G	403	683	188	268	634	1,073	320	379	
0.30	13.60	Philippines, as recorded.....G	133	226	85	131	154	260	93	115	
		Adjustment for freight, etc.....G	16	27	13	20	—	—	—	—	
0.02	0.46	Port. Timor.....G	*1	*1	—	—	*1	1	—	—	
0.52	14.65	Thailand.....G	80	135	48	55	109	185	66	76	
0.68	100.92	<b>Japan, Korea, Formosa.....G</b>	<b>1,071</b>	<b>1,314</b>	<b>742</b>	<b>798</b>	<b>917</b>	<b>1,553</b>	<b>735</b>	<b>817</b>	
0.42	71.84	Japan (with Sakhalin).....G	990	1,677	700	750	886	1,501	708	758	
0.22	23.64	Korea.....G	54	92	29	37	15	25	18	48	
0.04	5.44	Formosa.....G	27	45	13	11	16	27	9	11	
16.61	491.46	<b>China and Other Continental Asiatic Countries.....G</b>	<b>1,461</b>	<b>2,473</b>	<b>974</b>	<b>1,104</b>	<b>1,232</b>	<b>2,085</b>	<b>680</b>	<b>787</b>	
0.65	7.00	Afghanistan.....G	11	*19	*10	*13	12	*21	*11	*21	
2.60	7.12	Arabia.....G	31	*53	*21	*25	14	*23	15	22	
		<b>British Territories:</b>									
	0.07	Aden.....G	129	149	124	26	124	140	114	13	
	0.37	Cyprus.....G	8	14	6	11	7	12	5	12	
0.12	1.70	Palestine (mand.).....G	33	56	38	56	8	14	22	28	
9.80	414.66	China, excluding Manchuria.....G	706	1,193	340	261	482	816	208	153	
1.50	37.09	Manchuria (with Kwantung).....G	153	259	172	343	229	388	107	171	
	—	Hong Kong.....G	318	538	176	187	257	*435	131	155	
1.64	15.00	Iran.....G	176	179	*56	*92	1153	1259	*120	*150	
0.30	3.67	Iraq.....G	34	*58	34	46	20	*34	*27	*39	
0.20	3.60	Macao (Portuguese).....G	*11	*18	9	8	*5	*8	5	6	
		Syria and Lebanon (French mand.).....G	51	87	38	36	21	35	15	17	
21.18	169.00	<b>U.S.S.R.....G</b>	<b>491</b>	<b>831</b>	<b>210</b>	<b>268</b>	<b>413</b>	<b>699</b>	<b>326</b>	<b>257</b>	
6.16	412.00	<b>EUROPE.....G</b>	<b>19,109</b>	<b>32,356</b>	<b>11,648</b>	<b>*13,681</b>	<b>15,139</b>	<b>25,633</b>	<b>9,056</b>	<b>*10,478</b>	

For footnotes, see page 101.

Source: League of Nations, the Network of World Trade, Geneva, 1942

TABLE 15 (cont.)

ANNEX I. WORLD TRADE IN MERCHANDISE, IN \$ (000,000's)—(continued).

