German Exchange Control, 1931-1939: From an Emergency Measure to a Totalitarian Institution

Source: *The Quarterly Journal of Economics*, Vol. 54, No. 4, Part 2 (Aug., 1940), pp. 1-158
Published by: Oxford University Press
Stable URL: http://www.jstor.org/stable/1882619
Accessed: 26-05-2017 14:27 UTC

CHAPTER I

GERMAN EXCHANGE CONTROL, 1931–1939: FROM AN EMERGENCY MEASURE TO A TOTALITARIAN INSTITUTION

The Introduction of Exchange Control

Exchange control has been hailed by writers in National-Socialist Germany of recent years as a system of "modern money."[1] This vaunting enthusiasm for the modernity of currency standards under exchange control houses strangely with another widespread quasi-official doctrine that exchange control accomplishes the same ends as the old scheme of free payments under a now obsolete "liberal" system of international trade. "The transfer of a bank deposit to London through free bills of exchange is . . . exactly the same as if the deposit-owner made expenditures from his 'exclusively for domestic payments' account."[2] Precisely because this statement is *not* true, as will be further elaborated in the concluding chapter,[3] do currencies under exchange control represent something new and novel. But the novelty or modernity of such currencies consists rather in the disintegration of monetary *system* than in its appearance, as a retrospect into the historical origin of exchange control will reveal. Both within the international and national spheres, system gave place to *ad hoc* arrangements. It is well to recall the origin of "modern money" in the financial chaos of 1931, for exchange control currencies never divested themselves of the impress of their genesis. It is well to inquire into these origins for another reason: economic writers in the present German regime are fond of giving the impression that exchange control is a proud *tour de force* of the totalitarian state. Whether or not the control of foreign payments is indispensable to such a political system, it is worth remarking that the National Socialists inherited it from Social Democrat supported Coalition governments after nearly two years of elaboration.

A. *The Situation Preceding Exchange Control.*

When, in May, 1931, the collapse of the Austrian Credit

1. Carl-Hermann Müller, Grundriss der Devisenbewirtschaftung, 2d ed. (Berlin, 1939), p. 33.
2. Ibid., p. 35; that is, from one of the several "frozen" Mark accounts.
3. Cf. p. 159 below.

Anstalt sent a wave of panic over the financial world, Germany was already in a state of advanced economic contraction and rapidly progressing social and political disintegration. The volume of production had shrunk from 100.2 (1928 = 100) in September, 1929 to 82.5 in December, 1930;[1] and the number of unemployed had risen from 1,324,000 to a peak in February, 1931, of 5,000,000. From July, 1929 to March, 1931 money order transfers through the postoffices decreased by 20.5 per cent, sight deposits of the Reichsbank by 24.8 per cent, and bills discounted by the Reichsbank by 27 per cent.[2] While these series indicative of economic activity in a broad sense shrank markedly, there was a comparatively slight decrease in note circulation, indeed over the same months (July, 1929 to March, 1931) a decrease of only 5.6 per cent. Note circulation pertains primarily to the sphere of consumption, and its relative inelasticity indicates the rigidity of wages, the magnitude of unemployment benefits, and a general lack of plasticity in the price system. Monopolistic wage and commodity price policies greatly intensified the depression. As for the latter, the following contrast of administered and free prices indicates disparities in the German price structure.

Prices of Raw Materials and Semi-Finished Goods in Germany, 1929–1931*
(1926 = 100)

	Administered Prices			Free Prices		
	1929	1930	1931	1929	1930	1931
January	....	105	95.2	....	90.4	66.2
February	....	105	94.8	....	87.2	65.6
March	....	105	94.7	....	84.9	65.6
April	....	105.1	94.0	....	85.2	65.0
May	....	104.9	93.9	....	84.7	62.8
June	....	103.9	94.0	....	82.6	61.4
July	....	103.3	....	....	78.9	....
August	....	102.7	....	....	76.8	....
September	105.3	102.5	....	96.6	74.8	....
October	105.3	101.7	....	95.1	72.2	....
November	105.3	100.7	....	93.2	70.6	....
December	105.3	97.1	....	92.2	68.3	....

* V.z.K., Vol. 6, Part A, No. 2, p. 53; No. 3, p. 50; No. 4, p. 54.

1. Institut für Konjunkturforschung (Berlin), Vierteljahrsheft zur Konjunkturforschung, Vol. 7, Part A, No. 1, p. 264. Hereafter this publication is referred to as V.z.K.

2. V.z.K., Vol. 6, Part A, p. 43.

As for wage rates, the index of wages determined by collective bargaining contracts stood at 105.5 (1928=100) in 1929, actually *rose* in 1930 to 107.3, and declined only slightly to 102.1 in 1931.[1] As depression continued, it is true, wage rates of collective contracts became less representative, because of short-time work, the disappearance of overtime, and numerous evasions. But in view of the tremendous fall in employment, the decline in aggregate labor income seems very small — from 42,621,000 Reichsmarks in 1928, to 43,045,000 and 39,600,000 Reichsmarks in 1929 and 1930.[2] This amounts to only a 7.5 per cent reduction in the money wage-bill between 1928 and 1930, or to a mere 4.3 per cent in the real wage aggregate.[3]

The constellation of rigid monopoly and trade-union prices with a rapidly contracting volume of production was bound to produce violent social and political struggles. Negotiations carried on in 1930 between representatives of the labor unions and the employers' associations came to naught, inasmuch as "the employers insisted on wage reductions in order to reduce prices, whereas the labor unions held that price reductions should precede wage reductions in order to preserve mass purchasing power."[4] In the ensuing struggle for the division of a shrinking national dividend, state expenditures for unemployment relief played a crucial rôle, especially in view of a popular demand for budget equilibrium despite dwindling tax revenues. During the recovery years 1925/26 to 1928/29 the growing expenditures of the Reich had been financed partly through deficits, amounting in the aggregate to 2,255,000,000 Reichsmarks.[5] The policy encountered little adverse criticism as long as prosperity lasted; but when depression began and the safety of the currency came into question, the German public, schooled by the post-war experience, began to associate budget deficits with a threat of inflation. The labor unions, reflecting this attitude, strongly favored a balanced budget, but insisted that it be achieved by increased taxation upon the propertied classes, even to covering the additional load of unemployment benefits.

1. V.z.K., Vol. 7, Part A, No. 1, p. 30.
2. Statistisches Jahrbuch für das Deutsche Reich 1932 (Berlin, 1933), p. 527; hereafter abbreviated as Stat. Jhrb.
3. The cost of living fell from 152.6 to 140.6.
4. Jahrbuch 1930 des Allgemeinen Deutschen Gewerkschaftsbundes (Berlin, 1931), p. 9.
5. C. R. S. Harris, Germany's Foreign Indebtedness (London, 1935), p. 14.

Both the unions and the Socialist Party considered liberal relief measures essential to the maintenance of wages, and they also favored a moderate program of public works.

All of these policies with the exception of budget equilibrium were defeated in the Spring of 1930 by the overthrow of the Müller government and the accession of Brüning. The new government immediately began upon a course of deflation and budget balancing, cutting the incomes of civil servants, scaling down unemployment benefits, increasing taxation upon workers and consumers, exerting a general downward pressure on wages, and finally, rather faintly attempting to reduce administered prices — policies destined to prevail with occasional exception for the next two years. In April a law was passed to reduce the Reich contributions to state unemployment relief and to introduce widespread budgetary economies. The next month the Minister of Finance, Moldenhauer, announced that the budget was in equilibrium; but only a few weeks later the government had to reveal a new deficit of 750,000,000 Reichsmarks as a result of intensified depression. From the outset the Brüning government held a precarious position as a minority party relying upon the votes of the Social Democrats in the Reichstag. In July the Socialists voted against the government's reconstruction program, whereupon the Reichstag was dissolved and the program put into force by Emergency Decree (July 26, 1930). The decree raised the unemployment insurance contributions, introduced a levy on the salaries of officials and unmarried persons, and permitted the municipalities to collect a poll tax as an offset to the heavy burden of their welfare expenditures. Furthermore the decree empowered the government to initiate measures to lower cartel prices; and simultaneously state representatives on arbitration boards exerted pressure toward lowering the general level of wages.

The general elections in September, 1930, revealed the devastating effects of depression upon German internal politics: both National Socialists and Communists increased their positions in the Reichstag, the former from 12 to 107 seats. Brüning remained in office and continued his government by emergency decrees, virtually eliminating the Reichstag. Caught between the upper and nether millstones of National Socialism and Communism, the Social Democrats had no alternative but passive "toleration" of the government, as the phrase went. This resulted in the curious phenomenon of actually decreasing frequency of strikes during a period of severe deflation; in 1927 the number of laborers involved in strikes was 632,000, in 1930, 274,000, and in 1931, 156,000! Reductions in unemployment benefits, salary cuts, and the slow progress of cartel price-lowering caused deep dissatisfaction and drove large numbers not only of unemployed laborers but also of the middle-class into the radical right and left wing parties.

The general elections of 1930 and the atmosphere of impending civil upheaval, especially in the form of a National Socialist *coup*, struck a fell blow at business confidence concerning Germany both within and outside the country. German securities declined sharply on foreign markets in the early Autumn. The dangers besetting foreign short-term loans, imperfectly sensed until now, came to be apparent; foreign capital for the first time since the 1928/29 downturn was withdrawn in large quantities — 800,000,000 Reichsmarks within a single month, and by December 17, something over double this sum. A new budget deficit of a billion Reichsmarks accumulated shortly after the election, and it was only by virtue of a 400,000,000 Reichsmark issue of Treasury bills and the Lee Higginson loan of $125,000,000 that the difficulty could be tided over. A few days later the Reichsbank reluctantly raised its rediscount rate from 4 to 5 per cent. Inconsistently with Brüning's deflationary policy, the Reichsbank discount rate had been dominated by the so-called *Konstatierungspolitik* since the Autumn of 1929 — the principle of adapting the rate to London, where increasing liquidity had brought down bank rate from 6 to 3 per cent. Accordingly the Reichsbank had lowered its rate, preserving the usual differential between London and Berlin, from 7½ to 4 per cent at the middle of 1930, the lowest rate permitted by its statutes.

The year 1930 marked a thoroughgoing change in the aspect of Germany's balance of payments. The continuous inflow of

THE BALANCE OF PAYMENTS OF GERMANY, 1927–1930*
(In million Reichsmarks)
Capital exports, –; capital imports, +

	Long Term	Short Term	Unclassified	Total
1927	+1,778	+2,264	+ 310	+4,352
1928	+1,788	+1,270	+1,000	+4,058
1929	+ 660	+ 484	+ 879	+2,023
1930	+1,119	+ 169	– 746	+ 542

* League of Nations, Balances of Payments 1937 (Geneva, 1938), p. 108.

capital since 1924 had exceeded by 2½ to 3 times the 10,300,000,000 Reichsmarks paid by Germany for reparations,[1] but in 1929 the flow began to slacken. The item of 879,000,000 Reichsmarks under "unclassified" capital imports indicates that "outside the (formally organized) credit organizations of Germany, the inflow of short-term loans continued almost unabated,"[2] though the total capital influx was halved for the year. The total figures given above fail to show the extent of the disaster in 1930. In that year the 1,800,000,000 Reichsmark Young Loan was floated; although two-thirds of the proceeds went to reparations, the remaining third, used to finance the German railways, afforded considerable relief to the balance of payments. Nevertheless the net inflow of capital dwindled to a half billion marks, or one-eighth its magnitude two years earlier. This figure does not reveal, furthermore, that during the second half of the year short-term capital imports practically vanished, nor that capital withdrawals in the aggregate amounted to over a billion and a half marks.

Under these circumstances the balance of trade took a spectacular turn from unfavorable to favorable. This change was greatly intensified by the alteration of the terms of trade for

German Imports and Exports, 1928–1930*
(In million Reichsmarks)

	Imports	Exports	Balance
1928	13,649.5	12,420.1	−1,229.4
1929	13,446.8	13,482.7	+ 35.9
1930	10,393.0	12,035.6	+1,642.3

* Including reparation deliveries in kind. Cf. Stat. Jhrb. 1932, p. 173.

Germany following the collapse of markets for raw materials in the depression. Just how important an influence this represented may be discovered by applying monthly average values during 1929 to the 1930 figures. Imports in 1930 would have a value of 12,055,500,000 Reichsmarks, exports 12,871,000,000 Reichsmarks, and the favorable balance 815,600,000 Reichsmarks or less than half the actual export surplus. We shall have occasion later to point to the significance of this favorable turn in the terms of trade for

1. Harris, op. cit., p. 10.
2. Statistisches Reichsamt, Die deutsche Zahlungsbilanz der Jahre 1924–1933 (Berlin, 1934), p. 22.

Germany's economic position generally; but in the midst of the political and economic crisis of late 1930, it was not a sufficiently obvious fact to aid in the restoration of confidence. The loss of gold and devisen from Reichsbank reserves continued, and only in February, 1931, did the drain show signs of temporarily retarding.[1]

During 1930 the government found itself so preoccupied in trying to cope with an increase of the budget deficit of two billion Marks[2] by intensifying the measures already initiated, that more fundamental economic corrections went by default. The policy of "deflation" revealed marked incongruities. Extensive increases in protective tariffs and subsidies accorded to agriculture drove prices in this segment far above the world market level. On the other hand, endeavors to lower cartel prices did not go beyond a decree on January 31, 1932, which annulled contracts between manufacturers of branded goods and their distributors, unless the manufacturers reduced prices by 10 per cent from the previous July.[3] Practical effects from the measure were nugatory. On March 30, 1931, a "saving budget" came into force by emergency decree; but despite a contemplated saving of 1,150,000,000 Reichsmarks under the 1932 budget, a new deficit had accumulated by May. The news of this debacle impinged upon a panic situation created by the breakdown of the Credit Anstalt.

The month of June, 1931, witnessed a rapid increase of political tension. The radical press of both left and right wings predicted the collapse of capitalism in Germany and the breakdown of the Versailles system; thus Schacht, then at an interim period of retirement from the Reichsbank presidency, proclaimed that Germany's ability to pay had come to an end and that a dictatorship was inevitable. Appalled by the growth of National Socialism, the government on its side attempted to take the wind out of the sails of the movement by concluding a customs union with Austria. The failure of the Austrian Credit Anstalt enabled the French to intervene and wreck the *Anschluss;* but the resurgence of anti-German sentiment in Paris forced the Reichsbank to look elsewhere for help in the emergency. New York had not recovered from the stock-exchange crash of 1929 and the position of London was

1. Cf. Appendix, pp. 133–136 below.
2. Wirtschaft und Statistik, Vol. 11, No. 5 (March, 1931), p. 207.
3. J. W. F. Thelwall and R. P. E. Edwards, Economic Conditions in Germany to September, 1931, Department of Overseas Trade (H. M. Stat. Office, London, 1932), p. 12.

becoming increasingly difficult. In these straits the Reichsbank had no further resource than the $50,000,000 American credit already provided for in 1927. The government itself seemed to be largely without counsel, save for further resort to long-run equilibrium measures such as curtailing unemployment insurance benefits by 400,000,000 Reichsmarks, lowering the salaries of civil servants by 4 per cent to 8 per cent, and the introduction of a crisis surtax on wages. Meanwhile the commercial banks, in order to replenish reserves sapped away by the capital flight, turned heavily to the Reichsbank, which experienced a sharp rise in bills discounted.[1] An advance of bank-rate on June 14 from 5 per cent to 7 per cent accomplished nothing toward stemming the tide. By the time the Hoover Moratorium was announced on June 16, the Reichsbank had lost a billion Reichsmarks in reserves and was approaching the limit of the 40 per cent reserves required against its notes. The man in the street watched the approach to this sacred line with superstitious misgivings and expected an immediate collapse of the currency system once the limit was exceeded.

Had the Hoover proposal met with immediate acceptance, it might have turned the scales in a delicate state of public psychology. Still smarting under the attempt at *Anschluss*, France confronted Germany with a series of political demands, hesitated as to the amount of "unconditional" reparations, and demanded the strictest scrutiny of Reichsbank credits to industry. Up to July 6, when the "Hoover Year" was finally inaugurated, the catastrophic position of Germany was continually the center of discussion of a sort to impart the *coup de grâce* to confidence in the country, both at home and abroad. When the news finally came that Germany had been permitted to suspend the payment of 1,617,000 Reichsmarks in reparations for the period July to July, 1931–1932, and even to make only a nominal tender without actual payment of the "unconditional" annuity of 600,000,000 Reichsmarks,[2] the psychological effect was explosive, rather than restorative.

An emergency credit of $100,000,000 extended on June 25 by the Bank for International Settlements and the central banks of England, France, and the United States was to an extent exceeding one-half dissipated by the capital flight within a span of five days.

1. Cf. Appendix, pp. 133–136.

2. Economist, Reparations and War Debts Supplement, January 23, 1932, p. 7.

Nor was the situation materially helped by a joint guarantee to the Golddiskontbank of 500,000,000 Reichsmarks by a thousand of the largest German firms. On July 11 it transpired that the government was preparing sharp measures against the outflow of devisen. Shortly thereafter the Darmstädter-und-Nationalbank failed as a consequence of the scandalous bankruptcy of the Nordwolle-Konzern. The Reichsbank came to the view that the old principle of stopping runs by a heroic willingness to convert credit to cash was inapplicable in a situation in which withdrawals resulted only in an equivalent loss of devisen to foreign countries. Bank holidays were proclaimed, the Reich undertook guaranties of depositors' claims, the Stock Exchange was closed, and finally by a series of decrees between July 15 and August 1 exchange control was introduced. The system later glorified as "modern money" had made its inglorious advent.

B. *Control as an Emergency Device to Check the Flight of Capital — July through November, 1931.*

On January 1, 1939, a general recodification of all exchange-control regulations came into legal effect for Greater Germany. Since its inception in the crisis of July, 1931, "modern money" had required three general exchange-control laws, upwards of 50 separate decrees of amendment and adaptation, and something in the neighborhood of 500 administrative rulings,[1] to say nothing of clearing, compensation, and payment agreements with partner countries. It is not necessary except on rare occasions to enter into this juristic maze; but a brief examination of the earliest measures serves to characterize the legal structure of exchange control in Germany throughout.

Six decrees on July 15, 16, and 18 put control into operation on an *ex tempore* basis before the First Devisen Law of August 1. These decrees[2] gave to the Reichsbank a monopoly of dealings in foreign exchange, prohibited all deviations from the official rate of exchange, and abolished forward transactions in devisen. Owners of foreign claims and means-of-payment in foreign currencies exceeding 20,000 Reichsmarks could be, and within a few days actually were, required to sell them to the central bank. Although foreign securities had to be registered, the purchase of such securi-

1. Müller, op. cit., pp. 9–10.
2. 1931:1 Reichsgesetzblatt, pp. 365, 366–368, 369, 373–376.

ties was not forbidden. Nor was it forbidden to purchase devisen with German securities, nor to exchange devisen against devisen. The Reich postal authority did prohibit the export of Marks through the mails, but it was only by implication that the decrees laid a general embargo upon the exportation of German money. Finally, residents of Germany who held an equity in a foreign enterprise exceeding half the total equities, provided there were no more than five owners in the enterprise, were obliged to declare this fact to the control authorities. In this way a flight from taxation as well as a simple capital flight, it was believed, could be checked.

Stipulations of this sort naturally left many doors open for evasions, and little more was actually accomplished than the proclamation of an official rate and securing a small flow of devisen through compulsory sale to the Reichsbank. These shortcomings led to more rigorous measures, especially after the collapse of the World Economic Conference in London and the failure of the Dresdner Bank. On August 1, before the first steps were taken to open the German banks, the first formal Devisen Law[1] came into force by proclamation.

Hereafter devisen could be sold by the authorized devisen-banks only after the purchaser had presented a "certificate of necessity" issued by the newly erected Devisen Offices. A similar certificate was required for purchasing any foreign security not regularly quoted on the German bourses. To extend control over capital exports, the law required the permission of a Devisen Office (1) to open new credits in terms of Marks to foreigners; (2) to dispose over Mark accounts in Germany owned by foreigners and originating before August 4, 1931; (3) to transfer Marks to accounts held with firms abroad. The last prohibition was supplemented by a general embargo upon exporting domestic means of payment. It should be noted, however, that all these prohibitions extended only to transactions over 3,000 Reichsmarks. This rather striking latitude, coupled with the lack of effective control over the actual utilization of devisen, once they had been officially allocated, still allowed many loopholes for capital flight. On the other hand, immediately after publication of the decree the potential powers of the newly created instrument of exchange control were clearly demonstrated: the Devisen Offices received instructions

1. 1931:1 Reichsgesetzblatt, pp. 421–425.

to sell devisen freely for certain "vital" imports, to ration devisen for half-finished goods, and to terminate allocation for coal and for finished goods including food. This measure — the influence of agricultural protectionism was apparent — led within a few days to a considerable advance in prices, which seemed sadly at variance with the aim of the prevailing 15 per cent Reichsbank rate. The scheme was shortly given up in favor of unlimited allocation for authentic imports, but not too soon to afford a foretaste of exchange control of the fifth type delineated in the introductory chapter,[1] of exchange control as an instrument of commercial or political policy.

When, under circumstances which scarcely could have been more dramatic, Germany abandoned the free-payments system and resorted to an official exchange rate and the control of payments, there was little doubt at home or abroad that this was an emergency measure. No one would have supposed that it was destined to be the outstanding feature of the German economy for years to come. The enactment of exchange control sprang directly from a deep crisis in confidence, and this in turn had been gestated in a year of grave political unrest, with a people demoralized by the trying experiences of war, revolution, post-war inflation, and the Versailles system of reparations. But the crisis in confidence could not have assumed so devastating a character, had it not been for the precarious situation of German foreign indebtedness.

Germany emerged from the post-war inflation with its fixed capital equipment sadly impaired and its working capital exhausted. Surprisingly enough, after the Dawes agreement of 1924, confidence of the international financial world regarding Germany was restored even more rapidly than it was destroyed seven years later. Long-term capital began to move into the country, slowly at first, but in 1926, when the stabilization slump had given place to a pronounced recovery, at a greatly accelerated rate. For German industry this was a period of rapid rationalization of plant; but at the same time the states and municipalities began indulging in expensive schemes of social reconstruction. The Social Democrats lacked the strength to impose sufficient taxes for these plans, and instead lightheartedly resorted to borrowing. It is by no means easy to account for the large inflow of short-term capital beginning in 1927, though a part is ascribable to the increase of German

1. Cf. Part I (November, 1939), p. 6.

DISCOUNT RATES OF THE REICHSBANK AND BANK OF ENGLAND

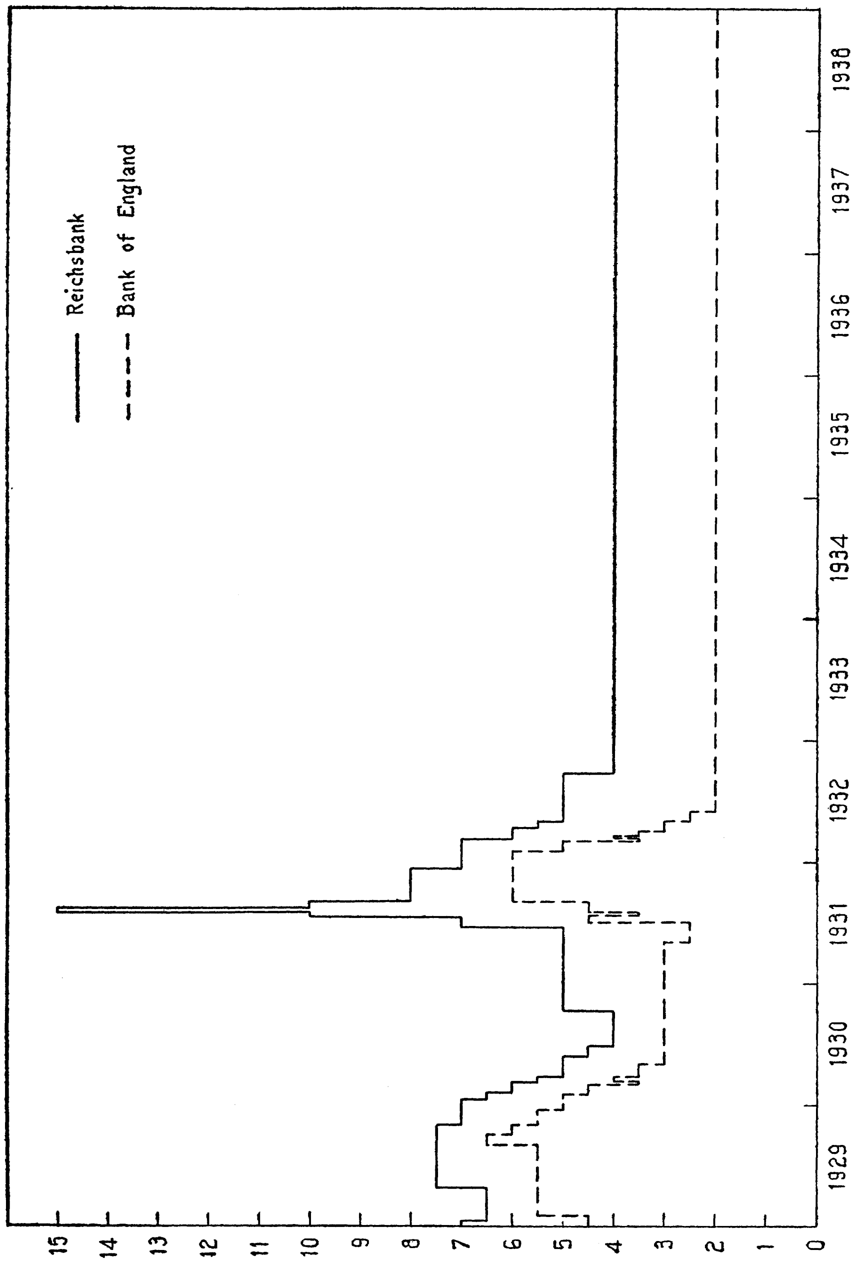

FIG. 19* * For data and sources, see p. 137 below.

imports by four billion Marks between 1926 and 1927. In large part the explanation lies in the myopia of foreign lenders who, to secure the current exorbitantly high money rates, were willing to ignore the consequences of the German practice of investing short-term funds in fixed capital equipment. The six largest banks in Berlin showed short-term liabilities to foreigners amounting to 43 per cent of total liabilities by the end of 1928.[1]

The extent and nature of capital imports by Germany during the recovery years appears in the following figures.

CAPITAL MOVEMENTS INTO GERMANY, 1924–1929*
(In million Reichsmarks)

Year	Long Term	Short Term	Unclassified	Balance on Current Income
1924..........	1,000	1,500	400	2,900
1925..........	1,110	300	1,700	3,100
1926..........	1,400	100	900	600
1927..........	1,700	1,800	400	3,900
1928..........	1,700	1,400	1,200	4,300
1929..........	600	1,110	1,000	2,700
Total.......	9,100	6,200	2,900	18,200

* Economist, Reparations and War Debts Supplement, January 23, 1923, p. 10.