Area km <sup>2</sup> (000,000's)	Population end of 1937 (000,000's)	Continental group and country	Imports				Exports			
			1928	1928 new \$ gold	1935	1938	1928	1928 new \$ gold	1935	1938
<b>EUROPE (continued)</b>										
5.68	361.38	Continental Europe.....	13,592	23,014	8,029	9,307	11,392	19,288	6,873	8,068
2.11	202.92	Industrial Countries.....	10,565	17,889	6,257	7,138	9,159	15,508	5,275	6,173
0.09	6.74	Austria <sup>1</sup> .....	456	772	227	*289	311	526	169	*178
0.03	8.66	Belgium-Luxemburg.....	889	1,506	625	765	857	1,451	572	724
0.14	15.27	Czecho-Slovakia.....	567	960	281	292	627	1,061	309	354
0.55	41.99	France <sup>2</sup> .....	2,097	3,551	1,393	1,322	2,041	3,456	1,026	876
0.47	68.09	Germany <sup>3,10</sup> .....	3,335	5,646	1,667	*2,222	2,924	4,951	1,719	*2,162
0.31	43.04	Italy.....	1,173	1,986	644	586	783	1,326	434	547
0.03	8.64	Netherlands.....	1,078	1,826	635	776	786	1,331	458	568
0.45	6.29	Sweden.....	458	775	375	523	422	715	330	463
0.04	4.20	Switzerland <sup>11</sup> .....	512	867	410	363	408	691	258	301
3.57	158.46	Other Countries.....	3,027	5,125	1,772	2,169	2,233	3,780	1,598	1,895
0.03	1.12	Albania.....	6	10	5	8	3	5	2	3
0.10	6.32	Bulgaria.....	51	86	37	60	45	76	40	68
0.05	3.76	Denmark.....	441	746	282	354	414	701	267	335
0.05	1.13	Estonia.....	35	59	19	29	34	58	22	28
0.39	3.63	Finland.....	202	342	116	183	158	267	136	181
—	0.02	Gibraltar..... G	*19	*32	*10	*13	*3	*5	*2	*2
0.13	7.01	Greece.....	161	273	101	131	79	733	67	90
0.09	9.04	Hungary.....	211	358	118	122	144	244	133	155
—	0.14	Italian Aegean Islands.....	*1	*1	5	8	*1	*1	*1	1
0.07	1.97	Latvia.....	59	101	33	44	50	85	32	44
0.05	2.55	Lithuania.....	29	49	22	38	25	43	26	39
—	0.27	Malta.....	19	32	19	19	2	3	1	1
0.32	2.91	Norway.....	269	456	202	290	179	303	148	190
0.39	34.92	Poland-Danzig.....	377	638	163	247	281	476	176	225
0.09	7.38	Portugal.....	120	203	103	101	43	73	39	49
0.30	19.65	Roumania.....	195	331	97	137	161	273	146	154
0.50	24.44	Spain.....	580	982	286	*152	409	692	190	*98
0.76	16.80	Turkey.....	114	193	71	119	89	150	77	115
0.25	15.40	Yugoslavia.....	138	233	83	114	113	192	93	117
0.48	50.62	Non-Continental Europe.....	5,517	9,342	3,619	4,374	3,747	6,345	2,183	2,410
—	0.03	Faroe Islands.....	2	4	2	2	2	4	2	2
0.10	0.12	Iceland.....	17	29	10	11	21	36	11	13
0.07	2.94	Ireland.....	288	488	182	200	219	370	96	116
0.06	—	Spitsbergen..... G	*1	*1	—	—	1	*2	*1	*2
0.25	47.53	United Kingdom <sup>12</sup> .....	5,209	8,820	3,425	4,161	3,504	5,933	2,073	2,277
8.53	10.17	<b>OCEANIA</b> .....	920	1,558	559	772	930	1,574	654	776
7.71	6.87	Australia, as recorded.....	657	1,113	376	508	625	1,060	447	518
—	—	Adjustment for freight, etc.....	12	21	13	12	—	—	—	—
0.03	0.10	British Territories:								
—	0.02	British Solomon Islands.....	1	2	1	1	2	3	1	1
—	0.02	Cook and Niue Islands.....	1	1	1	1	1	1	1	1
0.02	0.20	Fiji.....	7	11	5	7	12	21	7	8
—	0.04	Gilbert and Ellice Islands.....	1	2	1	1	2	3	2	2
—	—	Nauru (British mand.).....	1	2	1	1	2	3	2	3
0.24	0.67	New Guinea (Australian mand.).....	4	7	4	6	6	10	2	1
0.23	0.28	Papua..... G	2	4	1	2	2	3	1	1
—	0.03	Tonga.....	1	2	1	1	2	3	1	1
—	0.06	Western Samoa (New Zealand mand.).....	1	2	1	1	2	3	1	1
—	0.05	French Territories:								
—	0.06	French Settlements.....	2	4	2	2	2	3	2	4
0.02	0.06	New Caledonia.....	7	11	4	5	4	7	4	1
0.01	0.05	New Hebrides (condominium).....	2	3	1	1	2	3	1	1
—	0.02	Guam (American).....	1	1	1	1	—	—	—	—
0.27	1.60	New Zealand, as recorded.....	213	360	141	216	262	444	175	223
—	—	Adjustment for freight, etc.....	5	8	1	—	—	—	—	—
—	0.11	Japanese Pacific Islands (mand.).....	2	4	4	6	4	7	8	10
—	0.01	Samoa (American).....	—	—	—	—	—	—	—	—

\* Wholly or partly estimated.  
 † Years other than calendar.  
 (G) General trade.  
 1 Union of South Africa: including Basutoland, Bechuanaland, and Swaziland which form part of the customs area of the Union of South Africa.  
 2 Greenland, area: part free from ice.  
 3 United States: including Alaska, Hawaii, Porto Rico and the United States Virgin Islands, which form part of the customs area of the United States.  
 4 Uruguay: imports: 1938 is "real values"; 1928 and 1935 are "official values" (The official value in 1938 was 48).  
 5 India, Burma: "sea-borne trade only." Trade between India and Burma is excluded.  
 6 Japan, Korea, Formosa: excluding trade of Korea, Formosa, and Japan with one another.  
 7 China: excluding trade between Manchuria and the rest of China.  
 8 Austria: trade with Germany in 1938 (not shown in trade returns) was estimated—probably on the low side—on the basis of data for the preceding years and included.  
 9 Germany, France: The Saar (500 km<sup>2</sup>, 0.8 million inhabitants) was included in the French customs area until 17 February 1935 inclusive.  
 10 Germany: trade with Austria in 1938 (not shown in trade returns) was estimated—probably on the low side—on the basis of data for the preceding years and included.  
 11 Switzerland: in 1935 and 1938 including improvement and repair trade, excluded in 1928, viz.: imports 12.2 and 10.6; exports 15.4 and 13.3.  
 12 United Kingdom: excluding trade with the Channel Islands.

Source: League of Nations, The Network of World Trade, Geneva, 1942

TABLE 16

288 INTERNATIONAL INVESTMENTS IN DEPRESSION

that it did not enable production to be directed quickly into more profitable channels. Those suffered least which could develop other industries, and, by means of tariff barriers, reduce imports in order to retain a favourable export balance.

*Percentage Reduction of the Value of Export Trade of Certain Countries, 1929-30*

Chile	42.1
Argentina	35.6
Union of South Africa	30.7
Brazil	30.6
British Malaya	28.9
Australia	26.3
Canada	25.1

The principal difficulties of debtors have been caused by changes in relative prices, and it is therefore necessary to examine at this point the nature of the falls in commodity prices during the depression.

*Decline in Average Gold Export Prices, 1929-34\**

	<i>per cent.</i>		<i>per cent.</i>
1. Raw silk (Japan)	84	15. Wool (Argentina)	57
2. Copper (United States)	75	16. Sugar (Czechoslovakia)	57
3. Butter (Denmark)	73	17. White cotton piece-goods (U.K.)	54
4. Wheat (United States)	71	18. Cement (Germany)	54
5. Grey cotton tissues (Japan)	68	19. Passenger motor-cars (U.S.A.)	53
6. Petrol (United States)	68	20. Bacon (Denmark)	52
7. Coffee (Brazil)	68	21. Tea (Ceylon)	48
8. Rubber (British Malaya)	66	22. Pig-iron (U.K.)	47
9. Newsprint paper (Canada)	65	23. Coal (U.K.)	39
10. Maize (Argentina)	65	24. Steel girders (Belgium)	36
11. Silk tissues (France)	64	25. Tin (British Malaya)	32
12. Cotton (United States)	63	26. Mowing machines (Germany)	14
13. Chilled beef (Argentina)	61		
14. Mechanical wood-pulp (Finland)	61		

\* League of Nations, *Review of World Trade, 1934*, pp. 14-15.

Price falls were very irregular, but were most marked in the case of raw materials exported by agricultural countries and of food. Export prices of raw materials (such as coal and pig-iron) exported by industrial countries, of most manufactured articles of consumption, and of various capital goods have been much firmer. The gold prices of all raw materials and semi-manufactured goods entering into international trade fell between 1929 and 1934 by 60 per cent., foodstuffs by 58 per cent., and manufactured articles by 50 per cent.

The discrepancies between the price movements of articles entering into international trade caused the imports of agricultural countries to become more expensive in terms of their exports. In other words,

Source: RIIA, o.c.

TABLE 17

## INTERNATIONAL INVESTMENTS IN DEPRESSION 291

*Germany's Balance of Trade, 1927-35*

(Rm. millions)

<i>Year</i>	<i>Exports<sup>a</sup></i>	<i>Imports<sup>b</sup></i>	<i>Balance<sup>c</sup></i>
1927 . .	10,801	14,228	-3,427
1928 . .	12,055	14,051	-1,996
1929 . .	13,483	13,447	+ 36
1930 . .	12,036	10,393	+1,643
1931 . .	9,599	6,727	+2,872
1932 . .	5,739	4,667	+1,072
1933 . .	4,871	4,204	+ 667
1934 . .	4,167	4,451	- 284
1935 <sup>d</sup> .	4,270	4,159	+ 111

<sup>a</sup> Exports of domestic produce.