Estimates differ appreciably as to German foreign indebtedness at its peak in mid-1930 on the eve of the crisis. The Wiggin Committee in August, 1931, set the figure at 25,500,000,000 Reichsmarks, while the official German estimate, submitted to the Young Plan Committee early in 1931, ran to 30,000,000,000 Reichsmarks.[2] A total of 26,800,000,000 of foreign debts in mid-1930, according to the latest data published by the League of Nations,[3] was divided into long-term and short-term respectively at 10,800,000,000 and 16,000,000,000 Reichsmarks. Of the capital entering Germany over the years 1924–1930, 10,300,000,000 Reichsmarks went into reparation payments, 6,300,000,000 Reichsmarks to pay for import surpluses, 2,500,000,000 Reichsmarks to interest on commercial debts, and about 2,500,000,000 Reichsmarks to the reserves of the

1. Deutsche Wirtschaftskunde (Berlin, 1930), p. 244.
2. C. S. R. Harris, Germany's Foreign Indebtedness (London, 1935), p. 8.
3. League of Nations, Balances of Payments 1937 (Geneva, 1938), p. 109.

Reichsbank, which more than trebled.[1] The capital withdrawals and flight of 1930–1931 absorbed three billion Reichsmarks and left the debt at 10,700,000,000 Reichsmarks at long-term and 13,-100,000,000 at short-term. As for the short-term debts, only 23 per cent represented acceptances, and even here there is little doubt that much had been invested in such a way as to render the supposed self-liquidating character of these credits illusory. German short-term borrowings were actually "frozen" before the introduction of exchange control made this fact plain.

The London Conference, meeting in the midst of the crisis in July, appointed a committee under the chairmanship of Wiggin to investigate the German short-term debt situation. At the same time — a circumstance which greatly facilitated the reopening of banks — the English bankers agreed not to withdraw their credits. Ensuing negotiations toward a Standstill were protracted by rigorous conditions of a political character demanded by the French representatives. Agreement was finally reached on September 19, retroactive to the first of the month, between the foreign bankers and German debtors with the participation of the Reichsbank and Golddiskontbank, the basic principle being a maintenance of existing credits without alteration of their original terms. Unfortunately the First Standstill was not without its shortcomings. It was concluded for a period of only six months, though no one could reasonably expect a significant change in so short a time. It included 6,300,000,000 Reichsmarks, only half of the aggregate short-term debts; call money loans, short-term advances against securities and mortgages, as well as credits to agriculture for financing crops — all these were excluded. No attempt was made to follow the Wiggin Committee's recommendation that part of the credits be converted into long-term obligations. Nor were the short-term debts contracted by states, municipalities, and public bodies incorporated into the agreement. An emergency formula permitting the continuance of German trade had indeed been found. Whether the Standstill laid a basis for the discontinuance of exchange control cannot be known, since within a few days Great Britain's departure from the gold standard created a new situation, to which we come presently.

The institution of exchange control in the July crisis of 1931

1. Report of the Committee Appointed on the Recommendation of the London Conference, 1931 (Basle, 1931), p. 2.

was based upon short-run psychological factors, without much reference to more fundamental monetary determinants. In certain quarters, exchange control encountered distrust: the system might become an instrument of political abuse; it might lead to a black market upon devisen and the ultimate collapse of the currency unit; to these evils even a very high bank-rate was preferable[1]. That the Reichsbank was influenced by such considerations may be inferred from its advancing the rate to 15 per cent on August 1, and its cautious reductions of the rate to 10 per cent on August 12 and 8 per cent on September 2, where it remained until December 10. But the Reichsbank also felt that exchange control was a necessary prerequisite for coping with the crisis in confidence. Foreign creditors, especially American, were anxious to see exchange control tightened,[2] fearing that devaluation might lead to discriminatory treatment of foreign creditors and also to exchange-dumping, which in turn would provoke defense measures such as to make the debts uncollectable. The German trades unions likewise, possibly under the influences of a vague apprehension of inflation, of a general hostility to foreign capital, and of an underlying tendency toward *Planwirtschaft,* also formally demanded the extension of exchange control.[3] These "psychological" motivations of the control originally predominated.

But with the devaluation of sterling another consideration came to equal importance. Examination of the relative course of wholesale prices in various countries presented in Figure 20 demonstrates *ad occulos* how, after lagging behind the movement in other countries from 1929, wholesale prices in Germany lost contact with the world price system in 1931. At first the hesitancy of the government respecting cartel prices was chiefly responsible, but the pound devaluation still more gravely impaired the competitive power of German exports. Exchange control offered no solution of the difficulty in and of itself, but it did afford a breathing space in which to discover and put into effect some *modus vivendi*.

Alternative courses of action were to follow the English example of devaluation or to continue and intensify the course of

1. L. Albert Hahn, a German popular economist of wide repute, proposed a bank-rate of 30 per cent.

2. Economist, July 25, 1931, p. 160 and Österreichischer Volkswirt, Vol. 23, No. 43 (July 25, 1931), p. 1134.

3. In a resolution of July 29, 1931. Cf. Jahrbuch, 1931, des Allgemeinen Deutschen Gewerkschaftsbundes (Berlin, 1932), pp. 48, 55.

deflation. Without doubt devaluation would afford certain advantages, amongst them most conspicuously an adjustment to foreign prices within a brief interval. The discontinuance of the tedious and unpopular process of deflation would contribute to a quieting of political unrest within Germany; and furthermore the opinion

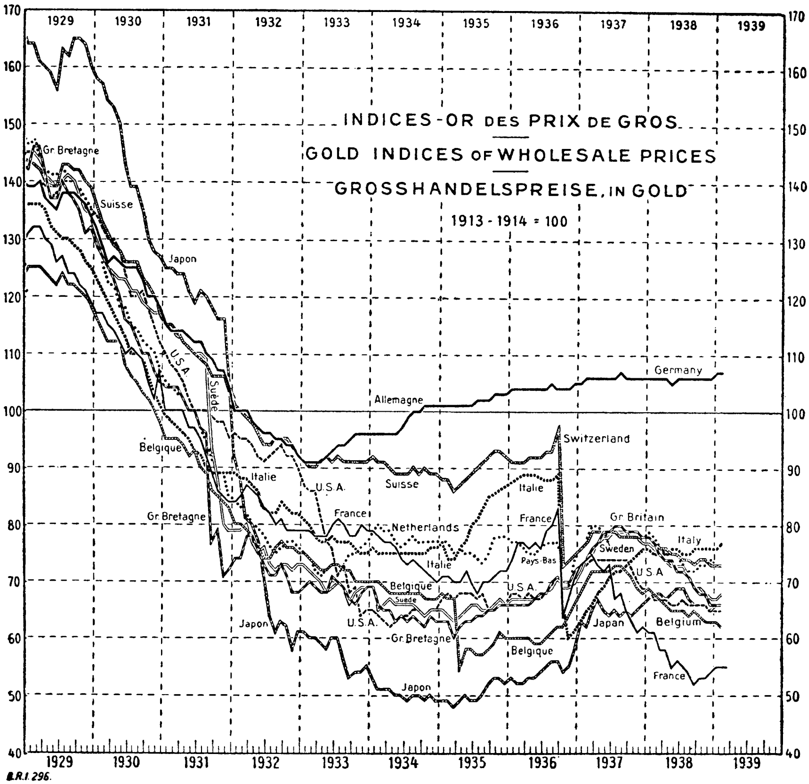

FIGURE 20*

* Reproduced from Bank for International Settlements, Ninth Annual Report (Basel, 1939), p. 52.

was held that devaluation would supply a sort of bargaining fulcrum, securing political and financial concessions from France as a price for Germany's offer to return to the gold standard. The necessity of "re-deflation," as devaluation was euphemistically labelled, found champions rather widely in the press, especially in the columns of Der Deutsche Ökonomist.[1]

The Reichsbank and the Brüning government decided, however, to cling to the policy of deflation; and, indeed, serious considerations weighed against devaluation. First and foremost was the threat of a dangerous reaction by an "inflation conscious" populace which did not differentiate between inflation and devaluation. Again, if the trade unions insisted upon an index wage system based on stable foreign currencies as a precaution against the supposed inflation, most of the advantage of exchange depreciation as a method of reducing domestic costs to conform with the international level would automatically disappear. Furthermore, devaluation would raise the value of foreign debts which ran, as most of them did, in terms of foreign currencies. This argument is not completely convincing, in view of the German windfall profits already taken as a consequence of sterling-*bloc* depreciations. But in a creditor country like England devaluation prompted an inflow of capital taking advantage of the opportunity to discharge debts cheaply, whereas no such contribution to the stabilization of currency could be expected for a debtor country.[2] Finally, it was entirely possible that, in the prevailing pathological state of public anticipations, devaluation might actually precipitate a further spasmodic attempt at capital flight. The day following England's departure from the gold standard, the Chancellor and the Reichsbank President publicly announced their decision against devaluation.

Almost immediately the foreign exchange situation took a decided turn for the worse. The inflow of free devisen diminished sharply, because lines of sterling acceptance-credits lapsed through disuse wherever the German customer had become bankrupt. Because the exchange regulations could be evaded in a number of

1. Der Deutsche Ökonomist, Vol. 49: "Zur Devalvation der Finnmark," October 23, 1931; "Ein Program der Devalvation," December 11, 1931. Cf. also Dahlberg's address to the Deutsche Weltwirtschaftliche Gesellschaft, October 16, 1931; Krämer, in the Wirtschaftsdienst, October 16, 1931; Albert Hahn, in the Vossische Zeitung, November 5, 1931; and Pinner, in the Berliner Tagblatt, November 29, 1931. In view of his later position, it is interesting to discover the concessions to the devaluation thesis made by Ernst Wagemann, director of the German Business Cycle Research Institute, in the Wochenbericht of December 2, 1931.

2. Hans Luther, "Wirtschaftsfragen der Gegenwart," in Kieler Vorträge, No. 38 (Jena, 1931).

ways, and because the Standstill covered less than half the foreign debts at short term, devisen continued to be drawn off. Capital flight through distrust of the currency and pessimism concerning Germany's future continued, but other motives were in play also. The low sterling rate appealed to the ordinary price calculus in affording a bargain on debt payments, and in addition the German merchant desired to re-establish his position as a trustworthy debtor after the disturbances of the summer months. The temptation of the black market interfered with the flow of devisen into the Reichsbank at its low official rate. Having experienced a loss of 66,000,000 Reichsmarks in devisen in one week after sterling devaluation, the Bank threatened to exclude from rediscounting facilities those firms which infringed upon the exchange regulations. The minimum amount of devisen and other foreign claims exempt from compulsory sale to the Reichsbank was set down from 1,000 to 200 Reichsmarks, and in the next few weeks the control was otherwise tightened by detailed enactments.

Meanwhile the crisis produced its inevitable result upon the budget in a deficit of 2,626,000,000 Reichsmarks by the year end.[1] The government responded in this extremity by promulgating on December 8 its Fourth Emergency Decree, the most drastic effort in two years of deflation policy. On the purely fiscal side a reduction of nine per cent in the salaries of civil servants, already cut by 11–13 per cent, brought a prospective balancing. On the economic side the decree reduced administered prices by 10 per cent of their June 30, 1931 level, established a Price Commission, and lowered contractual wage rates to the level of January, 1927, i.e. by 10–15 per cent. This heroic reduction of wages made it appear mandatory to lower house rents by seven or eight per cent, and this in turn required in consistency a scaling down of mortgage rates. The final step was a general reduction of interest upon all medium- and long-term credits, with a lowering of short-term rates effectuated through cutting the conventional bank commissions. Interest reduction represented the most hotly contested point of the program. Aside from theoretical pro's and con's, it is worth noting that the measure actually came into force by virtue of pressure from agricultural interests, chiefly the East Prussian landowners, whose influence was in the ascendancy. Shortly before the Emer-

1. Jahrbuch, 1931, des Allgemeinen Deutschen Gewerkschaftsbundes (Berlin, 1932), p. 39; the largest deficit since the post-war inflation.

gency Decree they had informed the Chancellor of their intention to cut wages by one-third and mortgage interest rates to three per cent by unilateral action.

Without reference to this immediately impelling circumstance, what may be said in evaluating the interest reductions as a matter of economic policy? On the one hand, it may be argued that a cheap money policy directly negates the deflationary efforts of price- and wage-reduction decrees. On the other hand, it might be held that if the government takes the tack of a general reduction of costs, then not only commodity prices and wage rates, but also interest charges must in consistency be reduced. The force of the latter view appears to be increased by the virtual unanimity of various shades of theoretical opinion upon this one point. Keynesians argue against wage-reductions only upon the grounds of expediency; but if the resistance of trades unions has been broken, then wage-reductions are as eligible a method of securing low interest rates as an expansion of credit. Without accepting the Keynesian position that an impetus to expanding employment can proceed *only* through the one channel of lower interest rates, Robertson proposes a bank rate below the "quasi-natural" level obtaining in depressions.[1] Finally, the typical orthodox position of a decade ago assumed that all prices should be reduced, including as a matter of course interest rates also.[2]

In my judgment the application of these arguments in favor of low interest to the German situation of 1934 would fail upon one or other of two counts. The argument might, in the first place, assume that Germany could pursue an autarkic credit policy, and that sacrificing the foreign value of the Mark would be a low price to pay for avoiding deflation and further liquidation. This ignores the fact that the Brüning government, for reasons already set forth, could not risk devaluation. On the other hand, the proponents of a cheap money policy might agree upon this point but err in believing that price and wage reductions were a *fait accompli*, so that the application of the interest rate thumbscrew was superfluous. Actually, however, the deflation of prices and wages had gone only part way. Direct observation shows that important segments of the price system were still unaffected. Indirectly, the lacunae of direct

1. D. H. Robertson, "Industrial Fluctuation and the Natural Rate of Interest," Economic Journal, Vol. 44 (December, 1934), pp. 650–656.

2. Jacob Viner, Balanced Deflation, Inflation, or More Depression (University of Minnesota, Minneapolis, 1933), Section IV.

deflation by authoritarian price and wage reduction are revealed by the fact that, even at a rediscount rate of seven per cent, the Reichsbank felt itself threatened by the necessity of resorting to credit rationing. High interest rates were indispensable to complete the task left unfinished by direct operation upon prices.

The Fourth Emergency Decree signalized the determination of the government to press forward a deflationary policy by eliminating such lacunae. But, at best, deflation requires time. Exchange control, introduced as an emergency or short-run measure *par excellence* to cope with the irrational forces of capital flight, was transformed into a medium-term arrangement. From the middle of 1932 onward, the German government abandoned attempts to restore equilibrium with international prices, and therewith accepted exchange control and the overvalued mark as long-run features of the German economy. We turn to the complexion of economic life in Germany during this intermediate term of exchange control prior to the advent of National Socialism.

Efforts Toward International Price Equilibrium Under Exchange Control — December, 1931 to February, 1933

The balance of payments for 1931 showed an outflow of 3,350,000,000 Reichsmarks in capital flight and uncontrolled repayments, this sum being offset on the export side by an unprecedented favorable balance of trade of 2,827,000,000 Reichsmarks and a loss of devisen which cut the Reichsbank's reserves in half.[1] Compared with these results, the balance of payments in 1932 indicates that the efforts made to restore normal conditions were not unsuccessful. A slow drain upon the Reichsbank's reserves took a further 200,000,000 Reichsmarks in gold and devisen during 1932. Adding to this an amount of 252,000,000 Reichsmarks from the favorable balance of goods *and services*, we obtain 452,000,000 Reichsmarks; and this total is counterbalanced by 450,000,000 Reichsmarks repaid upon long-term loans to the Reich, the central bank, and the Golddiskontbank. Even if the statistics are not altogether accurate, there is little room for a flight of capital.

For the more normal aspect of the balance of payments in 1932, two factors were chiefly responsible — the extending and broadening of the Standstill, and the Lausanne conference con-

1. Die Deutsche Zahlungsbilanz der Jahre 1924–1933, p. 22, and Wirtschaftstatistisches Jahrbuch 1931/1932 (Vienna, 1933), p. 13.

cerning reparations. The first renewal of the Standstill agreement for the twelve-month beginning with February, 1932, recurred to the suggestion of the Wiggin-Layton Committee and provided for the conversion of unsecured short-term credits at the option of the creditor to 10-year gold notes at six per cent. Creditors might also utilize a maximum of 50 per cent of their advances for the purchase of German securities, which remained "blocked" however for five years thereafter. This was the origin of one category in the system of blocked marks, destined to become an integral part of German exchange control. The Standstill renewal involved also a guarantee of the Golddiskontbank for certain short-term credits and the reduction of unutilized lines of credit. The German debtors secured a promise that interest rates would be reduced to some conformity with rates in the creditor countries. By the time the agreement was concluded, repayments and sterling depreciation had brought the aggregate of included credits to 5,000,000,000 Reichsmarks, or 20 per cent less than their original amount.

Creditor concessions in funding short-term credits and debtor demonstrations of genuine desire to repay created an atmosphere of goodwill. Two months after the Standstill renewal a supplement included municipal obligations and reduced interest rates in this field from nine to six per cent. There remained outside the Standstill 5,100,000,000 Reichsmarks short-term debts of German individual and corporate enterprises to non-banking firms abroad, and a further 5,300,000,000 Reichsmarks comprising chiefly the obligations of German firms to foreign affiliates, wherein the debtor relationship frequently departed somewhat from a strict short-term character. Although the Standstill embraced only a third of Germany's short-term debts, its favorable psychological effect undoubtedly extended over the entire range of foreign indebtedness.

Another milestone on the way to a normal balance of payments was reached at the culmination of reparation negotiations. One of the great merits of the Wiggin report lay in its unambiguous declaration that a final solution of the reparation problem was a prerequisite to the restoration of international credit. Political difficulties in France and Germany caused a postponement of the conference at Lausanne from January, 1932, to June 16. After three weeks of debate the delegates reached an agreement: besides the service upon the Dawes and Young loans, the Belgian mark claims, and the American "mixed claims," amounting in total to 230,000,000 Reichsmarks annually, Germany undertook to pay 3,000,000,000 Reichsmarks for obligations postponed from the "Hoover year," provided the Bank for International Settlements should be able after three years to place the German bonds at 90 per cent of their nominal value. Should this prove to be impossible within 15 years, the bonds were to be destroyed. The arrangement virtually signified the annulment of reparations, which amounted to 30,000,000,000 Reichsmarks under the Young Plan and would have entailed a payment of 1,700,000,000 Reichsmarks in 1932 and 2,400,000,000 *per annum* later.

Whereas the Standstill and reparation arrangements contributed to a consolidation of Germany's position in international finance, the reconstruction of the banks which had collapsed in the summer of 1931 marked a notable step forward in the internal credit situation. The task of reconstruction proved to be easier in Germany, where industry enjoyed a relatively high degree of independence from bank financing, than in Austria, where the Credit Anstalt virtually owned 70 per cent of the industrial capital. In one major instance German industry had even succored the banking system, that is, in the support given by I. G. Farben, Siemens, Vereinigte Stahlwerke and other large firms to the "Danat" Bank shortly after the crisis. Nevertheless it was to be expected that private capital would not suffice for a thoroughgoing reconstruction of the banks. The merger of the "Danat" and Dresdner banks chiefly depended upon the Reich; active state aid proved to be necessary in the case of the Commerz-und-Privatbank. In a third case, the Deutsche Bank and Diskonto Gesellschaft, only a limited amount of aid had to be given; this devolved upon the Golddiskontbank after a doubling of its capital. Total participation of the Reich in bank reorganizations amounted to about 500,000,000 Reichsmarks, part of which had, of course, to be regarded in advance as lost. The reorganizations were accompanied by a ruthless clearing of balance sheets with unquestionable benefit to public confidence. Two days after the reconstruction was completed in February, 1932, the Berlin Bourse resumed its activities. So far as concerns finance, both foreign and domestic, Germany had through bank reorganizations, Standstill agreements and the Lausanne conference substantially consolidated her position; but what is to be said of deeper forces in economic life such as trade, production, and employment?

The favorable balance of trade, having attained a peak in the third quarter of 1931 at 1,001,000,000 Reichsmarks, fell to 907,-000,000 in the last quarter of 1932, to 354,000,000 in the first quarter of 1932, and to about 250,000,000 quarterly through the remainder of the year. This resulted over the year in a favorable balance only 37 per cent as large as that of 1931. Had it not been for German exports to Russia, which were supported by long-term credits and other facilities accorded by Germany to offset her high prices, matters would have been still worse. As it was, German exports to European countries declined at about the same rate as the exports of most industrial countries. Exports to non-European countries decreased very sharply, however,[1] chiefly accounting in 1932 for the shrinkage of total exports by 3,800,000,000 Reichsmarks, while the value of imports fell by only 2,000,000,000 Reichsmarks.

That German foreign trade fared relatively worse than that of other countries is explained by sterling devaluation and the lagging pace of deflation within the country. The depreciation of the pound, the growth of protectionism in Great Britain, and later the operation of the Ottawa agreements severely impaired Germany's competitive ability on international markets. In the Balkan countries, for example, Germany lost 50 per cent of her export demand during the first half of 1932, whereas England actually increased exports to the same region.[2] The heavy odds against which Germany had to struggle are shown in Figure 20 by the plummeting line of British (gold) wholesale prices during 1931 and 1932, and in the striking behavior of British prices expressed in percentages of German prices. For wholesale prices, such a comparison reveals that, if account is taken of the depreciation of sterling in terms of gold, England enjoyed a 20 per cent undercutting margin beginning with the last quarter of 1931. The comparison of export prices on finished goods, probably a more sensitive measure, shows an even greater advantage at the end of 1931 and beginning of 1932, though by the second and third quarters of 1932 the operation of the Fourth Emergency Decree (December, 1931) had appreciably bettered the German position.

1. Cf. Appendix, p. 145, below.
2. V.z.K., Vol. 7, No. 2, Part A, p. 107.

British and German Prices During 1931 and 1932
(Third quarter 1931 = 100)

Year and Quarter	1 British Wholesale in Gold*	2 German Wholesale Index*	3 Col. 1 as Percentage of Col. 2	4 British Export Finished Goods, in Gold†	5 German Export Finished Goods Index†	6 Col. 4 as Percentage of Col. 5
1931 I	109.4	103.9	105.3	110.2	107.2	102.8
II	107.5	102.8	104.6	107.1	104.0	103.0
III	100.0	100.0	100.0	100.0	100.0	100.0
IV	78.5	98.2	79.9	75.4	96.3	78.3
1932 I	75.0	93.9	79.9	70.3	94.8	74.2
II	74.8	93.6	78.9	74.3	92.7	80.2
III	69.8	87.3	79.9	68.6	87.8	78.1
IV	66.0	82.6	79.9	65.1	90.6	71.9

* For data, cf. Appendix, p. 138. The figures have been adjusted to a 1931 base.
† V.z.K., Vol. 7, No. 4, Part A, p. 221.

The fourth quarter of 1932 with its marked reversal actually belongs to another phase of economic developments.

During this year the index of production (1928 = 100) hovered about 60, reaching its absolute low point in August, 1932, at 58, while unemployment never fell below five millions. These figures reflect the general course of depression; but the inability of the German monetary authorities to resort to immediate and avowed devaluation imposed a deflationary policy which accentuated unemployment, at least in the short run. Apart from the special position of the sterling *bloc*, however, and the unforeseeable dollar devaluation a year later, the price situation did not present insurmountable difficulties to the prospective attainment of equilibrium. Throughout 1932 German prices moved in accord with prices in France, as representative of world gold-price economies. The hope seemed to be justified that another strong effort at deflation would completely close the gap between German and gold prices, leaving to the sterling *bloc* the task of conforming to the international gold standard. Voices could be heard in the summer of 1932 urging that, under these circumstances, exchange control should be abolished.

The history of the first nine months of control revealed, however, that the system possessed within itself a strong tendency toward expansion. Some of the measures, such as the lowering of the amount exempted from exchange control from 3,000 to 1,000, and subsequently to 200 Reichsmarks,[1] represent merely a tightening of existing decrees. Extensions of control into new fields to stop the leakage of devisen seemed to be required, however, not only from the viewpoint of the German authorities charged with husbanding the supply of foreign exchange, but also from the angle of public opinion abroad, which conceived the regulation to be necessary in the interest of the foreign creditors.[2] On November 2, 1931, the purchase and sale of foreign securities was made subject to special permission of the Devisen Offices.[3] But it was the repatriation of German bonds which principally concerned the authorities as a method of evasion. As early as October 3 the publication of free (foreign) quotations on German securities had been suppressed[4]; but the November 2 decree, while permitting foreigners to sell their holdings of German bonds within Germany, forbade the transfer of proceeds abroad.

Exchange control operated through two distinct channels, connected with foreign prices of German bonds, to perpetuate itself. The blocking of outward transfer created an artificial tendency of interest rates in Germany to decline, as reflected, for example, in the gradual reduction of bank rate to five per cent in April, 1932; and it also accounted directly for the low values of German bonds abroad. The combination of high security values at home and low values on the same securities abroad, even in the absence of other motives for a capital flight, would provoke attempts to send funds abroad. Exchange control thus proved

PRICES OF GERMAN BONDS*
(Monthly averages)

	May, 1931	May, 1932	May, 1931	May, 1932
	New York		Zurich	
7 per cent bonds	92.0	30.8	100.9	54.3
6½ per cent bonds	82.4	23.6	94.6	32.0
6 per cent bonds	79.4	21.3	91.9	32.8
	London		Amsterdam	
7 per cent bonds	85.7	58.2	91.5	38.0
6 per cent bonds	84.1	30.1	83.5	31.9

* V.z.K., Vol. 7, No. 4, Part A, p. 192.

1. 1931: I Reichsgesetzblatt, pp. 463, 534.
2. Economist, Vol. 113, No. 4604, p. 947.
3. 1931: I Reichsgesetzblatt, pp. 673, 674.
4. 1931: I Reichsgesetzblatt, p. 570.

indirectly to be one of the main reasons why its own continuance was necessary. This curious repercussion operated also through a second line of causation: as the president of the Reichsbank, Hans Luther, declared with some justification, exchange control could not be withdrawn until the foreign short-term credits were successfully converted into long-term obligations.[1] But as long as German bonds stood at the disastrously low levels of 1932, there could be little prospect of floating a German conversion loan.

Because repatriation offered windfall profits on exports of capital, because a general apprehensiveness concerning Germany's future effectively stopped any inflow of capital and on the contrary occasioned a continuous alertness to opportunities for capital flight, and finally, because the Mark was overvalued relatively to sterling, the demand for foreign devisen exceeded supply at the official rate and a system of rationing became inevitable. As introduced in November, 1931, the scheme allotted to accredited importers 75 per cent of the devisen used by each firm during the base year July 1, 1930 to June 30, 1931. The quota was reduced to 55 per cent in April and to 50 per cent in May, 1932, and this quota remained in force for nearly two years. The exchange authority maintained that the 50 per cent allocation did not impose an artificial limitation upon imports, inasmuch as both the value per unit and the volume of imports had fallen very greatly through the "natural" course of depression since 1930. The total value of imports fell by 35 per cent from the first quarter of 1931 to the first quarter of 1932, when the 50 per cent quota obtained. Since this shrinkage was the outcome of a 30 per cent fall in average import prices but only a 10 per cent reduction in volume, the authorities held with a fair degree of plausibility that the actual volume of consumption had suffered no more than might be expected, aside from exchange control, in a year of severe economic contraction. However true in 1932, this contention seems to have had less and less validity as time went on, and the qualification was substantial by the early part of 1934.