<sup>b</sup> Imports for home consumption.

<sup>c</sup> Excess of exports (+), of imports (-).

<sup>d</sup> Including the Saar territory from 18 Feb. 1935.

This decline in exports was arrested only in 1935, and the consequent difficulty of obtaining foreign exchange has had most serious effects on the German economic system. Supplies of gold have gradually diminished and there has been an acute shortage of certain raw materials and foodstuffs. It appears that these difficulties are, for the moment, being overcome; but they are far from completely solved. Their ultimate solution may result in the creation within Germany of industries for the production of goods formerly imported on such a scale as to injure materially the export industries of both raw material producers and the two great creditor countries.<sup>1</sup>

Australia, whose difficulties were also very great, has met the service on her public external debt in full, but only by rigid deflation and control of imports. Trouble began in 1929 with the cessation of new lending and the simultaneous fall in the prices of Australia's exports. Prior to this, Australia had been borrowing continuously from abroad, chiefly from Great Britain, and this had sufficed to pay for an import surplus and the interest due on past loans. Wheat and wool prices had, however, been well maintained, and Australian governments had been induced by the resultant wave of prosperity to spend considerably more than they received in taxes. The deficits of the Commonwealth and State governments in 1929-30 amounted to about £1 15s. per head of the population. Before equilibrium could be restored, these deficits had to be wiped out, and imports reduced relatively to exports. In order to achieve this, the following measures

<sup>1</sup> See below, pp. 323-7, for a discussion of how German import restrictions have influenced the ability of other debtors to make the service payments due to Great Britain.

Source: RIIA, o.c.

TABLE 18

APPENDIX IV  
STATUS OF INTEREST PAYMENTS ON DEFAULTED  
FOREIGN DOLLAR BONDS AS OF DECEMBER 31, 1935<sup>a</sup>

(PRINCIPAL AMOUNTS OUTSTANDING)

Country	Payment Offered in Cash and Scrip or Funding Bonds	Part Payment Offered in Cash	Payment Offered in Scrip or Funding Bonds	Payment Offered in Foreign Currency	No Interest Being Paid	Total Amount in Default as to Interest
<b>Latin America:</b>						
Argentina.....	\$69,372,900	\$ 12,059,500	.....	.....	\$ 7,363,000	\$ 88,795,400
Bolivia.....	.....	.....	.....	.....	59,422,000	59,422,000
Brazil.....	.....	318,495,800	.....	.....	6,622,000	325,117,800
Chile.....	.....	.....	.....	.....	307,991,000	307,991,000
Colombia.....	.....	.....	.....	.....	156,088,400	156,088,400
Costa Rica.....	.....	.....	\$3,781,000	.....	.....	8,781,000
Cuba.....	.....	.....	.....	.....	74,970,700	74,970,700
El Salvador.....	.....	.....	.....	.....	12,619,300	12,619,300
Guatemala.....	.....	2,214,000	.....	.....	.....	2,214,000
Mexico.....	.....	.....	.....	.....	295,549,830	295,549,830
Panama.....	11,351,500	.....	.....	.....	3,097,500	14,449,000
Peru.....	.....	.....	.....	.....	91,286,000	91,286,000
Uruguay.....	.....	52,947,500	.....	.....	10,420,000	63,367,500
<b>Total Latin America.....</b>	<b>\$80,724,400</b>	<b>\$385,716,800</b>	<b>\$8,781,000</b>	.....	<b>\$1,025,429,730</b>	<b>\$1,500,651,930</b>
<hr/>						
<b>Europe:</b>						
Bulgaria.....	.....	\$ 16,869,500	.....	.....	.....	\$ 16,869,500
Czechoslovakia.....	.....	.....	.....	.....	\$ 1,083,500	1,083,500
Denmark.....	.....	.....	.....	.....	995,000	995,000
Germany.....	.....	168,960,000	.....	.....	714,627,810 <sup>b</sup>	883,587,810
Greece.....	.....	26,942,500	.....	.....	.....	26,942,500
Hungary.....	.....	6,578,600	.....	\$50,269,300 <sup>c</sup>	58,000	56,905,900
Rumania.....	.....	.....	.....	.....	10,938,000	10,938,000
Russia.....	.....	.....	.....	.....	75,000,000	75,000,000
Sweden.....	.....	.....	.....	.....	86,673,900	86,673,900
Yugoslavia.....	.....	9,970,500	.....	.....	53,554,000	63,524,500
<b>Total Europe.....</b>	.....	<b>\$229,321,100</b>	.....	<b>\$50,269,300</b>	<b>\$ 942,930,210</b>	<b>\$1,222,520,610</b>
<b>Far East:</b>						
China.....	.....	.....	.....	.....	5,500,000	5,500,000
<b>Total Far East.....</b>	.....	.....	.....	.....	<b>5,500,000</b>	<b>5,500,000</b>
<b>North America:</b>						
Canada.....	.....	.....	.....	.....	81,219,800	81,219,800
<b>Total North America.....</b>	.....	.....	.....	.....	<b>81,219,800</b>	<b>81,219,800</b>
<b>Grand Total.....</b>	<b>\$80,724,400</b>	<b>\$615,037,900</b>	<b>\$8,781,000</b>	<b>\$50,269,300</b>	<b>\$2,055,079,740</b>	<b>\$2,809,892,340</b>