The possible economic effects of the system of devisen allocation are not exhausted by the question of their adequacy for imports as a whole. The system prevented the appearance of new import firms, virtually precluded any shifting of the relative outputs of firms from their 1930 basis, and afforded to the existing importers a sheltered position at a time when the deflationary

1: Luther, loc. cit., p. 24.

process was imposing a severe struggle for existence on other enterprises. Circumstances of this sort gave rise to the belief within the country that exchange control could be regarded as a protectionist device, akin to the decree of January, 1932, which imposed surcharges upon imports from countries with which no commercial treaty had been concluded. But on the whole, despite the ossifying of the import situation, Germany can scarcely be accused of employing exchange control up to the middle of 1932 as an instrument of trade policy.[1]

There was, however, no lack of pressure, both internal and external, toward such an employment. On the one hand, the Association of German Industry carried on active propaganda in favor of altering exchange control so as to "pay more attention to the viewpoint of the national economy."[2] The Brüning policy of carrying on deflation under the temporary shelter of exchange control encountered difficulty on the international side by reason of the fact that other countries were simultaneously pursuing the same course. In 1931 fifteen European and seven other countries could be counted under exchange control[3]; and during the first half of 1932 six more countries were added to the list. The number of countries which, like Jugoslavia at the time, held aloof from protectionist and regionally discriminatory practices in connection with exchange control became smaller and smaller. At a minimum, imports of luxuries were throttled in the devisen allocation; and although this may not have appeared to be a protectionist measure, it usually operated simply to turn the demand for such products to domestic sources or substitutes. Above this minimum were all degrees of autarkic policy increasingly jeopardizing the maintenance of exchange control in Germany as a purely monetary device, and constantly postponing the time when the deflationary program should have brought about equilibrium in the balance of payments. The original introduction of exchange control by Ger-

1. Cf. in this sense also: Thomas Balogh, "The National Economy of Germany," Economic Journal, Vol. 48 (September, 1938), p. 480.

2. Alexander Bentheim, "Devisenbilanz, Autarkie, und Schuldendienst," Der Deutsche Ökonomist, Vol. 50, No. 14 (April 8, 1932), pp. 441–443.

3. Iran and Portugal had control systems even before the crisis of 1931. During the balance of the year there were added: Angola, Argentina, Austria, Bolivia, Brazil, Bulgaria, Chile, Czechoslovakia, Denmark, Esthonia, Germany, Greece, Hungary, Iceland, Jugoslavia, Latvia, Nicaragua, and Uruguay. Cf. Die Währungen der Welt, published by the Economic Division of the Dresdner Bank (Dresden, no date).

many undoubtedly precipitated and in many cases necessitated similar action by neighboring states; but once the controls had become established, there followed a period in which Germany suffered more by foreign efforts at autarky than foreign countries did by her control system.

These difficulties, which obtruded in the shrinkage of exports and the rapidly approaching extinction of the export surplus, led to grave misgivings within Germany as to the ultimate success of deflation under cover of exchange control as a method of securing price equilibrium with foreign countries; and they encouraged resort to devices not fundamentally compatible with such a course. The clearing agreements, to which resort was had in the Spring of 1932, afforded export outlets independently of Germany's completing the program of adjustment through deflation. Furthermore, the device of concealed devaluation through export subsidy presented itself in a beguiling fashion which may have appeared to involve no costs. From the middle of 1932, the Reichsbank began to grant permission to exporters, on condition that it be proven that the particular export sale was "additional," i.e., impossible without this concession, to purchase German bonds at the low foreign values, and with the profits made from resale in Germany to cover the losses of quoting the export good at international competitive prices.

Heuser has taken the position that this device caused the foreign bondholder to bear the costs of export subsidy.[1] While this statement is not necessarily wrong, it may easily be misleading. All that is known beyond peradventure is: (1) that exchange control imposed windfall losses upon foreign bondholders; (2) that anyone in Germany repatriating these bonds made a windfall profit; and (3) that the government turned certain sums over to exporters to enable them to meet competitive prices on world markets. To say that the export "subsidy"[2] was borne by the foreign bondholder implies a *real* linking of the third step with the first, *via* the second. But such a linking is by no means *necessary*. It would be apparent for one thing that, if the German government had resolved to aid exports in all events, repatriation profits

1. Heinrich Heuser, "The German Method of Combined Debt-Liquidation and Export Stimulation," Review of Economic Studies, Vol. 1, pp. 210–217.

2. "Subsidy" is figurative only, if the aid merely offset the Mark overvaluation.

or none, the linking of such repatriation profits as were realized with the "subsidy" would be purely arbitrary, since the windfall might as legitimately be taken as the source of *any other* application of national income. Furthermore, the windfall losses to foreign bondholders did not *necessarily* lead to windfall gains to Germans, for the German government might have endeavored to suppress repatriations altogether in order to relieve the balance of payments from pressure exerted by this capital export. Consequently, neither the link between the third and second, nor between the second and first were *necessary*. To establish a connection between the third and first it is requisite to show that, in actual fact, both links held: in the first place that, without repatriation profits, exports would not have been subsidized; and in the second place, that had it not been for the possibility of commandeering these profits for exporters, repatriation would not have been permitted. To make either assertion would be precarious, and by the same token the ascription of the cost of export subsidy to foreign bondholder is also precarious.[1]

The promotion of exports through earmarking repatriation windfalls for this purpose represented a concession to the idea of devaluation, which in itself might be regarded as a prelude to abolishing exchange control. Moreover the repurchase of German bonds improved their foreign prices, and this tended to remove one obstacle to the flotation of a German stabilization loan and the lifting of exchange control. Up to January, 1933, these prices improved very considerably — from 100 per cent to 150 per cent — over their level of May, 1932, in the various foreign financial centers.[2] Even the political events of January, 1933, while adversely affecting German securities in all markets, did not degrade them to their character of *non-valeurs* of May, 1932. During 1932 the Reichsbank began also a policy of encouraging the exchange of German-owned foreign bonds for foreign-owned German bonds,

1. Just how perilous such conclusions are is well illustrated by Hansen's quite divergent observation on a similar procedure: "The American tourists have thus in fact been subsidized by other Americans who held non-transferable funds in Germany." Cf. Alvin Hansen, Full Recovery or Stagnation (New York, 1938), p. 204.

2. The German six per cent bonds rose over the indicated period from 21 per cent to 58 per cent of par in New York, from 32 per cent to 69 per cent in Amsterdam, from 30 per cent to 73 per cent in London, from 33 per cent to 69 per cent in Zurich. Cf. V.z.K., Vol. 7, No. 4, Part A, p. 112.

with a resulting favorable effect on the balance of payments.[1] Although these policies worked in a direction favorable to the relaxation of exchange control, this effect remained purely theoretical. Actual developments took the opposite course.

The year 1932 was one of swift political change. Because of factors largely outside Germany, deflation did not produce any tangible improvement; on the contrary, whether rightly or wrongly, it was held to be responsible for the further increase in unemployment. The Brüning government was, of course, unpopular with wage earners and the salaried classes, but it found also that neither big industry nor the landed (Junker) interests afforded the anticipated support. German agriculture, traditionally protectionist, could scarcely be content with a program oriented toward reëstablishing international finance and trade; and German industry, traditionally free-trade in sentiment, showed an increasing interest in the midst of the exporting crisis in autarkic measures. Furthermore, the situation seemed favorable to the industrialists for a decisive trial of strength with the labor unions, resulting in the elimination of collective bargaining and a further general reduction in wages. The combined attack of these disaffected groups succeeded in May in overthrowing Brüning, who was succeeded by von Papen as prime minister. While the new government could not entertain the idea of a complete reversal of economic policy, as long as the reparation problem continued unsolved, the restiveness of the populace — exemplified by three general elections in the course of 1932 — precluded a mere prolonging of existing policies.

Not until the end of the summer did the new government announce its program. Devaluation and autarky were both disavowed. But it was acknowledged that the "basis of food supply" should be secured within the country, and this implicit recognition of agricultural autarky led within a few weeks to the enactment of new agricultural import quotas. The most significant of von Papen's measures, however, worked toward an almost imperceptible, but nevertheless real, turning away from deflation. Deflationary and reflationary forces were in fact commingled, but there was a shift in the latter direction. Fear of adverse reaction upon the

1. The sale of $300 worth of Liberty Bonds bearing 3½ per cent interest meant a loss of $10.50 in interest; with these proceeds there could be purchased German bonds with a nominal value of $1,000, which at 9 per cent interest meant $90 gained; thus a net saving of $79.50 annually on the balance of payments was affected. Cf. Economist, Vol. 115, No. 4,657, p. 971.

Reichsmark limited expenditures planned for public works to the relatively modest amount of 135,000,000 Reichsmarks. Chief reliance was therefore put upon certain innovations introduced[1] by the decrees of September 4, 1932 — the issuance of tax certificates, the granting of subsidies to firms employing additional laborers, and the provision for reducing wage rates in conjunction with spreading the work to include new hands. The tax certificates, which were expected to aggregate a billion and a half Reichsmarks, were to be issued to payers of certain taxes, and were to be accepted in payment of all federal taxes to the limit of one-fifth over the period 1934–1938. An additional 700,000,000 Reichsmarks of certificates were to be disbursed as premia to firms at the rate of 100 Reichsmarks quarterly for each genuinely new employee. Wage reductions from 10 to 50 per cent on the thirty-first to the fortieth hour per week were authorized on a graduated scale depending on the number of additional workers employed. According to the results of Poole's thorough investigation,[2] the von Papen tax certificates, which could be rediscounted at the Reichsbank and thus could supply additional funds, actually went largely to liquidating existing debts. But this clearing away of indebtedness paved the way to extensions of production, as Poole maintains; and the ensuing programs of positive credit expansion also encountered less psychological resistance. Had it been possible to proceed to a frank devaluation of the mark at the same time, the door to international equilibrium would still have remained open.

Von Schleicher's government, coming into power early in December, pursued essentially the same policies as von Papen. As a last attempt to resist the National Socialist party, the government tried to come to terms with the labor unions and even offered their leader a place in the cabinet. Because of their unequal benefits as between firms, the wage-reduction premia paid in tax certificates were abandoned, and the additional-employee premia also fell into desuetude. But the Urgency (*Sofort*) Program initiated by Gereke under the Schleicher regime contemplated a public works program of 500,000,000 Reichsmarks and undoubtedly represented an intensification of the von Papen reflationary policy.

The advent to power of Hitler on January 30, 1933, greatly

1. 1931: I Reichsgesetzblatt, pp. 425–435.
2. Kenyon E. Poole, German Financial Policies 1932–1939 (Cambridge, Mass., 1939), pp. 16–73.

increased the drive toward full employment through public works and credit expansion. The First Reinhardt Program, introduced as part of the First Four-Year Plan on June 2, provided for the expenditure of a billion Reichsmarks for house repairs, road building, suburban housing colonies, rural settlements, and waterways.[1] Somewhat later a scheme for automobile highway construction outlined the spending of the exorbitant total of three and a half billion Reichsmarks. Both schemes were to be financed by work-creation bills drawn by private contractors, discounted by banks, and rediscountable at the Reichsbank — a system which contravened if not the letter at least the intent of the Reichsbank statute prohibiting rediscount and open-market dealings in government obligations.[2] The Second Reinhardt Program of September appropriated a half billion Reichsmarks for house repairs alone, and added 560,000,000 Reichsmarks for plant extensions by the postal and railway authorities. Tax exemptions on work-creating undertakings were introduced, and tax certificates up to the termination of the practice in June, 1933, were issued to 952,000,000 Reichsmarks.

With the adoption of these plans a course was being pursued quite counter to the restoration of price and cost equilibrium with foreign countries. The distance from equilibrium was soon to assume a magnitude which no deflationary policy could conceivably eliminate. There remained as alternatives only an open devaluation or devaluation concealed beneath exchange control; and in the latter event, exchange control would become a permanent feature of the economy.

On the Road to Bilateralism in Trade

"Economic policy," so-called, seldom represents anything as rational, predetermined, and consistent as the term might connote. The metamorphosis in Germany from deflation to a make-work expansion of credit appears as a series of merely expedient measures gradually prolonged into a general course of action. The central tendency of 1933 nevertheless represented national autonomous action, the perpetuation of price and cost disequilibrium with foreign countries, and implicitly the acceptance of exchange

1. Cf. C. W. Guillebaud, The Economic Recovery of Germany (London, 1939), pp. 38–43.
2. Cf. Poole, op. cit., p. 103 ff.

control, not only as it stood, but even in more intense form. Even such a country as Austria after 1933, maintaining the second type of control identified above, found it necessary to continue a full complement of clearing agreements and to carry on a good deal of local interference in order to guard against capital flight. This was the case despite the conformity of the Schilling rate with its equilibrium level. But even before February, 1933, Germany belonged to the fourth category of control[1]: the mark was overvalued not merely by reason of excessive capital exports, which in isolation would have brought her into the third category of exchange control, but also by reason of her lagging deflation relatively to other countries. The overvaluation of the monetary unit added fire to the flames of evasion and necessitated a still more strict control; but overvaluation also created an inevitable penalty upon exports and encouragement to imports; and the adverse movement in the balance of trade led with equal inevitability to the imposition of clearings, either by the control country in self-defense or by the trade (creditor) partner. When, finally, international price and exchange-rate equilibrium was relegated to obscurity with advent of the Hitler regime, foreign trade would have shrunk to a *quantité negligeable* had not concealed devaluations been introduced — requiring in themselves tremendous additions to the control apparatus — or had not, sometimes in conjunction with incomplete devaluation, clearings and compensation been maintained and extended.

It is not to be supposed that a *quantité negligeable* of foreign trade represented the goal of exchange control in totalitarian Germany before the present war. "Autarchy" rather than "autarky," in the language of Professor Fisher,[2] was the end actually striven for — not absolute economic self-sufficiency within the German borders, but the creation of an international self-sufficient unit, dominated by the needs and aims of the German economy as conceived by its "leaders." Nevertheless, autarkic tendencies played an important rôle, not only because national self-sufficiency was an ideal of the ruling party embodied in the Second Four-Year Plan, but also because of the repercussions of exchange control itself and the workings of the so-called "active

1. Cf. Part I (November, 1939), pp. 3–6.
2. A. G. B. Fisher, Economic Self-Sufficiency (Oxford, 1939), pp. 4, 17. Cf. also Economic Journal, Vol. 49 (March, 1939), pp. 177–178.

economic policy" (*aktive Konjunkturpolitik*).[1] Since this policy rested upon credit expansion without much regard to foreign price developments, and since furthermore the old parity of the Mark was adhered to or only incompletely offset by *ad hoc* devaluations, the restriction upon exports, and in the long run upon imports, forced a measure of "autarky" as the cost of "autarchy."

To serve as the fulcrum of the gradually emerging "active economic policy," exchange control had piecemeal to be reconstructed and extended. But just as the turn from deflation to credit expansion required a certain interval (the nine months covered by the Papen and Schleicher governments), the subjugation of foreign trade to economic policy could not be compassed immediately. Remnants of the old liberal system could still be discerned, though with increasing difficulty, as late as the summer of 1934. The two sections which follow deal with the transitional phase of German exchange control from the beginning of the National Socialist state to the complete dominance of "active economic policy" in the Moratorium of July, 1934, and Schacht's "New Plan" of September, 1934.

A. *Germany's Foreign Trade and Foreign Indebtedness under the Influence of the "Active Economic Policy," 1933–1934.*

The notorious power of an overvalued currency unit to retard exports and accelerate imports made itself felt as soon as exchange control was well established in Germany. Under the influence of depression and the whole nexus of barriers to trade and payments, both exports and imports dwindled, but exports fell off faster. Having reached its peak in the capital-flight year of 1931 at 2,872,000,000 Reichsmarks, the favorable balance of trade diminished to 1,072,000,000 Reichsmarks in 1932, to 667,000,000 Reichsmarks in 1933, and gave place to an import surplus in 1934. But the effect of the artificial Mark parity comes into still clearer relief if we follow the course of the volume rather than the value of trade. By expressing exports and imports in these years in terms of the prices of 1929, we arrive at an approximation of changes

1. The interconnection of German exchange control and the "active economic policy" has been set forth in an illuminating fashion in Dr. Fritz Meyer's report to the International Studies Conference, subsequently published in the Weltwirtschaftliches Archiv, Vol. 49, No. 1 (May, 1939), pp. 415–472. Other features of this report will be commented upon less favorably in a later connection.

GERMANYS' BALANCE OF TRADE AT ACTUAL PRICES AND AT PRICES OF 1929
(IN BILLION REICHSMARKS)

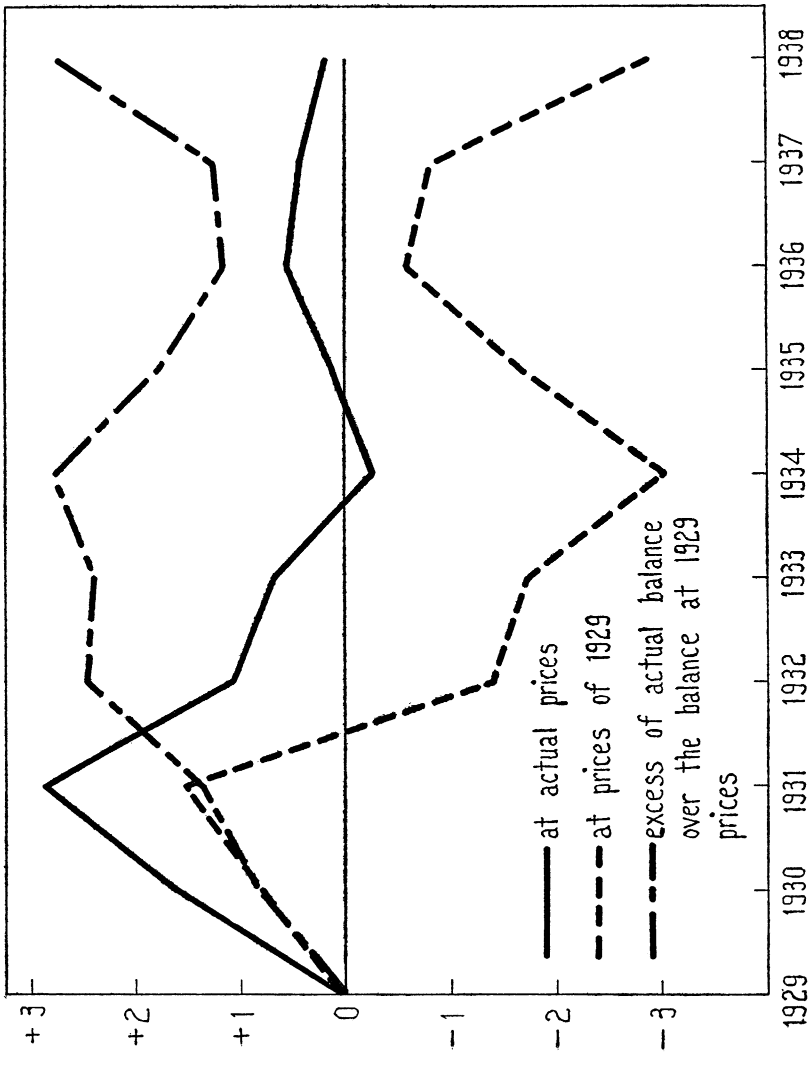

FIG. 21. * For data and sources, see p. 152 below.

aside from those of price, i.e. in trade volume.[1] These figures show that, had prices remained unchanged, the export surplus would have been confined to 1930 and 1931; by 1932 there would have been an *import* surplus of 1,410,000,000 Reichsmarks; by 1933, 1,740,000,000 Reichsmarks, and by 1932, 3,050,000,000 Reichsmarks.

That the actual export surpluses were much larger and lasted longer than the surpluses at 1929 prices is a circumstance for which Germany could thank a favorable turn in her terms of trade due to the well-known fact that during depressions the prices of raw materials decline faster than the prices of industrial products.[2] In other words, the advantageous development of the underlying terms of trade for Germany served to counteract to a striking degree the adverse effect of the overvalued Mark in international trade. Guillebaud puts the accomplishments of the National Socialist regime in the economic sphere in an unduly favorable light by mentioning only the deterioration of German terms of trade after 1932:[3] the great extension of employment surmounted even this obstacle. Actually, as the following figures show, the terms of trade for Germany remained far above their pre-depression

The Terms of International Trade, 1929–1938*
(1929 = 100)

	England	Germany
1929	100.0	100.0
1930	106.1	108.2
1931	115.7	123.8
1932	115.5	144.4
1933	119.9	142.8
1934	118.8	135.9
1935	115.3	126.3
1936	112.6	122.0
1937	108.0	117.6
1938	114.7	128.8

* Computed from data in League of Nations, Review of World Trade 1937 (Geneva, 1938), pp. 86–88.

1. Cf. Figure 21 and the statistics on p. 152, below.
2. This may rest, as Harrod believes, upon an underlying secular tendency for demand for agricultural products to shrink relatively to more highly fabricated goods, and the intensification of this secular tendency by cyclical depression. Cf. R. F. Harrod, International Economics, revised ed. (Cambridge, 1939), pp. 52–54.
3. Guillebaud, op. cit., pp. 62, 100, 106, 149.

level throughout the whole course of depression and recovery, despite the downward drift in recovery years. Not only did the behavior of industrial relative to agricultural prices redound to Germany's benefit, but so far as concerns the terms of trade, the maintenance of the Mark parity also operated in this direction. Indeed, it may be stated quite summarily that, aside from the prevention of a flight from the currency, the chief motive of holding a monetary standard at an artificially high level is the securing of more favorable terms of trade than would be realized if the exchange rate fell to its equilibrium level. Compare the German terms with those of England, where the currency unit was devalued. The exports of both countries are preponderately industrial, and yet Germany through the high Mark rate enjoyed by far the greater advantage in terms of trade.

Whereas the gain through the artificial Mark entailed its cost in a drag upon export capacity, the advantage secured through the industry-agriculture price relationship represented a net gain. The latter fact rendered exchange control more tolerable, and permitted the continuance of allocating devisen by quotas without direct interference with imports. Throughout the year and a half from May, 1932, to February, 1934, the monthly quota was kept at 50 per cent of imports as of the base period June, 1930 to July, 1931; and since average monthly imports amounted to 58 per cent on approximately the same base,[1] the unsatisfied margin of demand for devisen does not appear to be large. Of course, the parallel movement of imports with the quotas was undoubtedly partly a consequence of the quotas themselves. But, on the other hand, foreign exporters showed their willingness to submit to substantial delays in payment; and this additional fact warrants the conclusion that, all in all, German importers of raw materials felt, but did not find intolerable, the pinch of exchange control.[2]

Because of the underlying deflation under Brüning, the favored position of a country with industrial exports, and the profits upon bond repatriations, Germany's favorable balance of trade was sufficient to permit fairly substantial repayments on the short-term foreign debts, and foreign devaluations made large contributions. The original Standstill agreement of September, 1931, embraced

1. October, 1930 to September, 1931. Cf. V.z.K., Vol. 9, No. 3, Part A, p. 97.

2. Werner Fischer, Devisenclearing, No. 5 in Schriftenreihe zum Devisenarchiv (Berlin, 1937), p. 23.

6,300,000,000 Reichsmarks; the reduction to 5,000,000,000 Reichsmarks at the Second Standstill in February, 1932, was mainly due to sterling devaluation; but the further reduction to 4,100,000,000 Reichsmarks at the Third Standstill in February, 1933, represented for the most part actual transfers. By the time of the next Standstill, in March, 1934, the sum had been reduced by 1,500,000,000 Reichsmarks, of which dollar devaluation accounted for 475,000,000 Reichsmarks.[1] Paralleling the marked reduction of Standstill debts, other short-term foreign debt categories dwindled by repayments and devaluations. The decrease of long-term debts was much smaller and was almost entirely ascribable to foreign currency devaluations.[2] Bond repatriations, while aiding the current balance of trade through the diversion of profit into export subsidy, did not bulk large relatively to the total of long-term indebtedness.[3] But interest payments of 1,500,000,000 Reichsmarks were made during 1931; and an equal amount was paid over the two years 1932 and 1933, aside from service upon the Dawes and Young Loans, which brought the total for these two years to 2,000,000,000 Reichsmarks.[4]

The situation in the summer of 1933 represented the crucial defile in the history of German exchange control, for then if ever there were elements favorable to the gradual relaxation of the system, had the government desired it. Immediate abandonment would undoubtedly have been unwise in view of several circumstances. Dollar devaluation was in progress, and no one could foresee its ultimate effects in the international monetary situation. Economic recovery had begun in England and the Scandinavian countries, but another year had to elapse before it became apparent that the bottom had already been touched for Western Europe and America as a whole. Within Germany political tension

1. V.z.K., Vol. 9, No. 3, Part A, p. 96.

2. Thus the decrease from 10,300,000,000 to 7,400,000,000 Reichsmarks from February to September, 1933, was produced by dollar devaluation.

3. Cf. League of Nations, Balances of Payments 1937 (Geneva, 1938), p. 110. Between November, 1931, and November, 1933, repatriations amounted, according to the German authorities, to 781,000,000 Reichsmarks, and "additional" exports to 549,000,000 Reichsmarks; cf. Economist, Vol. 118, No. 4721, p. 348. The hesitancy of the authorities to reveal the extent of repatriations establishes a presumption for a somewhat higher figure; cf. Harris, op. cit., p. 58.

4. League of Nations, Balances of Payments 1937, loc. cit., and "Die Deutsche Zahlungsbilanz der Jahre 1924 bis 1933," Sonderhefte zu Wirtschaft und Statistik, No. 14 (Berlin, 1934), p. 20.

remained high, the favorable balance of trade continued to shrink, and gold and devisen reserves of the Reichsbank fell from 1,100,-000,000 Reichsmarks at the beginning of 1932 to 303,000,000 in June, 1933. And finally, the gap between the official and equilibrium values of the Mark was appalling.[1] On the other hand, as we have just seen, the service and amortization of foreign debts proceeded satisfactorily; and a marked improvement of the short-term debt situation, in particular, removed much of the psychological pressure which had accounted for the original introduction of exchange control. Capital flight was reduced to tolerable proportions, and illegal dealings in Marks at black market rates were being effectively suppressed. In short, exchange control during the first two years could be regarded, even by a liberal economist, as reasonably satisfactory.[2] Finally, the impact of sterling depreciation had been got over, and signs were not lacking of an approach to the end of cyclical depression. In a similar world *Konjunktur*, and with far less prospects than Germany's to induce a general movement in this direction, Austria had by the summer of 1933 already taken such decisive steps toward the liberation of international payments as to insure the eventual disappearance of exchange control, save for certain precautions against capital flight. This difference did of course exist, that Austria had followed a generally deflationary course, whereas since the autumn of 1932 German monetary policy had turned by gradual degrees to a reflationary basis. But the quantitative difference over a year could have been absorbed into a somewhat larger devaluation of the Mark.

To progress toward restoring free international payments, Germany would need to gauge the tempo of the *aktive Konjunkturpolitik* to international developments; but the preservation of an open and stable currency after devaluation would not necessarily involve a surrender of the expansionist work-creation program. Policies of this sort were being set afoot in other countries (outside the gold *bloc*); and in view of the later success of the National Socialist regime in forcing new credit and savings into investment and in avoiding conspicuously adverse price developments,[3] there

1. The extent of the overvaluation of the Mark is the subject of investigation at a later juncture; cf. pp. 76–85, below.

2. Gottfried Haberler, The Theory of International Trade (London, 1936), p. 86.

3. There appears to be a consensus amongst Balogh, Guillebaud, and Poole, in monographs already cited, upon these points.

seems to be good reason for supposing that the rate of expansion in Germany could have kept abreast, and with the formidable totalitarian apparatus might even have exceeded, the pace of other countries. To avoid a shock to public confidence, devaluation might well have followed the cautions and half-concealed course taken by Austria with respect to the Schilling, and thereafter the forcing of expansion would have to be watched at every juncture for untoward price developments, particularly in the segment of internationally traded commodities.