<sup>a</sup> Based on treatment of last interest coupon matured during 1935.

<sup>b</sup> Interest is being deposited in reichsmarks by most German issuers but is not available to bondholders.

<sup>c</sup> Payable up to 5 per cent per annum.

Source: RIIA, o.c.

TABLE 18 (cont.)

APPENDIX VI

ESTIMATES OF AMERICAN HOLDINGS OF FOREIGN  
DOLLAR BONDS AT THE END OF 1935

(IN THOUSANDS OF DOLLARS)

Country	Amount Reported Out- standing	Estimated Percentage Held Abroad	Estimated Amount Held Abroad	Estimated Amount Held in the United States
<b>Latin America:</b>				
<b>Argentina:</b>				
National Government..	\$ 241,577	55	\$132,867	\$ 108,710
Political subdivisions ..	109,581	20	21,916	87,665
<b>Total.....</b>	<b>351,158</b>	<b>44</b>	<b>154,783</b>	<b>196,375</b>
Bolivia.....	59,422	17	10,101	49,321
<b>Brazil:</b>				
National Government..	144,673	15	21,701	122,972
Political subdivisions ..	201,957	20	40,391	161,566
Corporations.....	2,610	15	392	2,218
<b>Total.....</b>	<b>349,240</b>	<b>18</b>	<b>62,484</b>	<b>286,756</b>
Chile.....	307,991	15	46,199	261,792
<b>Colombia:</b>				
Government and Mort- gage banks.....	61,492	40	24,597	36,895
Others.....	94,596	15	14,189	80,407
<b>Total.....</b>	<b>156,088</b>	<b>25</b>	<b>38,786</b>	<b>117,302</b>
Costa Rica.....	8,781	15	1,317	7,464
Cuba.....	123,837	10	12,384	111,453
Dominican Republic....	16,292	10	1,629	14,663
El Salvador.....	12,619	45	5,678	6,941
Guatemala.....	2,214	10	221	1,993
Haiti.....	9,843	10	984	8,859
Mexico.....	295,550	70	206,885	88,665
Panama.....	18,622	40	7,449	11,173
Peru.....	91,286	30	27,386	63,900
Uruguay.....	63,368	34	21,545	41,823
<b>Total Latin America.</b>	<b>\$1,866,311</b>	<b>32.0</b>	<b>\$597,331</b>	<b>\$1,268,480</b>

(Table continued on next page.)