To assess the reasons leading to the rejection of this course is not easy, since they were apparently compounded of more and less rational considerations. In the first place, it was impossible to know in advance whether the powers of the state would be equal to carrying through a large-scale expansion of credit and production without considerable price inflation. Exchange control would conceal — at least partly — an unsuccessful outcome of this character. If direct price control and diversion of demand into producers' goods did not succeed completely, the maintenance of a new and open currency would be conditioned by foreign recovery, and the National Socialist regime could not brook even this potential limitation. Furthermore, the existing control over foreign exchange represented a powerful instrument in the hands of the regime, both in the domestic economy and in international political and economic relations. The state made itself appear indispensable to prevent the Mark from collapsing. Capital movements could be regulated to suit the current exigencies, and the character of exports and imports could be prescribed in detail to serve the ends of the state. The dispensation of authority regarding supplies of essential raw materials presented itself as a convenient channel for rendering producers tractable in all matters. Finally, the weapon of clearing and compensation could be turned against Germany's uncoöperative neighbors and in favor of her allies. Against all of these potential gains, the advantages of the international division of labor and financial coöperation probably seemed uncertain. And it was even a proud part of the National Socialist philosophy to flout such aims as belonging to the moribund ideology of democracy.

Schacht did not tire of repeating the truth that Germany's ability to pay her debts depended upon her favorable balance of trade.[1] While there was undoubtedly some justification for his thunderings against the creditor countries for their indisposition to import more heavily from Germany, this cannot conceal the fact that the "active economic policy" being carried out under the continued cover of exchange control actually prevented any substantial surplus of exports and the continuation of foreign debt service and repayments. Under the existing overvaluation of the Mark, the favorable balance of trade had shrunk from 2,872,000,000 to 667,000,000 Riechsmarks from 1931 to 1933. It may be assumed rather safely that the government and Reichsbank watched the dwindling gold reserves with equanimity, as this provided the necessary pretext for unilateral action in reducing the foreign debt service.

This action came on June 9, 1933, in a law which created the so-called Conversion Office and proclaimed a transfer moratorium for long- and medium-term debts. For all such debts in foreign currencies, the service was to be paid into the Conversion Office, exception being made for the Standstill debts. The creditor countries promptly retaliated by threatening to impose compulsory clearings and thereby forced a compromise. Interest and amortization on the Dawes Loan and interest on the Young Loan were to be transferred in full; other coupons and revenues were to be transferred to 50 per cent at a rate of interest not to exceed four per cent, and for the remaining 50 per cent, interest-bearing scrip was to be issued; finally, Mark payments for amortization were to be blocked Marks, applicable to investment within Germany. From October 1, 1933, dealings in scrip and registered Marks were centralized in the Golddiskontbank. Since scrip was bought by its agent-banks at 50 per cent of face value, the procedure transferred effectively in devisen 75 per cent of the interest. The re-purchasing banks sold scrip to the Golddiskontbank at 52½ per cent of face value, and the Golddiskontbank put the scrip at the disposal of exporters at 55 per cent. What the exporter in turn could realize was computed on the formula $\frac{\textit{loss from export} \times 100}{\textit{discount on scrip}}$, amounting at that time to 10–20 per cent of the invoices.[2]

1. As, for example, in his address to the International Agricultura Conference at Bad Eilsen, August, 1934.

2. Department of Overseas Trade, Economic Conditions in Germany June, 1934 (London, 1934), p. 37; cf. also League of Nations, World Economi Survey 1933–1934 (Geneva, 1934), p. 206.

The ingenious system by which repayment profits were turned into an export stimulant was one of the first instances of direct interference with foreign trade, for other exchange-control measures had pertained only to payments, which of course affect trade, but only indirectly. To obtain the benefit of scrip profits, the exporter had to prove that the export was "additional." This concept of "additional" exports was destined to become one of the main pillars in the structure of controlled trade. Somewhat paradoxically, the increase of "additional" exports attended a steady decline in total volume of exports; according to official estimates, "additional" exports amounted to 100,000,000 Reichsmarks in 1932, 700,000,000 Reichsmarks in 1933, and 1,250,000,000 Reichsmarks in 1934, while the total exports at these years aggregated to 5,739,000,000, 4,871,000,000, and 4,167,000,000 Reichsmarks. From less than two per cent in 1932, "additional" exports increased to 14 per cent of total exports in 1933.[1]

Inasmuch as "additional" exports may be regarded as resulting from an offset to the overvaluation of the Mark, and since such an offset was necessary for most exports, virtually all exports could be regarded as "additional" under the formal definition of the term. For practical purposes, however, several tests were applied. An export was recognized as "additional" when the foreign purchaser demanded that he be allowed to apply a certain amount of frozen Marks, owned by himself or someone whom he represented, to the payment of the bill. When it could be shown that the foreign prices were lower than the German price, or when the export was impossible without the aid of the scrip bonus, the export was considered "additional." Frequently the exporter was required to prove that his exports would be made higher absolutely than they had been in the particular category during the preceding year. As to the first tests mentioned, only exports in which Germany's comparative advantage was very great would, under the existing overvaluation of the Mark, fail to be classified as "additional" on any realistic basis. As for the last criterion, the shifting of exports from one firm's name to another through a profitable collusion, or the artificial concentration of exports in a shorter than usual period, would make them conform to the test without their being genuinely additional. Huhle says with complete justice that "despite the definitions, 'additional exports' defy all attempts at clarification of

1. Department of Overseas Trade, loc. cit., p. 36.

the concept."[1] In any event, the "additional" exports involved a procedure which entailed far-reaching official supervision of the whole export trade, and the very looseness of the concept proved to be an easy device for favoring certain exporters and discriminating against others.

The inadequacy of "additional" exports to overcome the handicap of the overvalued Mark led to the peculiar phenomenon of attempts to supplement the profit motive by energetic appeals to the German people's "will to export."[2] This inruption of Nietzschean metaphysics should be noted, for it became characteristic of the German economy after February, 1933.

The compromise with foreign creditors after the June 9 transfer moratorium was altered shortly afterward with respect to Switzerland and Holland. Because of their excess of imports from Germany and their debtor position on current account, these countries succeeded in their insistence upon full payment on interest coupons out of the proceeds of German "additional" exports. Furthermore, certain of their own exports to Germany and the German tourist traffic were to be paid for in the same way, providing an automatic expansion of their receipts as "additional" exports were fostered. The connections between Germany's solution of the debt problem and trade bilateralism came through such channels to be more and more intimate.

In December, 1933, Germany reduced the debt service in free exchange from 50 per cent to 30 per cent. Protests of the creditors, who stressed a recent improvement in Reichsbank reserves,[3] led to the purchase of scrip by the Golddiskontbank at 67 per cent instead of 50 per cent, and this signified a payment of 76.9 per cent instead of 75 per cent of interest charges.[4] But the first six months of 1934 saw so heavy a fall in Reichsbank devisen reserves that they did not exceed 2.5 per cent of the note circulation. The shrinkage was made more spectacular by the Bank itself, which hurriedly repaid certain loans. After futile discussions with creditor representatives

1. Fritz Huhle, "Das Kompensationsgeschäft in Rahmen der deutschen Handelspolitik seit der Wirtschaftskrise," Jahrbücher für Nationalökonomie und Statistik, Vol. 145, p. 199.

2. Cf. V.z.K., Vol. 9, No. 1, Part A, p. 31.

3. As a result of a law against "economic treason," about 120,000,000 Reichsmarks in gold and devisen were surrendered by the public. Cf. Müller, op. cit., p. 260.

4. Müller, op. cit., p. 228.

in the spring of 1934, the government proceeded on July 1 to a complete transfer moratorium; interest payments thenceforth were to be met by the issue of three per cent Funding Bonds. President Schacht offered a lengthy apology for this step — the loss of German colonies after the War, and trade difficulties caused by tariffs, quotas, and foreign devaluations.[1] He stressed Germany's efforts to pay her debts, but passed over in silence the fact that foreign devaluations and the profitable repatriation of bonds due to the imposition of exchange control accounted for a substantial part of the actually recorded reduction of debts.

B. The German Clearings System and the IMPASSE *of 1934.*

The final step taken by Germany in July, 1934, to make the Moratorium absolute encountered less complacency on the part of creditors than had preceding limitations on payments. In England, Parliament hurriedly passed the "Debts Clearing Office and Import Restriction Bill" and provided for a 20 per cent *ad valorem* duty on imports from Germany. France, Holland, and Switzerland likewise threatened with compulsory clearings; and since all of these countries, unlike the United States, had unfavorable trade balances with Germany and consequently owed her on current account, they managed to secure the earmarking of part of the German export surplus for the debt service. This development in the summer of 1934 led to the contention, which has become common in German writings on exchange control, that Germany's creditors forced the system of clearings upon her. Was this actually the case?

The first clearing agreements were concluded by Germany in the spring of 1932. As Fischer very properly says, Germany considered these clearings to be the best available solution of two problems: (1) "How is it possible for Germany to thaw out her frozen commercial credits in exchange-control countries? (2) How is it possible for Germany to maintain her favorable balance of trade with free-payments countries?"[2] The clearing system was already two years old before the Western European creditor nations threatened to impose *Zwangsclearing*. Previous to this move, which forms the basis of the German pose as the luckless

1. Österreichischer Volkswirt, Vol. 26 (June 23, 1934), p. 839.
2. Werner Fischer, Devisenclearing, p. 19.

victim of rapacious creditors,[1] Germany had indeed entered into clearing arrangements providing debt-liquidation schedules in favor of the western countries; if the active force in this matter was the creditors' insistence on a certain amount of payment, it was nevertheless a subject of negotiation and voluntary agreement. Where Germany herself occupied the position of creditor, as in her relations with Eastern European countries, she did not hesitate to insist upon amortization clauses in the clearings.

Indeed, the very *first* of Germany's clearing agreements had precisely this purpose. "Agricultural countries which became 'devisen insolvent' should be given the opportunity to discharge their commercial debts gradually through increasing their exports to Germany," it was maintained.[2] The German-Hungarian clearing agreement of 1932 represents a rigorous imposition of bilateralism to secure the release of German credits tied up by a foreign exchange control. It was exceptionally severe upon contemporary standards — though not upon standards which later came to be common — through its involving government instead of central-bank legislation, and through its making the clearing compulsory. It furthermore imposed a clearing rate so unfavorable to Hungarian importers[3] that Germany's favorable balance declined from 11,000,000 Reichsmarks in 1932 to 3,900,000 Reichsmarks in 1933, and the Reichsbank felt compelled to make advances to exporters on the old commercial debts, which it was the ostensible purpose of the clearing to liquidate. The high Mark rate had balked the effort.

In 1932 Germany concluded clearing agreements with other exchange-control countries such as Bulgaria, Esthonia, Greece, Jugoslavia, and Rumania. These differed from the agreement with Hungary in that they were negotiated between the central banks and allowed transactions outside the clearing. But their purpose was again to secure amortizations on Germany's behalf, and they provided no margin of payments for her clearing partners in free devisen.

Germany also instituted non-compulsory clearings during the second half of 1932 and the early part of 1933 with a number of

1. Even one English writer seems to have capitulated to this view; cf. Guillebaud, op. cit., p. 65.

2. V.z.K., Vol. 12, No. 3 (N. S.), p. 315.

3. Cf. Währung und Wirtschaft, February 1933, p. 33. The pengö had depreciated by about 25 per cent, the Mark considerably less, but the clearing rate was the old parity.

Western European free-payment countries.[1] The avowed purpose of these clearings was "to render possible additional exports and imports beyond the scope of the devisen quotas,"[2] but it is difficult to reconcile this with the position taken by the authorities in other connections that the devisen quotas were adequate, at least until the early months of 1934.[3] To be sure, the allocation scheme had been amended subsequently to its introduction to set a limit, not only upon the total foreign-exchange purchases for each importer as a percentage of his 1930–1931 requirements, but also upon the share of this total which he could apply to imports from individual countries. Shifts in the channels of trade might therefore engender scarcities of devisen for imports from particular countries, even if the total generally speaking were adequate. But it seems probable also that clearings with non-exchange-control countries were prompted, at least in part, by a growing pressure of imports on the quotas. It was also said that a fear of foreign retaliations against German exchange control moved Germany to initiate clearings herself in order to be able to propose terms acceptable to herself. But against what could the supposed foreign retaliations be directed, if not to secure liquidation of important arrears on current account accumulating because of the inadequacy of devisen allocations? Retaliations to force payment on long-term debts could not have played a rôle before the transfer moratorium of June, 1933. Even before the practice of direct quantitative interference with imports was openly avowed in Schacht's "New Plan," it undoubtedly existed in fact.

Agreements of the sort under consideration, usually called "Swedish Agreements" or "Swedish Payment-Agreements,"[4] had the common features that they established a clearing procedure for trade in excess of amounts which the exchange-control country could carry on by means of devisen, and that they laid down a

1. Belgium-Luxemburg, Finland, France, Holland, Italy, Norway, Portugal, Spain, Sweden, and Switzerland; cf. Fischer, op. cit., p. 24.

2. Fischer, op. cit., p. 21.

3. Cf.pp . 26–27 above.

4. The term "payment agreement" has come in the course of time to refer less commonly to arrangements of the "Swedish" type, and more commonly to the centralization of all payments in government offices in the partner countries with the purpose of allocating export proceeds upon the basis of an agreement between the two countries, the settlement of balances being made, however, entirely in free devisen. Cf. Part I (November, 1939), p. 15.

certain fixed ratio of exports and imports so as to provide a margin out of which the exchange-control country discharged its debts. The development of "Swedish Agreements" reveals two more or less distinct periods. The first extends from their introduction to the late spring of 1933, during which time they worked satisfactorily, perhaps because they played no very important rôle. Temporary increases in German imports were cared for through the clearing (or "Swedish") account, and this relieved the devisen allocations from inequalities in demand. The second period dates from the middle of 1933, when the popularity of "Swedish Agreements" increased tremendously; but developments which we must now examine proved that they were no solution of Germany's difficulties with her foreign trade.

The second half-year 1933 and the first half-year 1934 witnessed a rapid growth in the disparity of German and foreign prices when calculated over the rate of exchange, as in Figure 20 (p. 16). In April, 1933, the lowest point of depression in Germany was passed,[1] and the effects of credit expansion became apparent in advances of the wholesale and sensitive price indices[2] while prices abroad still continued in general to decline. Not only from this source but also from the contemporary devaluation of the dollar, the Mark came to a more pronounced overvaluation, with an intensifying of the import premium and export penalty. Exchange control had to be tightened. Travellers had formerly been permitted an allowance of 200 Reichsmarks, but now were limited to 50 Reichsmarks; emigrés had formerly been given disposition over 10,000 Reichsmarks, but now were cut to 2,000 Reichsmarks. Importers' devisen quotas fell to 45 per cent in March, 1934, and then by successive stages to 35 per cent in April, 25 per cent in May, 20 per cent in June, 10 per cent in July, and five per cent in August.[3] As early as June, furthermore, the Reichsbank limited its actual devisen allocations within the quota to its daily devisen receipts; as a result foreign sellers or German importers were confronted with complete uncertainty as to when payment would be forthcoming. The quotas had lost any practical importance and the last remnant of unregulated trade had disappeared.

1. League of Nations, World Economic Survey 1934–1935 (Geneva, 1935), p. 44.
2. Cf. p. 138 below.
3. Fritz Huhle, op. cit., p. 187.

The German economic authorities found themselves faced with a veritable dilemma: on the one hand, the overvalued Mark by its indiscriminate encouragement to imports had actually turned the large export surpluses of previous years into an import surplus without visible wherewithal for payment; on the other hand, the industrial expansion program required an increase of imported raw materials for its nurture. Against a 17 per cent advance of industrial production in 1934 over 1931, imports had fallen in value by one-third. If we apply 1928 prices to the import figures to secure an approximation of changes in their volume, the decline over these years shrinks to less than five per cent, and there is a further mitigation through the undoubted shift from lighter and more highly fabricated goods to the heavier and cheaper raw materials.[1] Even so, if the volume of imports merely remained stationary, it would impose severe limits upon induced recovery and the beginnings of re-armament.

The strategy of the government in these straits, which later became the lodestone of economic policy, was to divert purchasing power from consumers' goods into capital goods, i.e. to limit consumption demand and deflect the expanding volume of money incomes into investment, and thus create employment without much price inflation, at least in those segments where it would strike the public's attention.[2] The attack upon imports of consumers' goods was made indirectly through limiting profits on sales to consumers and directly through limiting imports. Under the first method came a decree in April, 1934, forbidding higher prices upon raw materials in the textile and leather industries than had prevailed in March. A general act on May 16 prohibited agreements as to minimum prices, profit margins, and rebates on the "products of daily need"; shortly afterward the prohibition was extended to all goods.[3] To cope with the wave of imports oriented toward consumption, the government placed textile raw-material imports under Control Boards (*Überwachungsstellen*) by the law of March 22, 1934; and later, with an eye to the use made of certain imports, it established similar Boards for non-ferrous metals, cowhides, and rubber. This measure is noteworthy as the

1. V.z.K., Vol. 8, No. 3, Part A, p. 182.
2. Cf. Poole, op. cit., pp. 90, 117, 141, 161, 183, 234; Balogh, op. cit., pp. 470–473, 483–484, 491.
3. Reichskreditgesellschaft, Germany's Economic Situation at the Turn of 1934–1935 (Berlin, 1935), p. 36.

first openly avowed *qualitative* interference with imports, since until this time exchange control ostensibly pertained merely to quantity of imports as a whole. These measures decreased imports of raw materials by 23 per cent in the period April to August,[1] and produced repercussions upon world markets, such as the five per cent fall in the price of wool.[2]

The success of the government was short-lived, however. For one thing, the reduction of devisen quotas pushed the bulk of trade with Western Europe into channels covered by "Swedish Agreements," where imports were permitted in excess of amounts purchased with devisen. Payments into these accounts mounted quickly from 68,000,000 Reichsmarks in March, to 93,000,000 Reichsmarks in June, and 130,000,000 Reichsmarks in July, 1934.[3] The operation of free economic forces also brought about effective evasions of the prohibitions laid upon raw-material imports: while cotton imports dropped, they were simply replaced by imports of yarn from England; and while raw-material imports decreased from August to September by 21 per cent, imports of manufactured goods rose by 19 per cent. But it was chiefly the breach in Germany's import barriers through the "Swedish Agreements" which turned her balance of trade between 1933 and 1934 from active to passive, as shown in Figure 22. An attempt to prevent the abuse of these clearings for imports actually originating in other countries by requiring a certificate of origin (the so-called "Holland Clause") broke down under evasions. The very countries which had usually accounted for Germany's strongest export balances showed the largest shrinkage. From a favorable balance of 667,000,000 Reichsmarks in 1933, Germany experienced a turn to an unfavorable balance of 284,000,000 Reichsmarks in 1934; and of the total

German Trade with Countries under "Swedish Agreements"*
(in million Reichsmarks)

	German Imports	German Exports	German Balance
1933	1,117.2	2,298.9	1,181.7
1934	1,266.6	1,978.5	711.9

* Fischer, op. cit., pp. 24–25.

1. V.z.K., Vol. 9, No. 3, Part A, p. 97.
2. League of Nations, World Economic Survey 1933–1934 (Geneva, 1935), p. 314.
3. V.z.K., loc. cit., p. 98.

GERMANY'S FOREIGN TRADE, 1929–1939: IMPORTS, EXPORTS, AND BALANCE OF TRADE*
(QUARTERLY IN MILLION REICHSMARKS)

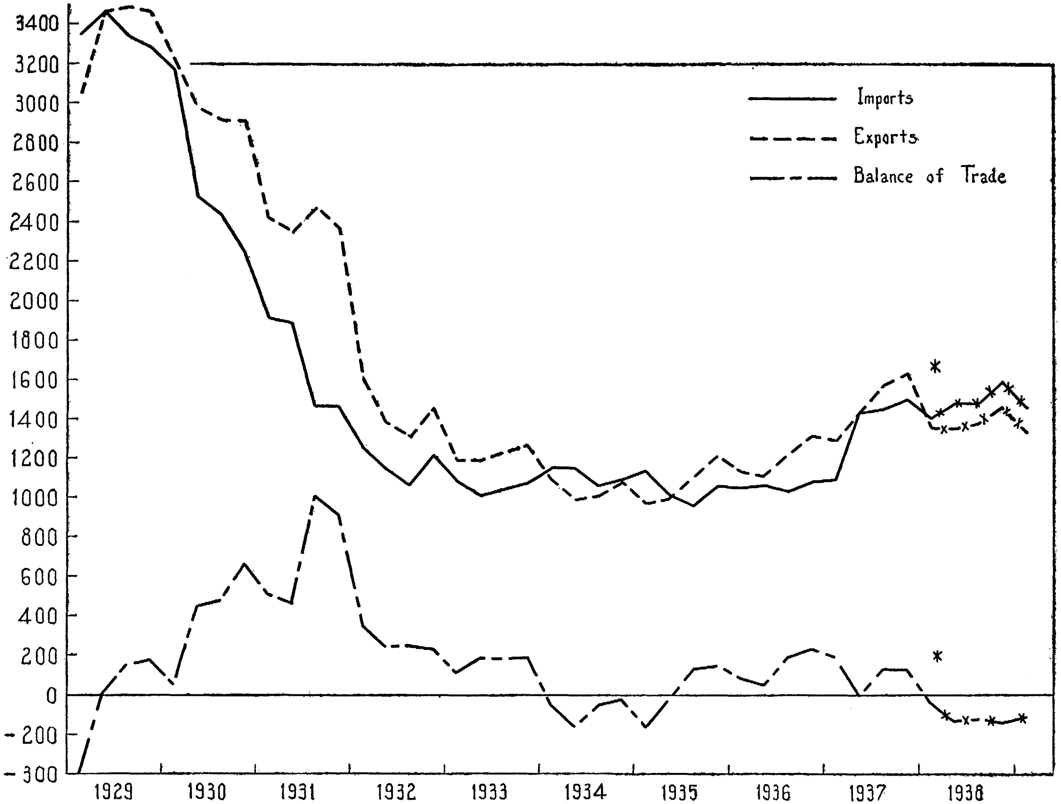

FIG. 22.†

* From the second quarter of 1938, the figures pertain to Greater Germany.
† For data and sources, see p. 140 below.

reduction of 951,000,000 Reichsmarks in the balance, trade under "Swedish Agreements" accounted for a reduction of 470,000,000 Reichsmarks.

Other circumstances beside the "Swedish Agreements" contributed to this deterioration of Germany's trade balance. It is scarcely to be supposed that the formalities attending each export operation could have had anything but a dampening influence, even if the sale was made to free-payment countries. Moreover, foreign exporters frequently disdained to avail themselves of the "Swedish" clearing accounts, and instead delivered goods on credit in the hope — later proven to be fatuous — that payment would shortly be made anyway. The result was a mounting accumulation of sums owed to foreign countries in German clearing accounts. After the English-German clearing agreement went into effect on August 20, 1934, British exporters betrayed a reluctance to utilize the payment mechanism, with the result that *Sondermark* accumulated in Berlin to the agreed limit of 5,000,000 Reichsmarks, and mounted thereafter in a special interim account to treble this sum. In August, 1934, exporters in Lancashire stopped sales to Germany completely. By this time, German clearing debts amounted in total to 450,000,000 Reichsmarks, or half again the magnitude of her 1934 trade deficit.[1]

This accumulation of commercial debt *per se* could scarcely have disturbed a government which shortly before had virtually defaulted upon a debt of 7,000,000,000 Reichsmarks. But it did signalize an *impasse* for German trade. Schacht expressed the matter thus: "The accumulation of debts does not press upon us as far as concerns foreign exchange, but it is likely to produce unfavorable psychological effects."[2] Amongst these "psychological effects" must be counted retaliatory measures such as the decision of the Lancashire cotton-textile exporters. But the most disquieting "psychological" factor was the simple calculus of relative prices, as may be seen in Figure 23. While German wholesale prices rose from 66 per cent to 73 per cent (1925–1927 = 100) and sensitive prices from 41 per cent to 50 per cent during 1933 and 1934, British wholesale prices in gold declined over the same years from 41 per

1. Cf. Economist, Vol. 119, p. 880; ibid., Vol. 133, p. 487; League of Nations, World Economic Survey 1934–1935 (Geneva, 1935), p. 22.

2. Ernst Wagemann, Zwischenbilanz der Krisenpolitik (Berlin, 1935), p. 73.

British, French, and German Prices
(1925–1927=100)

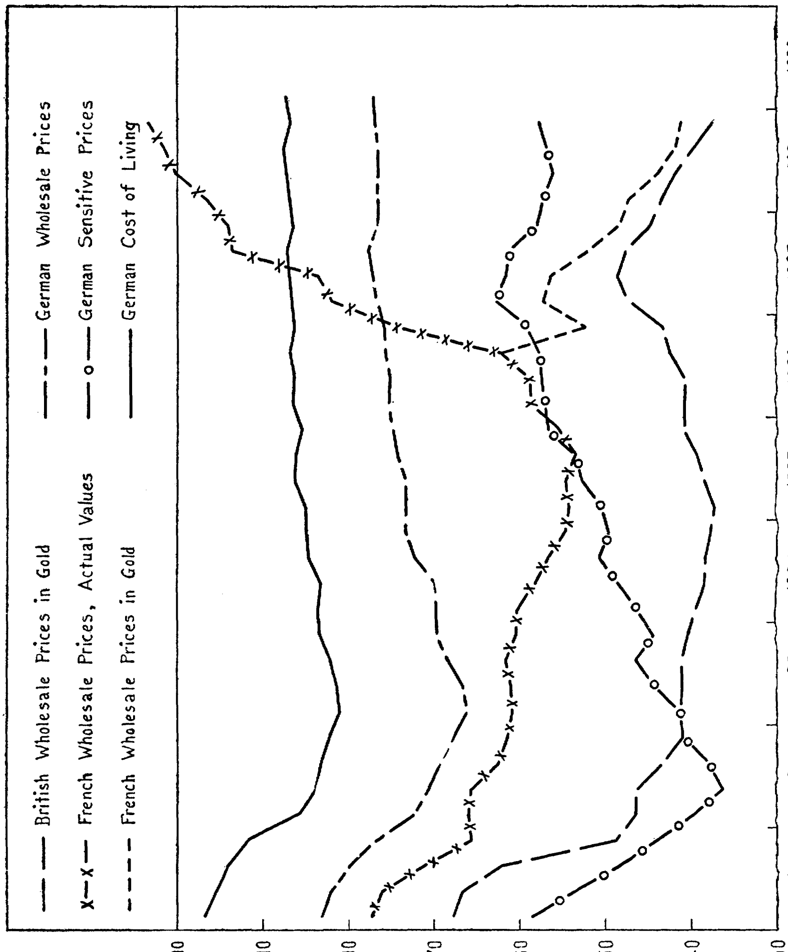

Fig. 23*

* For data and sources, see p. 138 below.

cent to 38 per cent, and French wholesale prices fell from 61 per cent to 55 per cent.[1]

The spread of bilateralism in German trade during 1933 and 1934, with which we have been concerned in this section, can by no means be represented as the consequence of the malevolence of Germany's creditors. The first clearing agreement and all of those pertaining to Germany's relations with Eastern Europe were imposed by Germany in order to afford security to her own creditor interests Compulsory clearings were not threatened by the western creditor nations until Germany resorted to transfer moratorium. It is not to be gainsaid that the resort to import quotas, tariffs, and other protectionist devices had rendered Germany's lot as a debtor a hard one. But the reduction of her debt by foreign devaluation, the adjustment of interest and amortization, and the repayments actually made, had gone far toward offsetting these handicaps by 1933. The crucial determinant which fastened exchange control and bilateralism in trade upon the German economy was the "active economic policy." If it be said that this was a heroic program to lift Germany out of the slough of depression and unemployment, it must also be said that it delivered the *coup de grâce* to Germany's reputation as the "well intentioned debtor," and to the prospect of Germany and most of her neighbors for resuming normal economic intercourse within the visible future.

1. The divergences of prices were more striking for agricultural commodities, though the influence of exchange control was submerged in all sorts of protectionist devices. Prices in the following table are expressed in Reichsmarks per Kilogram, except for eggs, for which the basis is 100 by count; data from Reichskreditgesellschaft, Germany's Economic Development during the First Half of 1936, p. 72.

Commodity	Germany	World Market	Commodity	Germany	World Market
Wheat	20.55	10.41	Pigs	96.00	28.37
Rye	16.55	6.58	Butter	260.00	121.77
Oats	14.88	5.29	Lard	181.00	66.86
Fodder Barley	15.45	8.17	Eggs (per 100)	11.50	4.97
Maize (Plata)	15.50	5.84	Sugar	44.00	9.17
Cattle	82.00	23.87			

Cf. also Economist, Vol. 120, p. 14.

Exchange Control as a Totalitarian Institution

A. *Schacht's "New Plan" and the Reorganization of Bilateral Trade.*

(1). The Introduction of the Plan. Although it would be impossible to regard the Schacht Plan as a new system of exchange control, it did involve the general adaptation of the system both within Germany and in international payments to the new order of completely controlled trade. Intricate technical details lie somewhat afield of our interests, but we should examine the general scheme as it appeared inside the country and in clearings, payment agreements, compensation, and "Aski" arrangements.

It was freely admitted in Germany, when in the late summer of 1934 the "devisen deficit" mounted to 700,000,000 Reichsmarks, that the quota system of allocating foreign exchange had failed abysmally.[1] In September, Reichsbank President Schacht announced a system which he labelled the "New Plan," subsequently enacted by decree.[2] The essential principle was that no importer could obtain an allocation of foreign exchange from the Reichsbank unless, prior to the importation, he secured a "devisen certificate" issued by special Control Boards.[3] Several months earlier, as we have seen, several Control Boards[4] had been established, but now they were increased to twenty-five extending over all imports. They had as a first duty the determination of the desirability of imports, allowable prices, and methods of payment; they had furthermore to detect and reject import applications in which there were hidden premia; and they endeavored to reduce imports necessitating free-devisen payment. The Control Boards issued four types of devisen certificates according as the import involved:

(*a*) cash payments, made chiefly for imports for further fabrication and re-export;

1. V.z.K., Vol. 9, No. 3, Part A, p. 97; Österreichischer Volkswirt, September 15, 1934.

2. R E 1/34 Ue. St., September 19, 1934. In references of this sort the numerator represents the current number and the denominator the year of the Runderlass (R E) issued by the Überwachungsstelle (Ue. St.).

3. It was not until June 24, 1935, that *importation* without a devisen certificate was prohibited; initially only the allocation of devisen required certificates. Cf. Reichskreditgesellschaft, Germany's Economic Situation at the Turn of 1935–1936 (Berlin, 1936), p. 60.

4. Cf. p. 48 above. Between the introduction of the first Boards on March 22 and the adoption of the New Plan, their number had been gradually increased to eleven.

(*b*) acceptance credits which would prospectively be renewable, used only in cases of especial urgency;

(*c*) normal commercial credits, for which the Reichsbank agreed to supply devisen after the lapse of the ordinary commercial "terms" for paying;

(*d*) clearing and payment-agreement payment.

The inclusion of the fourth category prevented the shifting to these payment devices of imports rejected as undesirable and ineligible for devisen allocation. The scheme embraced all payment possibilities with the one exception of "Aski" Marks, which could be used without previous application to a Control Board. On the side of exports, the New Plan did not contemplate direct control; it required only an export declaration after the shipment. Export prohibition was imposed upon certain raw materials, however; the "additional exports" were still subject to the requirement of *ad hoc* permissions in every case; and there could, of course, be no doubt as to the indirect repercussions of import control upon exports.

Neither the Control Board apparatus nor the regulation permitting discrimination between import categories represented innovations, but the far-reaching extent and objectives of the New Plan bespoke a new philosophy of exchange control. The objectives may be summarized as:

(*a*) the reduction of imports of finished and half-finished goods; the reduction of exports of raw materials; concentration upon exports of finished goods;

(*b*) the reduction of imports from European industrial countries; the increase of exports to overseas countries supplying raw materials — countries with which Germany had always had unfavorable balances of trade;

(*c*) the restoration of a favorable balance of trade. Thus the New Plan meant a change in the composition of trade so as to favor employment (it was believed) within Germany: and to effect this change bilateral agreements — wherein governments dictate the sphere and character of exchange — proved to be a formidable machine. Bilateral trade under this new conception required a recasting of the clearings.

(2). The Western European Clearings. Even before the enactment of the New Plan, as we have seen, difficulties encountered with the "Swedish Agreements" were incompatible with the New Plan for a more fundamental reason than this loophole: control could not extend to the *character* of imports unless *all* trade with a clearing partner was canalized in these accounts. Frequently, in order to complete control, the clearings embraced not only commodity trades but also amortization and interest, commissions, tourist expenditures, and the like. The creditor countries usually forced an earmarking of a part of the German export surplus for debt service; but pressure was exerted by creditors for the incorporation of such clauses and not for the conclusion of clearings *per se*. During the summer and early autumn of 1934, Germany denounced all the "Swedish Agreements," except for Spain and Portugal. The most important of the new clearings related to Belgium, France, Holland, Switzerland, and the United Kingdom.[1]

The agreement regarding international payments reached on November 1, 1934, between England and Germany has been

1. In the German-Belgian agreement (September 5, 1934) a ratio of 100: 62.5 was established between exports to and imports from Belgium. Three accounts were set up in Belgium:

A — for payments of German imports from that country,
B — for the debt service, and
C — for the free disposal of the Reichsbank.

The interest of Dawes and Young Loans was to be paid in full; 4½ per cent interest was paid on other Belgian loans; where dividends of 4½ per cent or less were declared the full amount was paid, but only one-half of the excess over 4½ per cent. (Cf. Kurt Schneider, Der Welthandel im Clearingverkehr [Berlin, 1937], p. 12.)

In the French-German clearing agreement (July 28, 1934), 15.75 per cent of the payments of French importers for German goods was to be paid for interest on the "Reich Loans" and other German debts.

The agreement with Holland was reached after this country had applied compulsory clearing in order, first, to collect a clearing balance of 170,000,000 Reichsmarks accumulated against Germany under the "Swedish Agreement," and second, to secure the service of the Dawes and Young Loans and the Standstill Credits. (Fabricius Helmut, "Das deutsch-niederländische Verrechnungsabkommen," Devisenarchiv, Vol. 2, No. 5, columns 121–28.)

This agreement, entered into on September 21, 1934, lasted for two months, until denounced by Holland on December 12, 1934. (Schneider, op. cit., p. 56.)

The new agreement provided for 3½ per cent interest payments on Dawes and Young Loans and other loans; amounts in excess of 3½ per cent were to be paid, to the extent of two per cent in blocked Marks, four per cent conversion bonds, or Dawes or Young Marks. Of the export proceeds, 18 per cent was to be used for paying off the frozen commercial debts from the "Swedish Agreement," a process which required almost two and a half years. (Schneider, op. cit., p. 62.)

The Swiss agreement went into operation on July 26, 1934. Tourist traffic was linked with German coal exports to Switzerland. There were frequent revisions later as to the division of the export proceeds, the amounts set up for payments to financial creditors, the amount of Swiss exports to Germany, incidental costs, and devisen put at the free disposal of the Reichsbank.

praised so much on the German side — it was said to show the impress of "English realism," for example[1]— that it merits at least passing attention. By the terms of the agreement, German exports were to bear to English exports a relation of 100:55, and the proceeds of German exports were to apply to current imports and to amortization of commercial and long-term obligations in predetermined proportions. So far there was nothing distinctive over the ordinary clearing arrangement. As in most of the clearings, furthermore, transit trade was excluded. But in place of settlement by offset of clearing balances, payments were made in free devisen, and this circumstance gave rise to the designation of "payment agreement" instead simply of "clearing." Was this difference fundamental, and did it justify the enthusiasm betrayed in German comments upon the scheme?[2] It does not require an excursion into technical details of the agreement[3] to reveal why the answer is negative. Free-devisen payment could mean very little when the rate of exchange had been immobilized against the ordinary forces of supply and demand; here the old Mark parity still applied and still operated, of course, to stimulate Germany's imports and penalize her exports. The prospect of "continuous settlement in free devisen" was bound to prove illusory. For that portion of Anglo-German trade which did happen to "balance off," the receipt and subsequent disbursement of its value in devisen gave Germany no advantage over cleared accounts under a clearing arrangement. No devisen accrued to Germany for that part of her favorable balance earmarked for liquidating old clearing debts or funded obligations. If the balance still left a sum owing to Germany,

1. Fischer, op. cit., p. 31.

2. E.g. Deutsche Bergwerks-Zeitung, January 30, 1937; Fischer, loc. cit., Neue Zürcher Zeitung, September 19, 1936.

3. Fifty-five per cent of devisen resulting from German exports to England in any one month was earmarked for imports from Germany in the second month. (This percentage excluded German sales to England against blocked Marks, "Aski," and compensation; cf. Schneider, op. cit., p. 35.) Interest on the Dawes and Young Loans was paid in full, but the service of other loans was covered only by four per cent (not three per cent, as provided in the transfer moratorium) Funding Bonds. The Reichsbank agreed to pay 400,000 Reichsmarks initially against the existing debt, variously estimated at 3,800,000 and 5,000,000 Reichsmarks, arising from "Swedish agreement" and *Sondermark* clearings in the past, and to devote 10 per cent of German export proceeds to this purpose in the next twelve months. (Cf. Österreichischer Volkswirt, Vol. 27, p. 106.) Beyond such stipulated applications there remained a considerable margin of devisen for the free disposal of the Reichsbank.

devisen were indeed to be available, though such a clause as this appeared in certain clearing agreements and scarcely constituted a new order of things. But with the Mark overvalued as it was in comparison with sterling, the prospects were no more brilliant for such a free balance under a payment agreement than under clearings, unless the authorities intervened more promptly to force the 100:55 German-English export ratio by direct action than they might have done under clearings. This proved to be the case. Whereas the German authorities were originally supposed to grant import certificates freely for English wares, only two months elapsed before sharp restrictions had to be introduced, and this came to be a matter of frequent occurrence.[1] The underyling effect of the Mark rate to pile up a one-sided balance in the opposite direction from that contemplated in the agreement was only offset by direct limitations; and the settlement of accounts in free devisen fell to the order of an insignificant technical detail. The relative amicability marking negotiations regarding these limitations may at bottom have occasioned the favorable response in Germany; but the enthusiasm for payment agreements *per se* seems to have rested upon delusion, as even one German writer intimates.[2] Payment agreements did indeed affect technical simplification, which was ardently desired. The imposition of the New Plan had necessitated the erection of a Clearing Office in October, 1934, as a subsidiary of the Reichsbank, and the detailed regulation of imports entailed further extensions of the bureaucratic machinery and the "immense war of forms-to-be-filled-out."[3] The burden of these formalities weighed heavily, not only upon the German importer but also upon the foreign seller. Under previous clearing agreements, the German importer had occasionally been "permitted," in the unconsciously ironical official language,[4] to carry through these onerous procedures for his foreign trade partner. This "permis-

1. Reichskreditgesellschaft, Germany's Economic Development during the First Half of the Year 1935 (Berlin, 1935), p. 57; Department of Overseas Trade, Economic Conditions in Germany to March, 1936 (London, 1936), pp. 173–174.

2. H. Schumacher, "Germany's Present Currency System; its Development and its Reform" in A. D. Gayer (ed.), The Lessons of Monetary Experience (New York, 1937), p. 221.

3. Bernhard Bennings, "Der Neue Plan und die Neuordnung der deutschen Aussenwirtschaft," Jahrbücher für Nationalökonomie und Statistik, Vol. 142, p. 43.

4. Wagemann, op. cit., p. 72.

sion" came to be rather generally incorporated into the payment agreements; and since a disburdening of the foreign trader must have aided German exports and imports at least slightly, there was rational explanation, however tenuous, for the popular vogue of the agreements. Furthermore, the frequent interference of authorities to keep the balances at the stipulated ratios prevented the piling up of clearing balances, always distasteful to creditors, including German creditors. Aside from these considerations, the German business community battened upon delusion if it imagined that the mere employment of devisen was a step toward free payments.

Nor does it seem possible to interpret the supplanting of clearings by payment agreements, first for England and subsequently for Belgium and France,[1] as betokening any weakening from the policy of bilateralism in official quarters. Nor did the maledictions healped upon the clearing system by Schacht, who proclaimed it to be "atrocious,"[2] and by the German journalists and pamphleteers interfere with a vigorous prosecution of the program to expand German trade by clearings, compensation, and other bilateral devices. In the course of a few years it ceased to be fashionable to deprecate these methods of trade, and instead the Economic Minister urged the world "to look for the basis of international currency stabilization in a sensible clearing system" in which, as he justly observed, "the Germans have had more experience than anybody else in the world."[3] And at the same time a representative of the fraternity of economists in Germany volunteered the suggestion that bilateralism should be regarded, not as a counsel of desperation, but rather as the modern and really adequate system of international trade and payments.[4] Meanwhile, as was to be expected, German economic missions worked assiduously toward the extension of clearings and compensation to regions not already covered by bilateral agreements.

(3). Clearings and Compensation with South America and Southeastern Europe. As for the South American countries, clear-

1. The Belgian payment agreement was concluded on August 1, 1935, and the French on August 1, 1937, the latter after two years required for the liquidation of arrears on the old clearings.

2. I.e. *scheusslich;* cf. address of Schacht at Leipzig on March 4, 1935, Economist, Vol. 120, p. 526.

3. Address of Walter Funk, New York Times, March 7, 1939.

4. Meyer, op. cit., passim.

ing agreements were concluded, for the most part shortly after the introduction of the New Plan, with Argentina, Brazil, Chile, Colombia, and Uruguay.[1] There seems to have been a desire on the German side to compass two mutually exclusive ends — the enforcement of repayments on outstanding obligations to Germany and the expansion of German exports. The attenuation of the traditional German export balance with Western Europe led to an export drive on South America, but the fact that Germany had ordinarily had a strong import balance from these latter countries should scarcely have led to the expectation of much success. Resort was had in Germany's Latin American trade to the "Aski" device, presently to be considered.

Commercial relations with Southeastern Europe proceeded under both clearings and compensation. These clearings reveal quite clearly the tendencies of costs under bilateral trade and are reserved for separate analysis later. Compensation dealings with the Southeast assumed some importance at an early stage of German exchange control. In 1932 the Reemtsma cigarette firm bought 250,000,000 Leva of tobacco from Bulgaria through the intermediation of the Bulgarian National Bank against the cancellation of 187,500,000 Leva of frozen German claims and the export of German goods for the the balance. Similar arrangements were entered into during the same year with the Greek and Turkish governments. Thereafter the opening of clearings largely supplanted compensations with these countries. The barter device served as the only basis of trade with Austria and Poland until the establishment of clearings on August 10, 1934, and November 20, 1935, with these two countries respectively.

The characteristics of the German system of compensation in these instances and in its special "Aski" phase are permanence and the enforcement of a more or less overvalued rate on the Mark. The United States exchanged wheat against Brazilian coffee in 1931 and wheat against Chilean saltpeter in 1932, but these deals were made at free exchange rates and were recognized as emergency measures establishing no precedent.[2] The Austrian "private

1. Argentina, September 26, 1934; Chile, December 26, 1934; Colombia, July 1, 1937; Uruguay, November 6, 1935; The date of agreement with Brazil is not known precisely, but is supposed to be late in 1934. Cf. Schneider, op. cit., pp. 108–125, 140ff.

2. Oger H. Bourdeaud'huy, Accords de Compensation et Conventions de Paiement(Antwerp, 1938), p. 23.

clearing" transactions bore some resemblance to barter, but they gradually led to the establishment of a fairly "true" rate of exchange on the Schilling, so that their perpetuation was a matter of indifference.[1] In Germany, however, though the exchange-control authorities themselves permitted, and indeed fostered, a large number of devices tantamount to devaluations of the Mark, they strongly disapproved of any correction of the Mark rate under private auspices. The history of German compensations consists largely of attempts to render impossible the payment of concealed premia on foreign currencies, and yet to preserve as a permanent matter this safety-valve for the tightly compressed channels of trade under bilateralism.

Aski Marks are instruments of controlled barter: payment for each stipulated commodity imported into Germany from a certain country is made by erecting an *ad hoc* seller's account, which he can then draw upon for German goods of certain categories under conditions laid down by the exchange control authorities.[2] At first, imports under the Aski arrangement were not subjected to the limitations imposed by the New Plan, and the huge accumulations in these accounts became a serious menace when even regions such as the Saar and Russia resorted to the accounts. Subsequently a devisen certificate issued by a Control Board was required for all imports under Aski, and the permission to import in each case also embraced the kind of goods which could be taken from Germany as the *quid pro quo*.[3] But for the time being the authorities cherished the delusion that this cumbersome *ad hoc* procedure could be avoided by the formulation of certain general principles:[4]

(*a*) Exports under Aski compensation must be "additional," in order to avoid the transfer to this procedure of exports which would otherwise bring in free exchange;

1. Cf. Part I (November, 1939), pp. 47–52 and Milos Horna, "Clearing und Zahlungskompensation der Tschechoslovakei mit dem Auslande," in J. Mayer, M. Horna, A. Sourek, Neue Wege der Handelspolitik (Prag, 1936), p. 168.

2. The term "Aski" was coined from the initial letters of the full designation Ausländer-Sonderkonten für Inlandszahlung.

3. Müller, op. cit., pp. 282–284; cf. R E 46/38, Richtlinien IV, 14, Abs. 2.

4. By decree of December 9, 1934 (R E 157/34 Devisenstelle), Aski Marks were divided into two categories, firm Aski and bank Aski. The former, by requiring the preservation of identity of the foreign and domestic partners, came very close to pure barter; whereas the bank Aski, permitting purchase and sale of the instrument in the country of origin, tended in the direction of a free bill of exchange.

(b) Only economically important raw materials shall be imported;

(c) Prices of exports must be as high and the prices of imports as low as possible to achieve the most advantageous terms of trade.[1]

By these stipulations it was believed that the Aski Marks could be developed into a "refined form of foreign trade."[2] The volume of Aski transactions mounted steadily from the autumn of 1934 to the end of 1935,[3] and official optimism grew apace. The Berlin Business Cycle Research Institute, originally sceptical of the value of barter dealings,[4] soon found complimentary remarks to make upon the system, and Wagemann, its director, foresaw a salutary effect upon Germany's trade balance.[5]

The profit motive of importers and exporters alike in no wise conformed to the general principles which were promulgated for compensation transactions. The relatively high domestic prices in Germany enabled the importer to offer high premia in such dealings, with the result that imports were stimulated and the overvaluation of the Mark was made painfully obvious. Furthermore, the rise of premia tended to advance the prices of goods not imported or manufactured from imported raw materials (for these would, in the absence of price regulation, be high in all events) but standing in a substitute relation to them.[6] On the other hand, as the premia developed, exporters were more and more tempted to divert their sales from channels bringing in free devisen, which had to be sold at the low Reichsbank rate, to the channel of compensation. The history of compensation, including the Aski variant, is a story of persisting private evasion and retaliation by authority. When the payments of premia were prohibited, the premia were paid and deposited abroad. When this also was prohibited, importers resorted to the secret payment of premia by taking over incidental costs and risks. And when the state extended its inspection to these minutiae in each transaction, there arose the so-called *à metà* deals between German exporters and importers, in which the former, for a share in the latter's profits on no- or low-premium

1. Paul Bothe, "Die privaten Verrechnungsgeschäfte," Devisenarchiv, Vol. 2, No. 41, pp. 1177–1188.

2. Arno Seeger, "Was bleibt vom 'Aski' Verfahren," Devisenarchiv, Vol. 3, No. 27, p. 317.

3. Bergmann, "Die Einschränkung des privaten Verrechnungsverkehrs," Devisenarchiv, Vol. 2, No. 11–12, p. 306.

4. V. z. K., Vol. 9, No. 3, Part A, p. 99.

5. V. z. K., Vol. 10, No. 1, Part A, p. 13; Wagemann, op. cit., p. 72.

6. Rudolf Eicke, "Warum Aussenhandel?" (Berlin, 1936), p. 42.

imports, conveniently found it impossible to dispose of his wares in any other way than by Aski or other compensation accounts.

The difficulty of suppressing evasions led to a large number of regulatory decrees[1] and eventually to the decline of compensation. As early as March, 1935, a decree provided for careful investigation to determine whether the import were "additional," and listed certain goods as excluded from exports by compensation. If the import involved "unnecessary" goods, 30 per cent had to be paid in free exchange; and if foreign raw materials amounted to more than 20 per cent of the value of the export, the excess had also to be paid in free exchange. On December 27, 1935, new regulations were decreed which marked the beginning of the end of delusions nourished in Germany with regard to compensation and Aski trade. A new attempt was made to give an authentic interpretation of the term "additional exports"; this time they were represented as "exports which cannot be carried out against foreign exchange but only against purchases of foreign goods." That this definition, if applied to practical operations, actually left everything to the discretion of the authority investigating the individual case does not require proof. A new and much more extensive list of export goods which could not be admitted to compensations and Aski transactions was published. Another list concerned import goods which were considered indispensable; imports of goods not on this special list could be made by means of compensation only if the companion export were three times as large; two-thirds of the export price had thus to be paid in free devisen. The last regulation did not apply to South and Central American countries at this time but was extended to all countries in 1937. Throughout the whole period since the end of 1935 the use of Aski and compensation dealings was more and more eliminated in connection with clearing agreements. On November 5, 1936, a decree permitted only compensations of 50,000 Reichsmarks or more. In February, 1937, a new regulation stated that compensation transactions and trade by means of Aski Marks would no longer be permissible in trade with a number of oriental countries.[2] Compensation played an important

1. The most important of these decrees were: R E 121/34 D. St. 10/34 Ue. St.; R E 177/34 D. St. 36/34, Ue. St. sub IV; R E 2/36 D. St.; R E 137/37 D. St. 46/37, Ue. St. sub II, 4. Cf. also Wolfgang Goedecke, "Das Prämienverbot bei privaten Verrechnungsgeschäften und sein Strafschutz," Devisenarchiv, Vol. 3, No. 44, p. 545 ff.

2. Burma, Ceylon, China, Egypt, India, Philippine Islands, Siam, Straits Settlements, and Sudan.

rôle in the liquidation of the French clearing, but disappeared in this segment of German trade thereafter. What was left worthy of mention in the sphere of barter transactions was the employment of bank Aski with Central and South America — here the technique more closely resembled clearing — and compensation for transactions in excess of 50,000 Reichsmarks with Arabia, British East Africa, British West Africa, and Irak.

We have passed in brief review the revisions in Germany's international trade arrangements which were introduced in order to put into effect the strict bilateralism and the direct control of the composition of exports and imports contemplated by Schacht's New Plan. What were the results of this new dispensation?

B. The New Plan in Operation.

The development of Germany's foreign trade in the next few months after the enactment of the New Plan was not promising. The adverse balances of December, January, and February indicate

		Imports	Exports	Balance
			(in million Reichsmarks)	
1934	July	362.7	321.2	−41.5
	August	342.2	333.9	−9.1
	September	351.8	350.3	−1.5
	October	349.2	365.9	+16.7
	November	345.7	355.7	+10.0
	December	399.2	353.7	−45.5
1935	January	417.3	299.5	−117.8
	February	359.7	302.4	−57.3

that the underlying tendency toward import surpluses had not been conquered. Officially it was explained that these figures did not reveal the true state of affairs; first because, with the increase of compensation, exports frequently followed the companion imports by several months; and secondly because, with the appearance of new "raw material credits," another lag of similar character was interposed.[1] Estimates of the share of compensation in Ger-

1. The scheme of these credits involved importing raw material into Germany on credit; after the export of the manufactured goods to a third country, the purchaser there discharged the German debt by directing payment to the supplier of raw materials in the first country. As was generally the case with such attempts to preserve elements of triangular trade amidst the growing bilateralism, this method of conducting international trade, introduced in 1934, never attained an important magnitude.

man trade do not exceed 10 per cent[1] in these months when the trade deficit amounted to substantially more than this; and furthermore many barter dealings required a simultaneity of export and import, so that the official explanation fails to mimify the adverse trade development very considerably.

This development indicated plainly that the original restrictions were inadequate. It has already been remarked that the New Plan had not made the possession of a devisen certificate a prerequisite of importation,[2] and still the authorities hesitated to impose so rigorous a measure. Custom officials were instructed to report goods which passed the frontier without devisen certificate, in order to provide a check upon illicit imports. Under a so-called "political prohibition on devisen clearance"[3] of May 6, 1935, devisen certificates were made mandatory for imports from France and Czechoslovakia. This measure had as its immediate aim the exerting of pressure upon these countries in the midst of commercial treaty and clearing negotiations[4]; but it undoubtedly paved the way for the decree of June 24, 1935, prohibiting all imports without devisen certificates. On the other side, strenuous efforts were made to increase exports — by appeals to the goodwill of German firms, and by threats to close off the supply of raw materials for firms with slackening exports. Despite the increased severity of the exchange control regime, the German export quota (exports as a percentage of domestic production) remained at level far below its extent even in 1933, the year of most acute depression.

THE GERMAN EXPORT QUOTA 1931–1935*

1931	30.9%	1934	15.9%
1933	22.5%	1935	15.2%

* V.z.K., Vol. 13, No. 3, p. 313.

Voices were not altogether lacking in this very discouraging situation for a reconsideration of the wisdom of the "autonomous

1. Benning, op. cit., p. 47.
2. Cf. p. 54 above.
3. Devisenpolitisches Abfertigungsverbot.
4. It is worth recording that these sharp weapons of the New Plan were used against the very two countries which in the autumn of 1934 had expressly demanded the enactment of Schacht's scheme, presumably as a defense against the accumulation of German clearing debts. Cf. Economist, August 3, 1935, p. 230. This forms an amusing parallel with the case of the American bankers who in 1931 welcomed exchange control in Germany and urged a strict administration of the system.

economic policy" and autarky. Gottfried Feder, the theorist of the National Socialist party, who had advocated a completely autarkic policy, was allowed to fall into oblivion. Schacht spoke of the "run-down autarky nag,"[1] and Neurath, another member of the government, expressed the opinion that "the catch-word 'autarky' has been discarded," and that "no one in the government believes in the isolation of Germany from abroad."[2] Sentiment in favor of devaluation dared to come out into the open again, and a distinguished foreign economist ventured that, "It is to be anticipated . . . that in the future Germany will not object to a policy that aims at gradually restoring to international trade, in some measure at least, the important part it formerly played in the world economy."[3] But these hopes proved to be false. In May, 1935, the levy on exports to provide a subsidy fund was imposed,[4] and thereby another decisive step was taken in the course of economic isolation.