Source: Madden, Nadler, Souvain

TABLE 19

## APPENDIX V

PAYMENTS ON DEFAULTED INTEREST COUPONS  
FOR THE PERIOD JANUARY 1, 1931, TO  
DECEMBER 31, 1935(INCLUDES ONLY ISSUES DEFAULTED SINCE JANUARY 1, 1931, AND  
OUTSTANDING ON DECEMBER 31, 1935)

Country	Payment Offered in Cash	Payment Offered in Scrip or Funding Bonds	No Payment Offered	Total
<b>Latin America:</b>				
Argentina.....	\$11,468,380	\$4,604,130	\$1,944,830	\$18,017,340
Bolivia.....	.....	.....	21,836,500	21,836,500
Brazil.....	9,466,480	29,884,550	54,733,230	94,084,260
Chile.....	.....	.....	81,581,790	81,581,790
Colombia.....	1,957,020	5,504,420	27,519,570	34,981,010
Costa Rica.....	165,550	1,894,770	.....	2,060,320
Cuba.....	.....	.....	14,249,660	14,249,660
El Salvador.....	810,920	1,081,240	459,720	2,351,880
Guatemala.....	177,120	44,280	132,840	354,240
Panama.....	568,940	1,133,790	604,010	2,306,740
Peru.....	896,170	.....	26,518,170	27,414,340
Uruguay.....	4,666,310	.....	6,136,920	10,803,230
<b>Total Latin America.....</b>	<b>\$30,176,890</b>	<b>\$44,147,180</b>	<b>\$235,717,240</b>	<b>\$310,041,310</b>
<b>Europe:</b>				
Bulgaria.....	\$ 1,498,200	.....	\$ 2,578,210	\$ 4,076,410
Czechoslovakia....	.....	.....	86,680	86,680
Denmark.....	.....	.....	179,100	179,100
Germany.....	24,288,450	\$27,013,170	79,002,320	130,303,940
Greece.....	2,019,000	.....	4,364,200	6,383,200
Hungary.....	511,490	.....	13,094,120	13,605,610
Rumania.....	574,250	.....	957,080	1,531,330
Sweden.....	.....	.....	15,167,930	15,167,930
Yugoslavia.....	1,616,770	12,497,020	2,311,590	16,425,380
<b>Total Europe...</b>	<b>\$30,508,160</b>	<b>\$39,510,190</b>	<b>\$117,741,230</b>	<b>\$187,759,580</b>
<b>North America:</b>				
Canada.....	.....	.....	\$ 17,432,080	\$ 17,432,080
<b>Total North America.....</b>	<b>.....</b>	<b>.....</b>	<b>17,432,080</b>	<b>17,432,080</b>
<b>Grand total.....</b>	<b>\$60,685,050</b>	<b>\$83,657,370</b>	<b>\$370,890,550</b>	<b>\$515,232,970</b>

Source: Madden, Nadler, Souvain

TABLE 20

ESTIMATES OF AMERICAN HOLDINGS OF FOREIGN  
DOLLAR BONDS AT THE END OF 1935 (Continued)

(IN THOUSANDS OF DOLLARS)

Country	Amount Reported Out- standing	Estimated Percentage Held Abroad	Estimated Amount Held Abroad	Estimated Amount Held in the United States
<b>Europe:</b>				
Austria.....	\$ 64,181	85	\$ 54,554	\$ 9,627
Belgium.....	153,514	68	104,389	49,125
Bulgaria.....	16,870	35	5,904	10,966
Czechoslovakia.....	26,842	70	18,789	8,053
Danzig.....	3,885	30	1,166	2,719
Denmark.....	148,757	30	44,627	104,130
England.....	20,067	..	.....	20,067
Estonia.....	3,592	10	359	3,233
Finland.....	40,931	40	16,372	24,559
France.....	135,663	85	115,313	20,350
Germany.....	886,946	40	354,778	532,168
Greece.....	26,943	50	13,472	13,471
Hungary.....	56,906	50	28,453	28,453
Irish Free State.....	1,332	..	.....	1,332
Italy.....	218,045	50	109,022	109,023
Luxemburg.....	8,000	50	4,000	4,000
Netherlands.....	70,161	75	52,621	17,540
Norway.....	158,072	35	55,325	102,747
Poland.....	99,249	40	39,700	59,549
Rumania.....	10,938	10	1,094	9,844
Russia.....	75,000	10	7,500	67,500
Sweden.....	86,674	25	21,669	65,005
Yugoslavia.....	63,525	50	31,763	31,762
<b>Total Europe.....</b>	<b>2,376,093</b>	<b>45.5</b>	<b>1,080,870</b>	<b>1,295,223</b>
<b>Far East:</b>				
Australia.....	255,103	60	153,062	102,041
China.....	5,500	..	.....	5,500
Japan.....	368,458	60	221,075	147,383
<b>Total Far East.....</b>	<b>629,061</b>	<b>59.5</b>	<b>374,137</b>	<b>254,924</b>
<b>North America:</b>				
Canada.....	2,613,362	50	1,306,681	1,306,682
Newfoundland.....	5,164	10	516	4,648
<b>Total North America.....</b>	<b>2,618,527</b>	<b>49.9</b>	<b>1,307,197</b>	<b>1,311,330</b>
<b>Grand Total.....</b>	<b>\$7,489,992</b>	<b>44.9</b>	<b>\$3,360,035</b>	<b>\$4,129,957</b>