Germany's foreign trade faithfully reflected the tenor of the New Plan. To be sure, the last quarters of 1935 witnessed the supplanting of unfavorable by favorable balances, and the year closed with an export surplus of 111,000,000 Reichsmarks; but this outcome resulted from a percentual decrease of imports nearly three times as large as the percentual increase of exports. Bilateralism left its impress in a decrease in Germany's favorable European balance and a decrease of her unfavorable overseas balance. Imports from Europe in 1935 at 61.6 per cent of total trade reached the highest share since 1929, while the share of exports to European countries fell from 42.5 per cent to 38.4 per cent between 1934 and 1935, i.e. to the lowest point in the period from 1929 up to the outbreak of the present war. In 1935 the favorable balance of trade with Europe reached its minimum at 560,500,000 Reichsmarks, while the import surplus with the rest of the world was cut

1. Abgeklappter Autarkiegaul; cf. Wagemann, op. cit., p. 4.

2. Österreichischer Volkswirt, Vol. 26, p. 637. These remarks made in an address at Hamburg conflicted directly with Neurath's declaration at Bremen a short time before that it was imperative to "make our people and our economy independent of foreign foodstuffs and raw materials, and to produce at home everything which we can produce." Cf. loc. cit. The contradiction indicates the contemporary confusion and the tenuous character of much which goes by the designation of "economic policy."

3. Bertil Ohlin, "International Trade and Monetary Policy," Index, Vol. 8, No. 115, p. 154.

4. Cf. pp. 82–83 below.

down from 912,000,000 Reichsmarks in 1934 to 449,500,000 Reichsmarks in 1935.[1] The old trade system by which Germany paid with exports to Europe for her imports from overseas was obviously breaking down under the pressure of bilateralism. As we shall see in the next section, 1935 was the year in which the adverse effects of the new system made themselves most seriously felt. Figure 24

GERMAN IMPORTS AS A PERCENTAGE OF WORLD IMPORTS AND GERMAN EXPORTS AS A PERCENTAGE OF WORLD EXPORTS

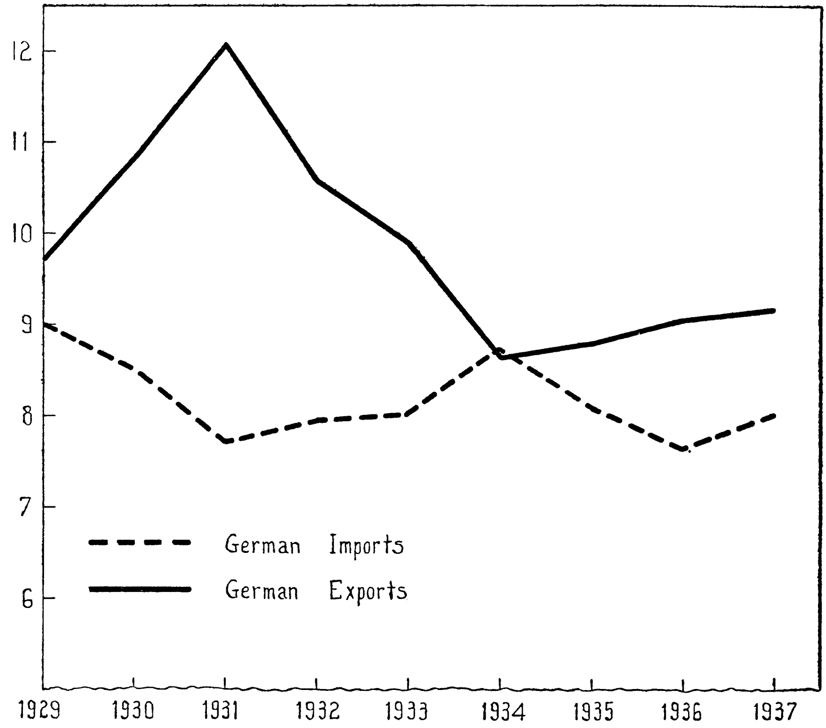

FIG. 24.*

*For data and sources, see p. 153 below.

shows the low level to which German exports relatively to exports over the world had fallen.

As far as concerns the composition of foreign trade, the trade statistics reveal a considerable success for the New Plan. On the export side the share of raw materials was pushed down from 11.1

1. Cf. p. 145 below.

per cent to 10.5 per cent, of foodstuffs from 3.6 per cent to 2.2 per cent, while exports of finished goods rose from 75.6 per cent to 77.6 per cent. On the import side the share of raw materials increased from 34.6 per cent to 37.7 per cent, while the percentage of finished goods imported to total imports fell from 12.9 per cent to 9.8 per cent. Foreign trade was undoubtedly being forced along the paths desired; at what costs this was achieved we shall see later.

Six months after the adoption of Schacht's New Plan — in March, 1935 — Hitler announced the withdrawal of Germany from the Disarmament Conference and the reintroduction of conscription; this signalized a new epoch not only in international affairs but in the German economy. Before, as after this turn, the extension of employment and output was financed by credit expansion, but as the Minister of Finance explained, work creation by public works was to a large degree supplanted by rearmament.[1] Henceforth it will be necessary to bear in mind constantly that the appraisal of exchange control and other economic policies, however much their truly economic efficiency may have counted even with the authorities of the National Socialist state, must bow to the frankly non-economic aims of the dominant political philosophy.

In the sphere of domestic finance, the volume of commercial and treasury bills had risen by 4,600,000,000 Reichsmarks between 1933 and 1935 and, if the tax-exemption certificates are included, by something exceeding 5,000,000,000 Reichsmarks. Total bill holdings of the banking system rose from 7,118,000,000 to 10,230,-000,000 and to 12,173,000,000 Reichsmarks from 1933 to 1935 and 1936, and the bill holdings of the Reichsbank from 3,149,000,000 to 4,423,000,000 Reichsmarks from 1933 to 1936.[2] As far as concerns the note circulation there was an increase of about one-third, or 1,000,000,000 Reichsmarks, from the middle of 1933 to the middle of 1936.[3] The efforts of the German economic authorities to divert the increased flow of income away from consumption expenditure help to account for the "uninterrupted, though not alarming, rise in note circulation," as Poole points out; and another circumstance was the rise in relative significance of transactions by

1. Schwerin von Krosigk, Nationalsozialistische Finanzpolitik, Kieler Vorträge No. 41 (Jena, 1936), p. 11.

2. Reichskreditgesellschaft, Germany's Economic Development during the First Half of the Year 1936 (Berlin, 1936), p. 41.

3. Cf. pp. 133–136 below.

cheque.[1] Furthermore, as he observes, since the German people attached great significance to the note-circulation figure because of their sad experience in the post-war inflation, the authorities exerted themselves especially to restrain its increase. Most of the new financing took the form of *Solawechsel* sold by the Golddiskontbank to commercial banks, the proceeds being used to buy up Treasury bills (rediscounted at the Reichsbank) which lay at the base of work-creation activities. Consolidation loans at frequent intervals transformed most of this short-term debt into funded obligations, though over the years 1935 to 1939 the *Solawechsel* circulation rose with marked fluctuations to one and a half billion Reichsmarks.[2]

The first large operations by the government on the capital market began in 1935, being prepared for by the Loan Stock law of December 4, 1934, which limited dividends to six per cent and required the investment of excesses in the Golddiskontbank. Sums paid into the Bank did not prove to be a substantial source of state finance, but the speculative advance of corporate securities on the exchanges was throttled and consumption curbed.[3] In January, 1935, the government carried through an eight billion Reichsmark mortgage bond conversion from 6 per cent to 4½ per cent by offering a single two per cent bonus to the owners and by announcing that those who did not notify of non-consent — the political strategy is apparent — within a brief period would be deemed to have consented.[4] Another two billion of Reich and provincial bonds were converted with equal success a month later. Measures to lower bank interest rates were adopted in 1935 and 1936, and with the preparatory moves completed, a series of funding operations during these years succeeded in mopping up 5,800,000,000 Reichsmarks of short-term funds.[5]

Fostered by a tremendous expansion of credit and by a consistent policy of turning back real income gains into investment, industrial production increased rapidly, especially in the favored category of capital goods. But despite the exceeding of the pre-crisis level of industrial production in 1936, the volume of

1. Poole, op. cit., pp. 111, 161.
2. Poole, op. cit., pp. 120–121.
3. League of Nations, Monetary Review 1937–1938 (Geneva, 1938), p. 56.
4. Cf. Guillebaud, op. cit., pp. 78–79.
5. Reichskreditgesellschaft, Germany's Economic Development during the First Half of the Year 1937 (Berlin, 1937), p. 51.

German Industrial Production 1932–1936*
(1928 = 100; Monthly averages by years)

	All Goods	Capital Goods	Consumption Goods
1932	54.0	35.4	74.0
1933	61.5	44.9	80.1
1934	80.9	74.8	89.6
1935	95.3	102.4	85.6
1936	107.8	116.6	95.6

* Reichkreditgesellschaft, Germany's Economic Development during the First Half of the Year 1937 (Berlin, 1937), p. 14.

German imports and exports (computed at the prices of 1928) were 36 per cent and 21 per cent less than their level in 1928. The New Plan, whatever else its accomplishments, as for example, in changing the direction of trade,[1] was failing to keep the supply of imported goods, particularly of imported raw materials, abreast of Germany's needs in an epoch of strong economic expansion. Furthermore, and still more notably in view of the avowed principle of the Plan to adapt imports to available means of payment, German indebtedness on clearing accounts was becoming a chronic malady. It is by no means mysterious why this should be true. Between

German Clearing Debts*
(In million Reichsmarks)

December, 1934	450	November, 1935	515
March, 1935	567	April, 1936	500
April, 1935	500		

* Economist, "Germany's Clearing Debts," Vol. 133, pp. 485–486.

1933 and 1936 world prices rose by 1.6 per cent, while German wholesale prices advanced by 13.7 per cent and prices in Germany of industrial finished and half-finished goods having their prices determined upon world markets increased by 23.5 per cent. Did the New Plan, as the official position maintained, actually prevent a bad situation from becoming worse or did it aggravate difficulties? This problem will be investigated in a subsequent section on prices and costs in bilateral trade. We may profitably conclude the present section on the technique of the New Plan by recurring briefly to the perennial and lively issue of the currency standard, and the connection between devaluation and the burden of foreign debts.

Throughout 1935 and 1936 devaluation was the center of spirited discussion in Germany. In August, 1935, Schacht threat-

1. Cf. pp. 66–67 above.

ened to take vigorous measures against the "psychosis concerning real values";[1] and the situation came to be particularly tense in the spring of 1936, when an anti-Schacht faction within the Party demanded devaluation as the solution of foreign trade problems.[2] German export interests also shared this view, maintaining furthermore that concealed devaluation in the form of the export levy bore upon themselves alone, whereas outright devaluation would be "borne" also by importers.[3] But the voice of the opponents prevailed, and export levies and subsidies continued. In defense of the government's position the arguments were merely a repetition of what had been said against devaluation after dollar devaluation in 1933.[4] Such a move, it was said, would raise the prices of imported raw materials. In point of actual fact, as a subsequent section will reveal, this argument had only a narrowly restricted validity because of the rise of import costs under clearings and compensations. The psychological argument from the angle of the danger of a velocity inflation was still heard. Finally, it was held, devaluation would increase the burden of foreign debt. Now the truth of this contention is itself unimpeachable; but apparently in order to apologize for what may have seemed to be too frank a recognition of a genuine "my-gain your-loss" situation, the official German rejection of devaluation on the burden of debts basis was coupled with a specious argument which attempted to prove that "devaluations in the chief creditor countries seem to represent a cancellation of 4,000,000,000 Reichsmarks of foreign debts. But actually as a consequence of devaluations, the (German) export price level fell so low that the real burden of debt substantially exceeded the nominal burden."[5] The logical relevance of this sort of consideration to the question whether Germany would herself gain by devaluation is not apparent; but even as an indirect apology for refusing to hand back to the creditor countries the windfall gains accruing to Germany from their devaluations, the argument cannot in fact prevail.

The basis for the official position, as the quoted sentence

1. In an address at the German East Fair at Königsberg; cf. Österreichischer Volkswirt, Vol. 27, p. 919.
2. Economist, Vol. 123, p. 237.
3. Waldemar Swoboda, "Vertagte Markabwertung," Österreichischer Volkswirt, Vol. 28, p. 704.
4. Cf. pp. 68–69 above, and Guillebaud, op. cit., pp. 23–24, 66–67.
5. V.z.K., Vol. 11, No. 1, Part A, p. 58.

reveals, is the adverse effects on German export prices produced by foreign devaluations. Concerning the adverse effect of foreign devaluations upon German export prices there can be no question. But in order to demonstrate that Germany's real debt burden was absolutely greater despite the nominal cutting of debt by devaluation, it is not sufficient to restrict the view exclusively to her *export* prices. A favorable balance of trade is not dependent simply upon export prices, but upon the relative development of export and *import* prices, that is to say, upon the terms of trade.

The collapse of raw material prices during depression turned the terms of trade strongly in Germany's favor, as shown in Figure 25. This movement reached its peak in 1932; subsequently, with the recovery of prices for primary products, Germany began to lose the advantage gained between 1929 and 1932; even at its low point in 1937 the ratio of export prices to import prices did not fall below 117.6 (1929 = 100), and in 1938 it had recovered again to 128.8. The effects of this development upon Germany's balance of trade are striking. By adjusting the actual values of German exports and imports so as to represent the volume of foreign trade at the prices of 1929, we obtain the result that Germany would have accumulated in the years 1931–1938 an *adverse* balance of trade amounting to 10,720,000,000 Reichsmarks. As it was, Germany was actually able to secure during this span an aggregate *favorable* balance of trade of 5,230,000,000 Reichsmarks. The excess of the balance of trade in actual values over the balance at the prices of 1929 amounted to 15,950,000,000 Reichsmarks.[1]

Since the real burden of foreign debt depends upon the relation of import to export prices, we may obtain an approximation of the real burden by multiplying the nominal amount of debt at various dates by a factor in which the index of import prices is the numerator and the index of export prices the denominator. This gives the following results. It is naturally impossible to ascertain what course would have been taken by the terms of trade in the absence of sterling and dollar devaluations. But it is certain that in the actual situation, including devaluations, the real burden of German foreign debts, instead of increasing relatively to the nominal amount of debts in accordance with contention of German apologists for exchange control, actually decreased. The obstacle to devaluation from the angle of the burden of foreign debts was

1. Cf. statistics given on p. 152 below.

therefore a much less serious matter than represented; and furthermore, the magnitude even of the nominal debts had been halved since the introduction of exchange control.

GERMAN IMPORT AND EXPORT PRICES AND TERMS OF TRADE
(1929 = 100)

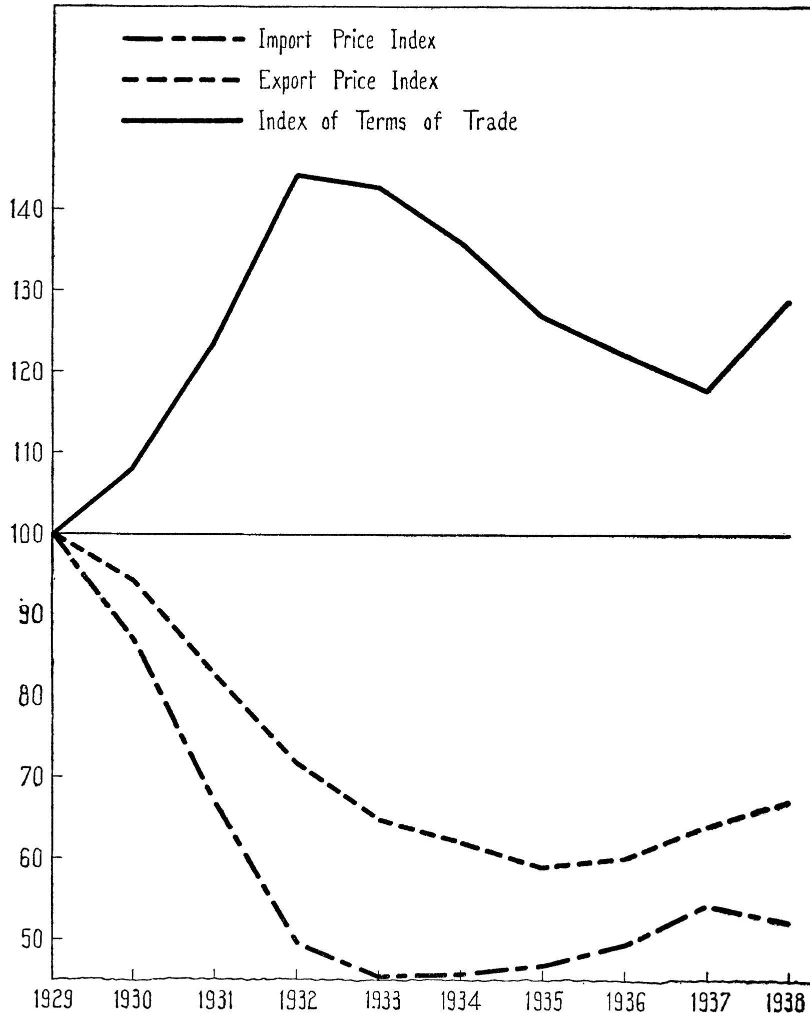

FIG. 25*

* For data and sources, see p. 152 below.

Other arguments directed toward the correction of the German exchange disequilibrium by devaluation in 1935 and 1936 carry still less weight. It was held that the measure would usher in a period of rapidly rising prices. If, however, the devaluation of the Mark were not pressed below the parity of exchange equilibrium, no "mechanical" cause of price inflation would exist. Such "psychological" factors as a flight of capital to foreign currencies, including the pressure of Jewish emigrés' funds and a domestic flight through dishoarding, were already controlled with Draconian severity through exchange control and domestic price regulation. With vastly less authoritarian control, the Czech Krone and the Belgian Franc were, at the same phase of developments, devalued without untoward consequences upon domestic prices. It was argued in Germany, further, that devaluation would provoke foreign retaliations; but the inverse proposition would seem more plausible, that it was the persistence and not the termination of Mark overvaluation which invited retaliation. Efforts on the part of Germany to offset the overvaluation were rather widely (and without much discrimination) regarded as dumping, as for example by the United States, which imposed special import levies on Ger-

TOTAL VALUE OF GERMAN FOREIGN INDEBTEDNESS
(In billion Reichsmarks)

	Nominal*	Real†
July 31, 1931	23.8	19.27
November 30, 1931	21.3	17.25
February 29, 1932	20.6	14.21
September 30, 1932	19.5	13.45
February 28, 1933	19.0	13.30
September 30, 1933	14.8	10.36
February 28, 1934	13.9	10.29
February 28, 1935	13.1	10.35
February 29, 1936	12.4	10.17
February 28, 1937	10.8	9.72
February 28, 1938	10.0	7.78
February 28, 1939	9.5	——

* League of Nations, Balances of Payments 1937 (Geneva, 1938), p. 110; ibid., 1938 (Geneva, 1939), p. 58.
† Computed from export and import price indices as given on p. 152 below. Territorial changes in Germany deprive these indices of significance after 1938.

man products in response to the German "export-subsidy" tax.[1]

All in all, by the close of 1936 the only real argument against devaluation was one which rarely came clearly into the light of publicity — its incompatibility with the "active economic policy." Despite the New Plan, foreign trade had taken such a turn that, in the words of the Reichsbank report of March 10, 1936, "only the most urgent needs of Germany could be satisfied." Once begun, economic planning seemed to show an inherent propensity toward indefinite expansion. Devaluation would have stopped and eventually reversed the tendency, but a totalitarian state does not aspire to a reduction of its own importance. The perpetuation and intensification of economic principles embodied in the New Plan, both in the domestic and foreign trade spheres, was possible, to quote a German commentator, because Germany was "willing to bear the heavy economic armor, the pressure of which was felt always and everywhere, and which narrowly hampered free action."[2]

Compare this evaluation with the pronouncements of a recent and fervent defender of the German control system. Referring to the New Plan, Dr. Fritz Meyer states in his memorandum to the Bergen Conference that

"the raw material quotas and the preferential allocation of labor for export industries led to just such a liberation of goods and services from domestic consumption as there would have been under the price mechanism of a free-exchange economy. . . . And because the sale of exports involves a pricing problem not solved by the mere liberation from domestic consumption, the additional export procedure pushes the level of export prices down as far below the general domestic price level as competition requires."[3]

Upon this basis Meyer is ready to reach the conclusion that

"the German exchange control is a new monetary system, which, of all systems existing at the present, embodies in the purest way the fundamental principle of the classical gold standard, that is to say, the maintenance of a stable exchange rate by adjustment of the domestic price level."

1. League of Nations, World Economic Survey 1935–1936 (Geneva, 1936), p. 200. Countervailing import duties from 22½ per cent to 56 per cent *ad valorem* were placed on many German products imported into the United States.

2. H. Schumacher, op. cit., p. 225. The tense of the verbs has been changed.

3. Fritz Meyer, "Devisenbewirtschaftung als neue Währungsform," Weltwirtschaftliches Archiv, Vol. 49, No. 3, pp. 465–466.

Were the "stable exchange rate" represented by the official value of the Reichsmark actually achieved by an "adjustment" of prices within Germany, it would be pointless to proceed, as we do in the next section of our analysis, to a discussion of the overvaluation of the Mark. Equilibrium would have been brought about by deflation. Alternatively, a reduction of the official value of the Reichsmark would have removed the difficulty which Meyer refers to tactfully as "a pricing problem not solved by the mere liberation (of resources) from domestic consumption." When the German authorities rejected these alternatives, they also rejected the "fundamental principle of the classical gold standard," which is its automatic or quasi-automatic operation. According to Herr Funk, the Minister of Economics, the export trade involved some 40,000 separate transactions daily, with upwards of 40 forms to be filled out for each transaction.[1] This may be suitable to the purposes of the totalitarian state, but it can scarcely be thought compatible with the principles of an international gold standard.

The Overvaluation of the Mark

To define the equilibrium rate of exchange formally is one thing; to determine its value empirically is another. When the question involves the degree of overvaluation of a currency during profound economic and financial disturbances, especially when the ordinary economic variables such as commodity prices, wages, interest rates, exports, imports, and capital movements are subject at every turn to authoritarian interference such as "price stops," subventions, quotas, tariffs, and exchange control, the problem becomes formidably intricate. The equilibrium rate itself has been definitively described by Pigou as the rate which satisfies the condition for commodities entering into international trade that "a unit in the country of export shall buy a claim in the country of import to a unit minus the cost . . . involved in sending it there"[2]; or in other words, that aside from discriminating monopoly, profitable international arbitraging operations in commodities are impossible. But this definition, however logically invulnerable, involves something "easier said than done," for it does not afford more than an indication of the economic facts relevant to equilibrium, nor more than a vague suggestion as to what statistical

1. Guillebaud, op. cit., p. 222.
2. A. C. Pigou, Essays in Applied Economics (London, 1923), p. 157.

operations would be required for computing the rate. The Casselian purchasing power parity does indeed provide a definite line of attack; and, in the relative form used exclusively since its modification by Cassel himself, this computed parity indicates the equilibrium rate, provided a base year of relative equilibrium can be discovered, provided capital movements, relative intensities of international demand, and the differential values of tariffs and costs of transportation between the countries involved have not changed much since the base year, and provided finally there have been no devaluations.[1]

One objection to purchasing power parity — that, following a foreign devaluation, prices either at home or abroad must adjust to the new parity rather than *vice versa* — loses its force when, as at present, the discussion does not assume as a datum the gold or gold-exchange parity of the home currency, but instead enquires how large a devaluation in the home currency would be necessary to establish equilibrium. Another complication is present but not crucially important—can any year be found sufficiently representative of international equilibrium to serve as a base? The stabilization of the pound in 1925 is commonly supposed to have settled upon too high a level, and the valuation of the franc after 1928 to have followed too low a level.[2] Furthermore it was undoubtedly true that an international price system was imperfectly realized in these years, if it is rigorously defined as requiring that "not only wholesale prices, but costs of living, wages, and interest rates are in perfect harmony."[3] But as Pigou insisted, though incomplete economic equilibrium can easily jeopardize exchange equilibrium, the latter can be perfectly realized without a thoroughgoing economic equilibrium; and for practical purposes, moreover, approximate allowances can be made for the pre-crisis under- and over-valuations. The most serious obstacle to the employment of purchasing power parity for European currencies since 1931 is the distortion of the prices of internationally traded items from general

1. As to why and how these changes distort purchasing power parity away from true equilibrium, cf. Howard S. Ellis, German Monetary Theory, 1905–1933 (Cambridge, 1934), Ch. XVI; and idem, "The Equilibrium Rate of Exchange," Ch. III in Explorations in Economics (New York, 1936), pp. 26–31.

2. League of Nations, World Economic Survey 1934–1935 (Geneva, 1935), p. 50.

3. J. B. Condliffe, "Exchange Rates and Prices," Index, Vol. 10, No. 109, p. 5.

domestic prices such as are embodied in wholesale or cost of living indices. Of the forces underlying this distortion, capital exports were most potent as long as they persisted; but we are probably warranted in ignoring them after the imposition of exchange control, and certainly warranted after the resort to complete moratorium.

Thus far the limitations upon purchasing power parity as a measure of overvaluation are not in the aggregate serious. Let us examine the results of this sort of calculation in the German case.

German Wholesale Prices Expressed as Percentages of British Wholesale Prices by Quarters*
(1925–1927 = 100)

	I	II	III	IV
1931	111.33	112.02	117.22	143.28
1932	141.62	138.43	145.74	150.33
1933	145.59	147.31	151.39	156.72
1934	160.53	165.36	171.27	177.22
1935	178.41	173.03	171.56	166.96
1936	168.12	168.75	162.40	159.04
1937	147.76	143.87	148.39	155.69
1938	160.66	166.48	175.63	186.17

* To make allowance for an approximate 10 per cent overvaluation of sterling (1925–1931), British wholesale prices were first adjusted upward by 11.1 per cent. For the underlying series, cf. p. 138 below.

In a literal sense we have here simply a numerical expression of the relative degrees of general monetary deflation and inflation as between England and Germany. For the very long run, and in the absence of special one-sided obstacles or stimuli to trade, these figures would show the approximate overvaluation of the Mark. But we are dealing with the short run and with a situation preeminently characterized by one-sided forces which distorted the effective prices of internationally traded goods and services away from general domestic price levels. To ignore this crucial difference, as Cassel apparently did in estimating the Mark to be 57 per cent overvalued in 1934,[1] is to overlook the entire gamut of devices by

1. Gustav Cassel, "Ein Gleichgewichtsproblem," Skandinaviska Kreditaktiebolaget, January, 1935, p. 2. Cassel correctly took as the basis English prices converted to a *gold* basis for purposes of comparison with a Germany still using an official gold Mark. In this way he at least avoided the error of the Economist, which employed English "paper" prices and thus arrived at a

which Germany sold her wares at prices below her own wholesale prices converted to foreign money at the official Mark parity, that is, the widespread use of various categories of cheap "blocked Marks" and the resort to export subsidies. These procedures cause the estimates of overvaluation in a simple purchasing power parity calculation to exceed the overvaluation of the Mark in effective prices to foreigners. We cannot therefore employ this parity itself, but in conjunction with other facts we shall find it very useful at a later juncture.

The extensive use of blocked Marks for German exports has not unnaturally suggested to certain writers[1] that the discount upon these subterranean varieties of the Mark might be employed as a measure of its overvaluation. Against this stands the attitude of authorities in Germany that discounts upon blocked Marks have nothing whatsoever to do with a devaluation of the German standard nor, by implication, with an artificially high official Mark rate. Even the term "blocked Marks" was for a time shunned by the German literature in favor of "blocked accounts"; and this terminological nicety was taken as proof that the blocked accounts, negotiable at a discount, had no connection with the Reichsmark.[2] This attitude, it need scarcely be said, is completely specious. Yet I should agree with Professor Harris when he maintains that

> "the degree of depreciation obtained by calculating a weighted average of the price of marks on exchange markets does not give us the proper correction. The German subsidy method . . . for a *given* depreciation of the mark is much more effective than a corresponding depreciation of sterling (say). The German bounty is obtainable only when it counts, a condition which does not prevail under usual conditions of depreciation. For this reason, a depreciation of the mark of 25 per cent, *ceteris paribus*, may well be as effective in ridding the country of overvaluation as a depreciation of 35–40 per cent elsewhere."[3]

Balogh's phrase "selective depreciation" aptly characterizes the

serious underestimate of Mark overvaluation in June, 1934, at 15 per cent against sterling and 27 per cent against the dollar; cf. Economist, Vol. 118, p. 1258, and pp. 1378–1379.

1. E.g. Mark Mitnitzky "Germany's Trade Monopoly in Eastern Europe," Social Research, Vol. 6, No. 1 (February, 1939), p. 35.

2. E.g. Rudolf Eicke, "Sperrguthaben und ihre Verwendungsmöglichkeiten," Der deutsche Volkswirt, Vol. 10, No. 18, p. 803; H. Schumacher, op. cit., p. 223.

3. S. E. Harris, "Measures of Currency Overvaluation and Stabilization," Ch. IV in Explorations in Economics (New York, 1936), p. 43; Harris's italics.

German system of multiple exchange rates,[1] and it accurately paraphrases Harris's description of the export bounty as "obtainable only when it counts." But the term "overvaluation" is understood by most persons, I believe, to refer to the margin by which a *single and unique* rate of exchange would have to be lowered to produce equilibrium, that is to say, under Harris's "usual conditions of depreciation." Unless we were to use the term in a quite strange and easily misunderstood sense, the "overvaluation" of the Mark cannot be found, at least directly, in the multiple values of blocked accounts.

Bearing in mind the lack of parallel between ordinary devaluation and the discriminatory variety, we shall make use later of the aggregate amounts applied to the furthering of German exports through depreciated Marks. Reflection upon this aggregate immediately reveals that it cannot be used in isolation: German exports were also furthered by direct subsidies obtained by levies upon home industries or simply by an additional item in the Reich budget. But when the *Economist* concluded in the autumn of 1935 that a 25 per cent devaluation would be necessary to produce equilibrium, using only these direct subsidies as a basis for calculation, it likewise erred in the direction of understatement.[2] The significant aggregate embraces both the total of discounts on blocked Marks and the total direct subsidies of all sorts; and even with this aggregate at hand we have only one of the components of a complete picture of the overvaluation of the Reichsmark. There is therefore small wonder that quotations upon blocked Marks, taken in isolation, lack significance. These series are reproduced in the statistical appendix[3]; but they bear little resemblance to other and more reliable indices of overvaluation, either in magnitude or in temporal variation.

With respect to one particular category of blocked Marks, the Aski, there might appear to be good reason for supposing that the prevailing discount would afford a satisfactory index of Reichsmark overvaluation. The Aski were acquired through current exports to Germany with full knowledge of their field of utilization, and not through frozen debts acquired long before exchange control had been contemplated. Their prices were formed by free negotiations

1. Balogh, op. cit., p. 481.
2. Economist, Vol. 121, No. 4802 (September 7, 1935), p. 472.
3. Cf. pp. 157–158 below.

between buyers and sellers; and, initially at least, their possible uses were quite numerous. From this combination of facts one might expect to derive prices which would show directly the relation of German to foreign prices on the significant items of international trade. But almost from the beginning the Aski accounts were subjected to curtailment as to uses, the list of Aski countries was reduced, and the accounts of nationals of the remaining countries were made the subject of differential treatment. In 1935 Aski Marks were selling at a 20 per cent discount in the United States, 30 per cent in Chile, and 35 per cent in Colombia.[1] They came to be another instance of "selective depreciation"; and their multiple values, just as with the other categories of blocked Marks, could not be taken to measure the depreciation which would be necessary for Reichsmark currency as a whole. Since 1937 their employment has decreased so far as to render the question somewhat academic.[2]

Let us turn from the blocked accounts to explore the possibilities of a comparison of export prices. This method of estimating the equilibrium rate of exchange has been championed by Harris, though without special reference to Germany or other exchange-control countries.[3] The advantage of this method is that it eliminates the prices of "purely domestic" commodities and costs of production, and retains only those actually entering into foreign trade. Harris rejects the objection — as I have also[4]—that export prices tend to be uniform the world over, if allowance is made for transportation costs and exchange rate, upon the basis of convincing empiric evidence to the contrary. What results are obtained from the export price comparison for Germany, taking export prices in England as the "other country," not only because of its own importance in German trade but also because of its representing the entire sterling *bloc?* Such a computation would seem to lead to the conclusion that if, as the index shows, the pound and Mark were in equilibrium at the prices and exchange rates of 1931, a 21 per cent overvaluation of the Mark had developed by the next year, and that the overvaluation had occasionally decreased below this figure but did not rise appreciably above it through

1. Neue Zürcher Zeitung, October 29, 1935.
2. Economist, Vol. 136, No. 5007 (August 12, 1939), p. 321.
3. Harris, op. cit., pp. 41–42.
4. Explorations in Economics, pp. 28–29, and n. 3.

German and British Export Prices*
(1927 = 100)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
1. British Gold† Export Prices	111.1	104.3	84.1	60.4	56.8	52.7	50.3	52.4	57.0	56.1
2. German Export Prices‡	100.0	94.1	82.5	71.6	64.7	62.0	59.0	60.0	64.0	67.1
3. 2 as percentage of 1	90.0	90.2	98.1	118.5	113.9	117.6	117.2	114.5	112.3	119.6

* League of Nations, Review of World Trade 1938 (Geneva, 1938), pp. 74, 78–79.
† British export prices have been adjusted upward by 11.1 per cent to allow for a 10 per cent overvaluation of sterling in 1927–1929.
‡ German prices for 1938 refer to the old Reich excluding Austria but including Sudetenland for the last quarter of the year.

1938. But this result diverges radically not only from general observation but also from other computed Mark parities on which it is possible to place greater reliance. The obvious shortcoming of the export price comparison for Germany is its failure to allow for the sale of special kinds of Marks below official parity and for the sale of goods at less than cost of production through export subsidies. But can we not utilize the export price parities by making allowance for these authoritarian methods of supporting exports?

The German government took great care to spread a veil of secrecy over its export subsidy system. No information has been divulged through regular channels, and German firms were even forbidden to enter the sums received in their books. We have therefore to rely upon scattered estimates occasionally published abroad. The export subsidy raised by the levy upon German industry and commerce after June, 1935,[1] amounted to a 2–3 per cent turnover tax; in 1935 it was expected to yield 700,000,000 Reichsmarks from industry and 300,000,000 Marks from commerce and the banks, and in 1936, 600,000,000 Marks from industry, 300,000,000 Marks from agriculture. Actual proceeds fell short by 100,000,000 Marks in 1935, but came up to expectations in 1936. For 1937 and 1938 the levy for exports ranged between 800,000,000 and 1,000,000,000 Marks.[2] It is even more difficult to ascertain the extent of support given to exports by means of blocked Marks and

1. A law empowering the Reich Chamber of Economy to impose such a levy was promulgated on June 29, 1935, but the levy is known to have been in force *de facto* for several months previous to this date.
2. Economist, Vol. 121, No. 4802 (September 7, 1935), p. 472; Neue Zürcher Zeitung, April 30, 1936.

the repurchase of German bonds, but it has been estimated for the four years 1935 through 1938 at 600, 700, 700 and 500–600 million Marks.[1] Applying these figures to exports, we obtain the following picture of government subsidies.

GERMAN EXPORT SUBSIDIES, 1935–1938
(in million Reichsmarks)

	Proceeds of the Tax	Blocked Marks and Bonds Repurchased	Total Funds for Subsidy	Exports	Percentage of Subsidy
1935........	900	600	1500	4270	37.5
1936........	1000	700	1700	4768	35.6
1937........	800–1000	700	1500–1700	5911	25–30
1938........	800–1000	500–600	1300–1600	5263	25–30

It would be rash to conclude from these figures, however, that the percentage of subsidy had fallen markedly in 1937 and 1938. By this time most of the German trade with Southeastern Europe, including Czechoslovakia, had been brought under domination of the German clearing system and the sphere of influence of the Mark, and we are safe in assuming that no subsidies were required. Eliminating the one-sixth of German exports which went to this region and distributing the subsidy over the remainder, we arrive at percentages of subsidy for 1937 and 1938 in the neighborhood of 35 per cent. There is a temptation to regard these percentages, running at about the level of 35 per cent for the years 1935–1938, as directly expressing the overvaluation of the Mark; but a truer account is given by these figures in conjunction with certain others.

Let the reader compare for himself three intimately connected phenomena, the interrelation of which we have indeed adumbrated but never before made explicit — German wholesale prices in comparison with wholesale prices abroad, German and foreign export prices, and the German export subsidies.[2] Each of these ratios has been proposed in some quarter or other as the measure of Reichsmark overvaluation, but it is only the composite of all three which reveals the actual situation. For reasons presently to be dwelt upon, no attempt is made to assemble these series in tabular

1. Financial News, November and December, 1937. Economist, Vol. 133, No. 4973 (December 14, 1938), p. 694.
2. Cf. pp. 78, 82 above.

form in order to offer precise numerical statement of the overvaluation. Yet it will be apparent that the series articulate with one another. Over the period 1935–1938 for which estimates of export subsidy exist, the percentage of *subsidy* at 35 per cent to 37 per cent very nearly, though not completely, fills the gap between the excess of German over British *wholesale* prices (moving most of the time between 48 per cent and 78 per cent) and the excess of German over British *export* prices (12 per cent to 20 per cent). None of these circumstances is surprising, and they house with one another harmoniously. A *complete* bridging of the gap between the relation of wholesale prices at home and abroad and the relation of German and foreign export prices is not to be anticipated, because of the economical application of devaluation through differential rates on various goods to various countries.[1] Export prices were, in other words, reduced below the high level of wholesale prices in Germany by a greater amount than a simple average of subsidy per unit. On the other hand, even this adroitly applied subvention did not suffice to offset the relatively high domestic prices, with the result that export prices remained from 12 per cent to 20 per cent higher than the British. This result made itself felt in a decline of German exports from 12 per cent of world exports in 1931 to eight per cent to nine per cent over the period 1935–1939, a decline in relative share of one-third to one-fourth.[2] With regard to the prices foreigners were actually paying for German goods, the Mark was on the average overvalued by 12 per cent to 20 per cent; with regard to the relation of internal prices at home and abroad which would have been significant for a unique and general devaluation, the Mark was overvalued from 50 per cent to 75 per cent, i.e. requiring a devaluation by 33⅓ per cent to 43 per cent.

There are three notable circumstances which would point to an overvaluation in fact exceeding even the upper limit of the estimates. In the first place, it is improbable that the export subsidies were sufficient to prevent actual loss to many firms on certain exports, the magnitude of subsidies being calculated only to preserve a modest competitive profit on a year's operations. Normal considerations of profitability had frequently to give way before the onslaught of propaganda in favor of the so-called "foreign exchange principle" (Devisenprinzip) as against the ordi-

1. Cf. pp. 79–80 above.
2. Cf. p. 153 below.

nary "foreign trade principle" (Kostenprinzip).[1] Furthermore, the formation of an exchange-control *bloc* under German domination made it possible for Germany to push her exports by a variety of devices other than the reduction of export prices. Both of these circumstances pertain to the comparison of export prices, and make the German prices lower than they would be under the ordinary competitive conditions which underlie the traditional concept of equilibrium rates of exchange. The third qualification, on the other hand, pertains to the comparison of wholesale prices figuring in the purchasing power parity concept. For years the German authorities have been intent on suppressing any tendency of prices to rise. It is not inconceivable that one part of the "suppression" should have been the resort to statistical maneuvers such as the not altogether disingenuous shifting of base years, weighting system, or sampling, which might retard the advance of price indices.[2] Another part of the suppression was, of course, the decreeing of maximum prices and the introduction of rationing practices which constrained the depreciation of the Mark within narrower limits than otherwise.

For 1939 a sudden and considerable rise in overvaluation seems probable. The attainment of full employment, the scarcity of certain kinds of labor and raw materials, and the increased pressure on production from the side of armament surely point in this direction; and the reported doubling of the export subsidy tax is consonant with this development.[3]

Loss and Gain in Bilateral Trade

A. *German Import Prices.*

(1) General Observations. An overvalued currency unit usually signifies that the country secures in international trade

1. Fritz Huhle, op. cit., p. 191; John Brech, "Der moderne Merkantilismus," Wirtschaftsdienst, 1934, No. 26, p. 875.

2. When Mr. Guillebaud pleads that "one moment's reflection will show" that publication of two sets of figures for official and public use is not practicable, he should be reminded of a similar question, much discussed in the 'twenties, with respect to Russian statistics. At that time one of the foremost authorities in Russian economics, the late Professor Zagorski, very convincingly showed that double sets of figures were actually in use, at least as far as concerned certain parts of the published Russian materials. Cf. Guillebaud, op. cit., p. vi, and S. Zagorski (Russian text), The Economic Situation in Russia (Paris, 1926), p. 134. I am obligated to Dr. Gerschenkron for the exploration of this work in Russian.

3. Economist, Vol. 133, No. 4975, p. 694.

more favorable barter terms than otherwise: its exports fetch more and its imports cost less than they would at an equilibrium rate of exchange. The overvaluation of the Mark with respect to non-exchange-control countries, however, produced a less favorable turn to Germany's barter terms than might be expected if account were not taken of the large amount of exporting at rates below the official Reichsmark parity. Furthermore, in clearing and compensation trade, the German authorities occasionally took some account of the artificiality of the Reichsmark rate, though the concessions seldom were enough to realize anything approaching a true rate. In the last four or five years preceding the present war, upwards of 80 per cent of German trade went through clearings and compensations. Rates of exchange in these relations were subject to constant maneuvers, varying strikingly between partner countries. Trade with countries having free currencies also passes through special rates depending upon the particular country and the particular variety of blocked Mark involved. In the section just concluded we have seen that the overvaluation was incompletely offset by these special rates and by direct subsidies, and that an uncovered margin of 15 to 22 per cent in comparison with England still remained on the average. How much of an advantage accrued to the German economy by selling goods at this artificially high price margin, and to what extent the gain was offset by subsidy costs and other forms of non-economic exporting would be interesting facts for the student of exchange control. But the intricacy of the situation, the suppression of relevant information, and the impossibility of knowing how matters might have stood regarding the terms of trade in the absence of the course actually taken combine to make this particular phase of exchange a closed book.

Some indication of actual developments in the matter of the "gain" of foreign trade may nevertheless be derived from comparisons between the costs of imports from exchange-control and from free-payments countries. It does not answer the question concerning aggregate gain, which is probably a theoretical and statistical surd, even in the absence of complications set afoot by exchange control with an overvalued monetary standard; but it does something toward showing which way the wind blew. Let us proceed to this inquiry.

The forcing of trade into bilateral channels after 1931, particularly after 1933, produced a momentous dislocation of German

GERMAN TRADE WITH EUROPE AND THE REST OF THE WORLD AS PER CENT OF TOTAL*

	Imports		Exports	
	Europe	Rest	Europe	Rest
1931	55.9	44.1	81.0	19.0
1932	53.6	46.4	81.0	19.0
1933	54.3	45.7	78.0	22.0
1934	57.5	42.5	76.5	23.5
1935	61.6	38.4	73.2	26.8
1936	59.8	40.2	70.7	29.3
1937	55.6	44.4	69.3	30.7

* For source and fuller data, cf. p. 145 below.

exports away from European toward more distant markets. Not only did this entail mounting costs of placing German products at the doorstep of the final buyer, but also the loss of triangular trade through which Germany had traditionally paid for her purchases of overseas raw materials by her European export surplus.[1] The evolution of German imports over the same period is not dominated by the same trend. Until 1936 Germany was apparently unable to maintain the former proportion of overseas purchases through the increasing pressure of European clearings; but the elaboration of clearing and compensation arrangements thereafter, especially with South American countries,[2] made good the loss, at least in the *proportion* of imports. Within the broad class of European imports, however, there was a consistent and persistent drift away from the western European creditor nations — Great Britain, France, Belgium, the Netherlands, and Switzerland — as follows:

1931	23.2	1935	20.3
1932	20.6	1936	18.4
1933	20.9	1937	17.7
1934	20.7	1938	16.9

The successive reductions of German debt service preclude the explanation that imports fell in response to the development of a

1. The developments shown in the foregoing percentages of European and non-European trade are still more marked if allowance is made for the fact that the statistics included Turkey under Asia to 1936 but thereafter under Europe. If the former classification is retained, we obtain the following:

	Imports		Exports	
	Europe	Rest	Europe	Rest
1936	57.0	43.0	69.0	31.0
1937	53.8	46.2	67.4	32.6

2. Cf. pp. 59–60 above, and pp. 146–147 below.

capital surplus in the balance of payments; the explanation lies in the difficulties of making purchases with strong currency countries, and in Germany's increased economic and political interest in Southeastern Europe.

The violent shifting of exports during the course of exchange-control history from European to overseas countries and of imports from Western to Southeastern Europe brought its economic cost; bilateralism inevitably narrows the range of markets for both selling and buying, as emphasized in the introductory chapter.[1] During the period when bilateral trade under clearings was officially regarded as the nefarious work of foreign creditor nations, it was permitted to speak of the unfavorable results of this sort of trade; candid expressions of disapproval were widespread.[2] In 1935 the Institute for Business Cycle Research (Berlin) could venture to reveal the illuminating figures on page 89 regarding import costs from clearing and non-clearing countries.

Most dramatic are the excesses of clearing over non-clearing prices in the cases of oil, cotton, and wool, which show margins in the third quarter of 1935 of 45 per cent, 24 per cent, and 24 per cent. A decline in the price of petroleum on free-currency markets in 1935 was actually accompanied by a rise in the clearing price. Not all prices throughout the three-year period reveal the same tendency, but in general there is a striking preponderance of prices in clearings exceeding the free-currency levels. Oil fruits and seeds depart from this pattern only in the last quarter included. For lumber there is a reversal of the general tendency in 1934 and in the third quarter of 1935; but the absence of an official clearing with Austria, an important source of German supply, and the inclusion of Austrian imports through the device of compensation under "non-clearing" countries account for this change. In the case of cotton in 1933 and 1934, the crop and marketing restrictions of the United States are responsible for the deviation. Copper in 1933 represents the only extreme reversal of a general tendency for the German import prices through clearings to exceed the prices through

1. Cf. Part I (November, 1939), p. 25.

2. Cf. Huhle, op. cit., p. 206, and idem, "Das Clearingwesen im Aussenhandel vom deutschen Standpunkt aus," Jahrbücher für Nationalökonomie und Statistik, Vol. 146, No. 2, pp. 171–205; Reichskreditgesellschaft, Germany's Economic Development in the First Half of 1938 (Berlin, 1938), p. 48, and idem, Germany's Economic Situation at the Turn of 1937–1938 (Berlin, 1938), p. 50; Benning, op. cit., p. 58.

AVERAGE IMPORT PRICES OF IMPORTANT RAW MATERIALS PURCHASED BY GERMANY FROM CLEARING AND FROM NON-CLEARING COUNTRIES*

(In Reichsmarks per metric ton)

a, All Countries; b, Clearing Countries; c, Non-Clearing Countries

Commodities		1933	1934	First half 1935	Third quarter 1935
Wool	a	1,345	1,791	1,524	1,747
	b	1,540	1,833	1,692	1,902
	c	1,218	1,756	1,269	1,526
Cotton	a	649	651	797	848
	b	490	592	898	964
	c	658	663	708	780
Lumber	a	55	53	51	53
	b	55	51	51	51
	c	54	55	51	59
Oil fruit and oil seed	a	117	99	110	121
	b	133	114	123	121
	c	109	89	102	121
Petroleum and its derivatives	a	48	44	44	42
	b	65	57	53	55
	c	47	43	41	38
Copper	a	494	423	357	382
	b	526	426	357	383
	c	444	421	357	380

* V. z. K., Vol. 10, No. 3, Part A (1935, N. S.), p. 323.

free exchange. In view of the importance of this matter it seems advisable to select the most eligible commodities for further statistical investigation, and to subject them to more detailed analysis.[1] The case of cotton affords a particularly intimate view of the operation of bilateral trade; copper and wool present less simple cases, but general tendencies are nonetheless discernible.

(2) The Costs of German Imports of Cotton. The analysis of German imports of this commodity includes: the physical volume and the total value paid for imports of cotton by countries of

1. The choice of commodities for investigation is narrowly limited by the available statistics. The extension of clearings in many cases completely eliminated imports from free-currency countries, and thus eliminated the possibility of price comparisons. In other cases different commodities are embraced under one customs heading. Finally, the reorganization of the German trade tatistics in 1937 prevented the continuance of price comparisons beyond hat year.

origin; the relative shares of each of these countries in the total importation; the average import price paid by Germany as a percentage of the world price; and finally, the ratio of prices obtained from Germany by specific clearing countries to prices obtained by a non-clearing country. The figures of physical volume show a strong shrinkage of cotton import; even in 1936 and 1937, in the midst of a high degree of employment in Germany, this import fell short even of the crisis year of 1931.[1] On the whole, however, exchange control and clearing did not lead to as great a collapse as might be expected: cotton imports persisted at about three-fourths the pre-crisis level. It is not in the total volume but in the allocation of imports and the costs that we see the disruptive force of bilateralism.

Before 1931 something like two-thirds to three-fourths of German cotton imports were obtained from the United States, about one-tenth from British India, and about one-fifth from Egypt. Only minor variations in the share of these three suppliers occurred before 1934: the Indian share declined somewhat, but the United States maintained its predominating position. The introduction of Schacht's New Plan in 1934, with its intensified drive for bilateralism of trade, changed this scene completely, as may be seen by a comparison of 1934 and 1935 with the preceding years in Table I. The share of the United States in German imports of cotton fell abruptly to little more than one-fourth; Egypt doubled its relative pre-crisis share; Brazil rose in an astonishing fashion from almost nothing to one-fifth; and Turkey appeared upon the list of countries, with a modest share it is true, but evidently because cotton culture was introduced with the sole purpose of supplying Germany. British India maintained its approximate position, but this was possible only through a cost to Germany which we presently explore.

Later developments did not substantially alter the new situation of 1934–1935. Imports from Brazil fell temporarily in 1936 to half their 1935 level and recovered the ground lost by 1937. This sudden decline was caused by the termination of the German-Brazilian clearing agreement at the instance of Brazil, allegedly (in Germany) because of pressure by the United States,[2] but in

1. Cf. p. 150 below.

2. Reichskreditgesellschaft, Germany's Economic Development in 1935, p. 55.

A DECADE OF GERMAN IMPORTS OF COTTON

I. SHARES OF INDIVIDUAL EXPORTING COUNTRIES AS PERCENTAGE OF TOTAL GERMAN IMPORTS*

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Egypt	4.13	5.07	5.72	7.83	8.0	8.41	11.25	9.96	9.11	11.68
British India	10.41	12.01	12.91	9.89	5.5	8.10	9.41	8.09	11.94	10.45
U. S. A.	72.93	70.50	68.37	67.55	75.0	72.09	55.12	26.72	35.95	33.89
Turkey	....	....	.56	.38	.5	.01	1.45	3.88	5.00	2.41
Brazil	.16	.15	.89	.66	.05	....	2.07	20.83	11.73	20.04
Argentina	.48	.72	.79	.61	1.1	1.11	1.42	3.65	2.96	1.68
Peru	.57	.45	1.38	2.70	2.0	2.05	2.84	6.36	5.78	5.31
Mexico	.19	.49	.02	....	....	....	.08	.89	2.72	2.25

* Computed from data on p. 150 below.

reality because of the accumulation of a large German clearing debt. Exactly the same incident was re-enacted in the summer of 1939; the same reason existed for the Brazilian action, and the same allegations reappeared in Germany.[1] The abrupt cutting off of producers' outlets, illustrated in these cases, plays havoc with the economic calculations of the individual, puts production plans upon a hand-to-mouth basis, and adds to the inevitable *faux frais* of clearings.[2]

The diversion of German cotton imports to Egypt and Brazil, in consequence of the necessity of employing clearing balances wherever they were available, was bound to produce unfavorable effects on the German textile industry, quite aside from the price of raw cotton. The use of high quality, long staple Egyptian cotton for the coarse cotton fabrics produced for domestic consumption raised the cost of these textiles and led to a series of decrees fixing prices and restricting output.[3] Brazilian cotton was coarse and ill-adapted to the German textile machinery, and here again costs of production mounted. German firms found themselves compelled, partly by economic necessity and partly by authoritarian action, to resort to domestic linen and rayon yarns.[4] Such shifts as these, in some cases to better and frequently to inferior qualities in textile manufacture, affect the cost of living. If only better and more expensive qualities are available, or if the standard textiles undergo deterioration, an index of the cost of living based upon the previous grades conceals a real sinking of the standard of living. As a result the almost horizontal course of this index for long periods together has to be taken with due reservations.[5]

But the increased cost of production arising from technically or economically inappropriate grades of raw cotton pales into insignificance compared with the rise in import prices paid in bilateral trade. On rare occasions direct quotations were made of free and clearing import prices. Thus Egyptian cotton was quoted in October, 1936, at 105.6 Reichsmarks per 100 kg. in free exchange and 125.0 Reichsmarks in barter, with corresponding

1. Reichskreditgesellschaft, Germany's Economic Situation at the Turn of 1938–1939, p. 110.

2. Cf. E. C. D. Rawlins, Economic Conditions in Germany, Department of Overseas Trade (London, 1936), p. 123.

3. Cf. pp. 48–49 above.

4. Rawlins, op. cit., pp. 123–127.

5. Cf. Figure 23, p. 52 above.

figures for October, 1936, at 82.2 and 121.5 Reichsmarks.[1] However dramatic such facts may be, actual quotations appeared so infrequently, especially as in this case for imports from a specified country, that we must proceed by the indirect method of dividing the published customs returns on total value of cotton imports from a particular country by the recorded volume. The results are shown in Table II, which serves as the basis for Tables III and IV.

In Table III, the average price paid by Germany for cotton imports is expressed in line five as a percentage of the world market price. It will be noted that, though this percentage is subject to ups and downs both before and after the institution of exchange control, the level about which variations occur is noticeably higher during the later period. This is true even with the data utilized in Table II; but the relative height of German import prices would be much greater in 1936 and 1937 if we were to employ the isolated data for these years supplied by the Dresdner Bank. The average import prices of 910 and 930 Reichsmarks for these years give relatives of 132 per cent and 107 per cent.

Of considerably greater significance is a comparison of the German import price for cotton from three typical clearing countries with the world market price for cotton from the same countries. For ease of comparison these prices have been expressed in Table IV as percentages of the current price on American cotton.

We perceive from Table IV the following: (*a*) The price for German imports of Egyptian cotton showed no tendency to follow the American price. Thus Germany had not only to purchase the more expensive grade of cotton but also to pay much more for it than countries purchasing outside the clearings on the world market.