Source: Madden, Nadler, Souvain

WORKING PAPERS ECONOMICS DEPARTMENT

- |  |   |
|--|---|
| No. 1: Jacques PELKMANS                              | The European Community and the Newly Industrialized Countries   |
| No. 3: Aldo RUSTICHINI                               | Supranationalism Revisited - Retrospective and Prospective. The European Communities After Thirty Years |
| No. 9: Manfred E. STREIT                             | Information Processing in Futures Markets. An Essay on the Adequacy of an Abstraction.                  |
| No. 10: Kumaraswamy VELUPILLAI                       | When Workers Save and Invest: Some Kaldorian Dynamics   |
| No. 11: Kumaraswamy VELUPILLAI                       | A Neo-Cambridge Model of Income Distribution and Unemployment   |
| No. 12: Kumaraswamy VELUPILLAI<br>Guglielmo CHIODI   | On Lindahl's Theory of Distribution   |
| No. 22: Don PATINKIN                                 | Paul A. Samuelson on Monetary Theory  |
| No. 23: Marcello DE CECCO                            | Inflation and Structural Change in the Euro-Dollar Market   |
| No. 24: Marcello DE CECCO                            | The Vicious/Virtuous Circle Debate in the '20s and the '70s   |
| No. 25: Manfred E. STREIT                            | Modelling, Managing and Monitoring Futures Trading: Frontiers of Analytical Inquiry                     |
| No. 34: Jean-Paul FITOUSSI                           | Modern Macroeconomic Theory; an Overview  |
| No. 35: Richard M. GOODWIN<br>Kumaraswamy VELUPILLAI | Economic Systems and their Regulation   |
| No. 46: Alessandra VENTURINI                         | Is the Bargaining Theory Still an Effective Framework of Analysis for Strike Patterns in Europe?        |
| No. 47: Richard M. GOODWIN                           | Schumpeter: The Man I Knew  |
| No. 48: Jean-Paul FITOUSSI<br>Daniel SZPIRO          | Politique de l'Emploi et Réduction de la Durée du Travail   |
| No. 56: Berc RUSTEM<br>Kumaraswamy VELUPILLAI        | Preferences in Policy Optimization and Optimal Economic Policy  |
| No. 60: Jean-Paul FITOUSSI                           | Adjusting to Competitive Depression. The Case of the Reduction in Working Time                          |
| No. 64: Marcello DE CECCO                            | Italian Monetary Policy in the 1980s  |

- No. 65: Gianpaolo ROSSINI      Intra-industry Trade in Two areas:  
Some Aspects of Trade Within and  
Outside a Custom Union
- No. 66: Wolfgang GEBAUER      Euromarkets and Monetary Control:  
The Deutschmark Case
- No. 67: Gerd WEINRICH      On the Theory of Effective Demand  
under Stochastic Rationing
- No. 68: Saul ESTRIN      The Effects of Worker Participation  
Derek C. JONES      upon Productivity in French Pro-  
ducer Cooperatives
- No. 69: Berc RUSTEM      On the Formalization of Political  
Kumaraswamy VELUPILLAI      Preferences: A Contribution to  
the Frischian Scheme
- No. 72: Wolfgang GEBAUER      Inflation and Interest: the Fisher  
Theorem Revisited
- No. 75: Sheila A. CHAPMAN      Eastern Hard Currency Debt 1970-  
1983. An Overview.
- No. 90: Will BARTLETT      Unemployment, Migration and In-  
dustrialization in Yugoslavia,  
1958-1982
- No. 91: Wolfgang GEBAUER      Kondratieff's Long Waves
- No. 92: Elisabeth DE GELLINCK      Inter-Industry and Inter-Temporal  
Paul A. GEROSKI      Variations in the Effect of Trade  
Alexis JACQUEMIN      on Industry Performance
- 84/103: Marcello DE CECCO      The International Debt Problem in  
the Interwar Period