(*b*) Cotton import prices from British India reveal the same non-competitive character. Having varied between 70 and 80 per cent of the American price until 1935, the Indian price sprang to a new level of 95–97 per cent for the next three years. The volume of cotton imports from British India, as we remarked before,[2] was maintained; and it was maintained in the teeth of paying the American price for an inferior grade of cotton. It is interesting, furthermore, to observe that, despite the discontinuance of compensation deals with India in 1937,[3] the German import price for cotton remained stable. This seems to indicate clearly that, once trade

1. Reichskreditgesellschaft, Germany's Economic Situation at the Turn of 1937–1938, p. 50.
2. Cf. p. 90 above.
3. On February 24, 1937. Cf. R E 22/37, D. St. 10/37 Ue. St.

A Decade of German Imports of Cotton

II. Price of Imported Cotton by Individual Countries*

(In Reichsmarks per metric ton)

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Egypt	2,507	2,416	1,858	1,265	946	918	872	998	1,104	1,055
British India	1,480	1,334	988	696	584	532	476	640	666	646
U. S. A.	1,833	1,839	1,440	919	682	683	664	670	666	660
Turkey	....	....	1,321	884	759	753	845	1,006	905	986
Brazil	1,830	1,749	1,523	990	442	...	872	1,112	1,007	927
Argentina	2,038	1,976	1,526	939	674	752	735	945	902	971
Peru	1,961	2,316	1,571	1,075	811	793	807	1,023	1,074	1,119
Mexico	1,880	2,069	1,389	....	...	...	675	1,109	902	903
Average	1,719	1,709	1,340	886	686	649	651	830	793	787

* Computed from data on p. 150 below.

A Decade of German Imports of Cotton

III. German Import Price and the World Market Price

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
1. Average German Import Price* (Rm. per ton)	1,717	1,709	1,340	886	686	649	651	830	793†	787†
2. World Market Price (New York)‡	1,856	1,771	1,257	793	596	624	681	654	692§	865‖
3. Index of German Market Price	100	99.5	78.0	51.6	39.9	37.8	37.9	48.3	46.2	45.8
4. Index of World Market Price	100	95.4	67.7	42.7	32.1	33.6	36.7	35.2	37.3	46.6
									131.5¶	107.0¶
5. 1 as Percentage of 2	92.5	96.5	106.6	111.8	115.0	103.9	95.5	126.9	114.6	90.9

* Statistisches Jahrbuch für das Deutsche Reich.
† Concerning the 1936 and 1937 German import prices, cf. p. 93 above.
‡ Reichskreditgesellschaft, Germany's Economic Development in 1936 (Berlin, 1937), p. 66.
§ Price in May, 1936.
‖ Price in April, 1937.
¶ Dresdner Bank, Stati t sche Übersichten der volkswirtschaftlichen Abteilung, No. 11 (November 30, 1938), p. 582, and No. 2 (February 28, 1939),

A DECADE OF GERMAN IMPORTS OF COTTON
IV. GERMAN IMPORT PRICES AND WORLD MARKET PRICES AS PERCENTAGES OF THE AMERICAN (UNITED STATES) PRICE*

	1931	1932	1933	1934	1935	1936	1937
			German Import Prices				
Egypt	137	136	134	131	148	165	159
British India	75	84	77	71	95	96	97
Brazil	107	....	....	131	165	151	140
			World Market Prices				
United States	100.0	100	100	100	100	100	100
Egypt	141.1	142.2	110.3	109.2	114.7	118.8	127.2
British India	90.0	88.3	75.1	75.6	79.9	74.3	77.1
Brazil	101.3	104.8	98.8	95.5	96.8	93.7	91.5

* German import prices as given in Table II; world market prices from the Empire Cotton Review (Manchester, England).

connections and channels of supply have been established under the auspices of clearing and compensation, it is not easy to turn to new sources. Not only the introduction but also the relaxation of exchange control entails costs, and these costs serve as obstacles to the removal of control. Ultimately, as Huhle says, the gain to the national economy would outweigh the costs of readjustment[1]; but the elasticity of economic forces in international trade may be seriously impaired in an authoritarian regime, and the new sources of supply may be found only after delay.

(*c*) Brazilian cotton prices showed a decided falling tendency on world markets relatively to the price of the United States, finally arriving in 1937 at a margin only 8½ per cent lower; nevertheless Germany had to pay for Brazilian cotton in 1935, 1936, and 1937 prices which exceeded the American price by 65, 51, and 40 per cent![2] It may be noted that the high price obtained from Germany for its cotton exports caused an artificial growth of cotton culture in Brazil (at the expense of other crops) and threatened a serious overproduction.[3] From the German angle, in turn, there is little doubt that the impact of her own demand, falling upon new markets under the influence of bilateral trade, was one of the main

1. Fritz Huhle, "Das Clearingwesen," loc. cit., p. 205.
2. Brazilian coffee imports by Germany in 1934 and 1935 took place at prices *rising* from 63 Reichsmarks to 70 Reichsmarks per 100 kg., despite the *decline* of prices on world markets. Cf. Wirtschaftsdienst, Vol. 21, No. 1, p. 18.
3. E. M. Harvey and W. C. Bruzano, Report on Economic and Commercial Conditions in Brazil, Department of Overseas Trade (London, October 17, 1937), p. 100.

reasons for the high import prices, not only from Brazil, but also from all the other countries covered in the tables, with the exception of the United States.

(3) The Costs of German Imports of Copper. The statistics of German imports by countries[1] have little significance for the present subject, save for the fact that imports from the United Kingdom nearly doubled from 1934 to 1935 under the influence primarily of the Anglo-German payment agreement of November, 1934.[2] The United States lost heavily in relative share throughout the period, not as a consequence of exchange control in Germany, but simply through the general decline of our copper exports in competition with the advent of effective exploitation of deposits in Rhodesia.[3] Our interest centers rather in the behavior of German import prices. If we carry through the comparison of these prices, obtained by dividing the annual import volume by the annual import value,[4] with the London price of *electrolytic* copper, as suggested in an analysis by the Reichskreditgesellschaft, we obtain the following rather surprising results.

	1. Average German Import Price*	2. World Market Price†	3. 1 as Percentage of 2
	(In Reichsmarks per metric ton)		
1928	1,269	1,396	90.9
1929	1,541	1,722	89.4
1930	1,187	1,261	94.1
1931	816	810	100.7
1932	546	532	102.6
1933	494	507	97.4
1934	423	417	101.4
1935	375	429	87.4
1936	449	501‡	89.6
1937	665	816§	81.4

* Statistisches Jahrbuch für das Deutsche Reich.

† Reichskreditgesellschaft, Germany's Economic Development in 1936 (Berlin, 1937), p. 66. The world market price is taken here as the London price for electrolytic copper, monthly averages. ‡ Price for May, 1936. § Price for April, 1937.

That Germany should have been able to secure copper imports *under* the world market price is quite improbable for a number of reasons. In the first place, there are the simple facts that such a situation would be unique amongst all German imports for which

1. Cf. p. 151 below.
2. Cf. pp. 56–59 above.
3. For most of the analysis embodied in these paragraphs on copper I am indebted to Mr. Francis McIntyre of the Department of Economics, Indiana University, who has been engaged for a number of years in an exhaustive study of the subject (University of Chicago doctoral dissertation).
4. Cf. p. 151 below.

there is any available information, and that it would be inexplicable. Secondly, the data presented on p. 89 above, coming from a semi-official source, actually admit that copper imported by Germany over the clearings cost more than in the free relations in two and one-quarter years out of the two and one-half years covered. Since substantial imports of German copper did enter by the clearings, the relation could only have been an exceeding of the world market price by German import prices. Finally, as Mr. McIntyre suggests, the London market in electrolytic copper is relatively unimportant, and furthermore the probabilities are that Germany imported predominantly standard instead of electrolytic copper. He has therefore carried through a computation to afford a comparison of German import prices with the world market price of standard copper, with the following results.

A DECADE OF GERMAN IMPORTS OF COPPER
GERMAN IMPORT PRICES AND WORLD MARKET PRICES

	1 London Price in Sterling*	2 Pound-Mark Rate†	3 London Price in Marks: 1×2	4 German Import Prices‡	5 4 as Percentage of 3
1928......	64.90	18.66	1,211	1,269	104.8
1929......	76.55	18.66	1,428	1,541	107.9
1930......	55.55	19.97	1,109	1,187	107.0
1931......	39.00	19.70	768	816	106.2
1932......	32.25	13.37	431	546	126.7
1933......	33.05	12.51	413	494	119.6
1934......	30.80	13.36	411	423	102.9
1935......	32.40	10.93	354	375	105.9
1936......	39.15	10.74	420	449	106.9
1937......	55.40	12.60	698	665	95.3

* Average London price in pounds per metric ton; Yearbooks of the American Bureau of Metal Statistics; standard copper.
† Exchange rate derived from column 6 in the following table;

DERIVATION OF THE POUND-MARK RATE

	1 German Import Price, Rm. per Metric Ton	2 U. S. Export Price c./lb.§	3 U. S. Price $ per Metric Ton	4 Implied Exchange Rate Rm./$ 1÷3	5 Average £/$ Rate	6 Implied Exchange Rate Rm./£ 4×5
1928......	1,269	14.98	330.25	3.84	4.86	18.66
1929......	1,568	18.53	408.51	3.84	4.86	18.66
1930......	1,215	13.41	295.64	4.11	4.86	19.97
1931......	818	8.54	188.27	4.34	4.54	19.70
1932......	502	5.97	131.61	3.81	3.51	13.37
1933......	456	7.01	154.54	2.95	4.24	12.51
1934......	443	7.57	166.89	2.65	5.04	13.36
1935......	386	7.84	172.84	2.23	4.90	10.93
1936......	454	9.53	210.10	2.16	4.97	10.74
1937......	697	12.41	273.59	2.55	4.94	12.60

‡ Average German price in Reichsmarks per metric ton, as given on p. 96 above.
§ Including three cents to the pound transportation costs; source, Engineering and Mining Journal.

These results appear to be considerably more trustworthy than those given by the comparison suggested by the Reichskredit-gesellschaft, and they are furthermore quite in line with the data on copper import prices for 1933 and 1934 given by the Berlin Institute for Business Cycle Research. They indicate two years, 1932 and 1933, in which the German import prices were very much higher than world market prices. Thereafter the fall of German import prices to the level of the index before the institution of exchange control may very well be explained by a substitution of standard for electrolytic copper in the drive to economize devisen.

(4) Prices of German Imports of Wool. Table I, showing the percentual share of individual exporting countries in Germany's total imports of wool, reveals in a very dramatic fashion the displacements in the channels of trade wrought by bilateralism. The share of Australia, traditionally the chief source of supply, fell from more than 30 per cent in 1931, to 11 percent in 1935. In 1935 the imports of New Zealand, which in the two years preceding had run above 10 per cent, suddenly dropped to 1½ per cent. This is accounted for by the German trade drive in Argentina, which advanced in German imports from 12 to 18 per cent, and in British South Africa, a region which fell under National Socialist political influence, from 11 to 21 per cent (in comparison with 1934). The same year (1935) also witnessed a doubling of wool imports from England as an entrepôt under pressure of the overvalued Mark rate and the payment agreement concluded at the end of 1934.

These shifts in supply were accompanied by import-price and quality changes directly ascribable to exchange control. In 1934 and 1935 import prices for the first time[1] rose above world market prices. In 1936 and 1937 the fall of the index is clearly ascribable to a substitution of cheaper grades of wool. So extreme was this shifting of quality that at one time the German demand for the inferior crossbred wool actually advanced its import price above the level of merino.[2]

1. Except for a smaller excess in 1930.

2. Fritz Huhle, "Das Kompensationsgeschäft in Rahmen der deutschen Handelspolitik," Jahrbücher für Nationalökonomie und Statistik, Vol. 145, pp. 206–207.

Mr. C. J. Fawcett, General Manager of the National Wool Marketing Corporation (Boston), informs me that since Germany has used a large amount of "medium" and "defective" types of wool, an average price for German imports equal to the average London price would signify a substantially higher effective price for equal qualities.

A Decade of German Imports of Wool

I. Shares of Individual Exporting Countries as Percentage of Total German Imports*

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Belgium	4.60	4.82	4.66	6.16	4.93	4.64	4.04	3.73	2.85	3.00
France	4.90	4.83	4.54	5.85	6.85	6.76	4.68	4.25	3.02	6.52
United Kingdom	7.28	6.90	5.39	5.35	5.92	6.96	5.79	12.91	5.47	4.65
U. S. S. R.	0.68	0.56	1.54	3.20	2.87	2.00	2.76	1.46	....	....
C. S. R.	1.53	1.74	1.39	1.45	0.91	0.90	1.75	0.50	....	....
British South Africa	14.48	14.95	14.50	13.35	16.52	12.76	11.42	21.44	15.80	17.85
Argentina	19.32	19.63	16.57	13.11	10.31	10.50	11.87	18.00	13.25	7.72
Australia	31.51	30.85	35.71	30.05	33.87	31.89	25.06	10.68	13.62	16.73
New Zealand	2.97	3.19	3.23	5.31	6.50	10.76	11.06	1.58	2.75	3.14
Uruguay	2.74	2.97	5.02	8.95	5.90	5.92	5.81	5.05	4.39	3.41
Chile	0.57	0.52	0.23	0.76	0.69	0.55	1.83	5.03	5.79	7.37
Peru	0.15	0.05	....	....	....	....	0.23	1.13	2.18	2.25
Brazil	0.68	0.92	1.42	1.38	0.59	0.87	0.93	3.36	5.53	2.98
Spain	0.38	0.23	0.21	....	....	....	0.19	0.63	0.87	4.30
Turkey	....	....	....	....	....	0.13	3.37	2.55	9.34	3.65
China	0.33	0.31	0.25	....	....	0.22	0.71	1.46	3.97	3.81
Total	100	100	100	100	100	100	100	100	100	100

* Computed from data on p. 155 below.

II. German Import Price and the World Market Price

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
1. Average German Import Price* (Rm. per ton)	3,681	3,614	2,460	1,771	1,313	1,345	1,791	1,587	1,829	2,225
2. World Market† Price, London Mo. Average (Rm. per ton)	5,179	3,963	2,432	2,098	1,486	1,788	1,666	1,486	1,835‡	2,256§
3. Index of German Import Price (1929=100)	100	98.2	67.0	48.0	35.9	36.6	48.5	43.1	49.7	60.5
4. Index of World Market Price (1928=100)	100	76.5	47.0	40.5	28.8	34.6	32.2	29.8	35.4	43.5
5. 1 as Percentage of 2	71	91.5	101.1	84.4	89.0	75.6	107.5	107.0	100.0	99.0

* Statistisches Jahrbuch für das Deutsche Reich.
† Reichskreditgesellschaft, Germany's Economic Development in 1936. (Berlin, 1937), p. 66.
‡ Price in April, 1936. § Price in April, 1937.

Writing upon the National-Socialist Four-Year Plan, Professor Mackenroth of Kiel expressed the view that "foreign raw materials appear to be fantastically cheap."[1] If one were to fix attention exclusively on the overvalued Mark exchange rate, this would be the deduction. That this influence was more than counteracted by the combined effects of concealed devaluations and bilateralism seems to be amply attested by German import prices. We now turn to the question as to whether these losses in import prices were, as has been contended,[2] more than offset by high export prices.

B. *German Clearings with Southeastern Europe*

When the Great Depression began to yield to belated recovery, the highly industrialized Germany was able — at the cost, it is true, of civil liberties and the further disruption of international economic relations — to build up a semi-insulated economy and to increase production and employment by tremendous strides. No such course was open to the agricultural countries of Southeastern Europe. Antiquated methods of production made them easy prey of American competition and the chief victims of agricultural depression. Migration to relieve overpopulation was barred by foreign restrictions; borrowing to carry through a rationalization of the productive apparatus was impossible in the shattered international capital market; and indeed, the burden of existing foreign indebtedness was so great as to delay resort to the necessary devaluations to make potential exports marketable. Furthermore, new industrial ventures, called into being in the post-war exuberance of nationalism, seemed to require the very protection which exchange control automatically affords.

This grave economic plight, coupled with a lack of gold and devisen reserves and a plethora of agricultural stocks held on government account, thrust these countries into clearing and compensation agreements and into the German bilateral trading system. Undoubtedly the Balkan countries and Germany embody the "natural" complementarity of agricultural and industrial countries, and this complementarity is furthered by geographic

1. G. Mackenroth, Bericht über den Vierjahresplan, Jahrbücher für Nationalökonomie und Statistik, Vol. 148, No. 6 (December, 1938).

2. Amongst others by Guillebaud, op. cit., pp. 158–159; cf. also p. 112 below.

proximity. But economic distances are not always proportional to miles; transportation by rail from Bulgaria, Greece, and Turkey to Germany is costly, the sea route circuitous, and Danube shipping limited in capacity. It is scarcely conceivable that German trade with this region would have developed as far as it did, had it not been for an evident resolution on the part of Germany to press her trade at all costs and to extend her sphere of economic and political influence.

(1) Bilateral Balance and Volume of Trade. During the year 1932 Germany concluded bilateral trading agreements with the six countries of Southeastern Europe with the avowed purpose of providing amortization of her outstanding credits to this region.[1] True to expectations, the balances of trade between Germany and each of these countries began to fall off, as shown in the table on page 102. Even in the next year the balances of three countries reached their minima for the decade 1929–1938 at a value close to zero, and in addition Hungary's balance — though slightly larger than in 1937 and 1938 — was almost negligible. The two remaining countries followed shortly with the German-Bulgarian balance at its minimum in 1935 and the German-Greek balance in 1936, in both cases at very small values.

How was this bilateral balancing achieved? Arithmetically there are three possible combinations: the "deficient" side (either exports or imports) could increase, the "excessive" side decrease; both sides could decrease, but the excessive side more; or both sides could increase, the deficient side more.[2] Two examples of each of these combinations happen to occur amongst the six countries under review. In trade with Rumania and Hungary, German exports and imports both declined to reach the approximate equality: in the case of Rumania by a greater decrease of German imports, for Germany had had an unfavorable balance; in the case of Hungary by a greater decrease of German exports, for Germany's balance was favorable. In trade with Jugoslavia and Turkey, the deficient side from the German angle increased, the excessive side decreased: with Jugoslavia, with which Germany had a favorable balance, German exports decreased and imports increased;

1. Cf. pp. 44–45 above.

2. From an arithmetic angle, two more combinations would appear if either side remained the same, and the other increased or decreased to equal it. Trade statistics would probably never show exports or imports exactly the same for two years, hence these combinations may be ignored.

GERMANY'S TRADE WITH SOUTHEASTERN EUROPE, 1929–1938*
(In million Reichsmarks)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Bulgaria										
Imports	51.2	58.9	48.3	34.5	31.3	33.7	41.4	57.6	71.8	84.3
Exports	44.7	22.9	25.3	20.8	17.7	19.3	39.9	47.6	68.2	56.4
Balance	−6.5	−36.0	−23.0	−13.7	−13.6	−14.4	−1.5	−10.0	−3.6	−27.9
Greece										
Imports	103.7	108.1	70.3	58.9	53.4	55.3	58.5	68.4	76.4	93.6
Exports	76.8	56.3	56.6	23.5	18.7	29.3	49.1	63.5	113.1	111.1
Balance	−26.9	−51.8	−13.7	−35.4	−34.7	−26.0	−9.4	−4.9	+36.7	+17.5
Hungary										
Imports	89.3	82.1	55.2	36.4	34.2	63.9	77.9	93.4	114.1	109.7
Exports	146.8	118.3	84.4	47.4	38.1	39.6	62.9	83.0	110.5	110.0
Balance	+57.5	+36.2	+29.2	+11.0	+3.9	−24.3	−15.0	−10.4	−3.6	+0.3
Jugoslavia										
Imports	60.9	74.8	40.1	29.5	33.5	36.3	61.4	75.2	132.2	107.9
Exports	152.6	172.1	95.1	43.3	33.8	31.5	36.9	77.2	134.4	118.0
Balance	+91.7	+97.3	+55.0	+13.0	+0.3	−4.8	−24.5	+ 2.0	+2.2	+10.1
Rumania										
Imports	211.0	236.9	102.4	74.4	46.1	59.0	79.9	92.3	179.5	140.4
Exports	164.1	137.3	92.5	64.2	46.0	50.9	63.8	103.6	129.5	148.8
Balance	−46.9	−99.6	−9.9	−10.2	−0.1	−8.1	−16.1	+11.3	−50.0	+8.4
Turkey										
Imports	75.6	69.0	52.6	40.1	37.9	67.5	93.4	118.5	97.8	116.0
Exports	72.5	48.3	47.4	31.0	36.3	50.9	67.3	79.4	111.1	151.4
Balance	−3.1	−20.7	−5.2	−9.1	−1.6	−16.6	−26.1	−39.1	+13.3	+35.4
Total Imports	591.7	629.8	368.9	273.8	236.4	315.7	412.5	505.4	671.8	651.9
Total Exports	657.5	555.2	401.3	230.2	190.6	221.5	319.9	454.3	666.8	695.7
Total Balance†	+65.8	−74.6	+32.4	−43.6	−45.8	−94.2	−92.6	−51.1	−5.0	+43.8

* Statistisches Jahrbuch für das Deutsche Reich; Wirtschaft und Statistik, 1939, Vol. 19, No. 5, p. 177. (Old Reich.)

with Turkey, with which Germany had an unfavorable balance, German imports decreased and exports increased. In trade with Bulgaria and Greece, German exports and imports both increased; in both cases, because the German balance was unfavorable, the balance was brought about by a more rapid increase of exports.

It has sometimes been said that bilateralism "causes exports to fall to the level of imports." This statement quite obviously errs in two respects, even if bilateralism is found to have a restrictive influence upon foreign trade. In the first place, such a restrictive influence requires only that the excessive item (*whether exports or imports*) should fall *more* than the deficient item rises, not "fall to the level" of the deficient item; or that the excessive item falls more than the deficient item *falls*. In the second place, bilateralism might have a restrictive *influence* and still not "cause" the foregoing conditions to be realized, if it were offset by other forces. What light is cast upon the *influence* of bilateralism by the behavior of Germany's balances with the six countries of Southeastern Europe?

Quite patently another factor of the first order of importance was operating along with bilateralism — the general course of depression and revival. Of the six cases of balancing, the two brought about by declines in both exports and imports by Germany come in the depression years of 1932–1933; and the two cases of balance by a growth of both items occur in the recovery subsequent to 1933. The two cases of balance by upward revision of the deficient side and downward revision of the excessive side come in the depression years; they include one case of a small increase of exports *plus* imports (Jugoslavia) and one case of a small decrease of total trade (Turkey). If the influence of bilateralism is downward, depression intensified its effects and revival sufficed to offset it; but if bilateralism had the opposite effect, the statistics could be interpreted as resulting from offsetting of its force by depression and an intensifying by revival. This inconclusiveness is augmented by the possibility of at least three other variables. Bilateralism constrains the flow of trade into new and unwonted channels, and realizes new points on the cost and demand functions in international trade; but these new *amounts* of supply and demand for some countries signify inevitably new *schedules* for other countries. We cannot know whether Southeastern Europe gained or lost from this process. In the second place, the extension of clearings tends, as we have observed before,[1] to deflect an increasing share of the country's trade toward clearing partners. Over the years 1932–1933 the share of German total exports and total imports going to and coming from Southeastern Europe declined very slightly; but these were also the years of substantial German exports to Western Europe and America under the scrip and bond-repatriation devices. After 1933 the shares begin to increase, and 1934 does indeed seem to show the deflection of trade to clearing countries in a fair degree of isolation. The year 1935 marks the advent of a third variable, the German trade drive to the southeast. Whatever the influence of bilateralism *per se*, economic revival and the trade-drive combined to produce a decided upward-balancing of exports and imports. In retrospect we are unable to isolate the force of bilateralism. A concluding section on exchange control in Germany approaches the problem from a more inclusive basis — the general export and import "terms" for Germany; and a final theoretical chapter deals with the question upon an *a priori* basis supplemented by some empiric verification.

Within a short time after the accession of National Socialism to the government, the German economy — as we perceive more clearly today than then — was oriented toward a future war. The supply of imported raw material for this purpose came to be the Archimedean point of German commercial policy, a corollary of the slogan "Export or die." Prompted by the desire to buy from sellers who did not or could not demand payment in devisen, Germany began large purchases through her clearings with the Southeast. The exact time when the drive was launched differs amongst the several countries. The first clearing agreement with Turkey removed import quotas on German goods and provided for the payment of 30 per cent of the value of German exports in devisen; as a result, German exports to Turkey increased between 1933 and 1934 from 36.3 to 37.9 million Reichsmarks, with a parallel increase in German imports. For Hungary also, 1934 marked the beginning of strongly increased German trade, particularly of imports; but for Bulgaria, Jugoslavia and Rumania, it was rather 1935 which witnessed the opening of the German commercial campaign. We shall follow the main developments of this phenomenon in the six countries of Southeastern Europe, with

1. Cf. Part I (November, 1939), p. 134; and pp. 66–67 above.

especial emphasis upon Jugoslavia, for it can serve satisfactorily as a prototype for the action elsewhere.

(2) Jugoslavia. The prelude to the onslaught upon Jugoslavia was a commercial treaty of 1934, providing for the liquidation of a German credit balance of 100 million Dinars, and resulting in a substantial export surplus by Jugoslavia to Germany the next year. Earlier efforts to achieve this result by stimulating Jugoslavian exports of poultry, eggs, prunes, and other agricultural products had come to naught through German measures to protect her "peasant gentry" from foreign competition.[1] The beginning of German purchases was hailed with enthusiasm, the more so because of the League of Nations' sanctions being currently applied against Italy, which had furnished Jugoslavia with her most important export market. Germany was by no means tardy in taking over Italy's place by establishing purchasing agencies throughout the country. But the result of Germany's buying campaign was the accumulation of German debit balances in the clearing.[2] It may appear anomalous that the Jugoslavian favorable balance of 153 million Dinars in 1935 should have been accompanied by the rise of German clearing debts by 167 million Dinars. Clearing and trade balances need not correspond, however, inasmuch as the clearing included other items beside visibles and excluded trade "on terms." We shall see presently[3] that Germany was able by a clever turn to derive marked advantages from the accumulation of clearing debts despite a really balanced trade. Apology has been offered for the accumulation of these debts on the basis that an agricultural country naturally piles up credits during the months following the harvest.[4] Unfortunately for this thesis the largest single increase of Jugoslavian balances occurred in the *first* half of 1935. In any event, the prolongation of the waiting period bore with great severity on Jugoslavia, and for all countries of Southeastern Europe, poorly supplied as they were with working capital.

The initial enthusiasm for German purchases soon gave way to apprehensions concerning eventual payment. Transactions had

1. H. N. Sturrock, Report on Economic and Commercial Conditions in Jugoslavia, Department of Overseas Trade, June, 1934 (London, 1934), p. 24.

2. In December, 1934, 223 million Dinars; April, 1935, 300; June, 1935, 260; September, 1935, 320; November, 1935, 362; December, 1935, 400.

3. Cf. pp. 107, 109, 110 below.

4. Royal Institute of International Affairs, Southeastern Europe, A Political and Economic Survey (London ,1935), p. 198.

been carried on at an official rate of 17.6 Dinars to the Mark, which admittedly overvalued the latter currency. The National Bank of Jugoslavia attempted to cope with the situation by permitting the sale of exporters' Mark-clearing bills at a four per cent discount, but the reduction of the German clearing debt in the summer of 1935 proved to be temporary. In November the discount was raised to 15 per cent; with a six-months waiting-period in the clearings for Jugoslavian exporters, this discount together with the loss of interest, clearing fees, and other costs in the clearing amounted to 30 per cent *per annum* and turned profits in most cases into losses.[1] Finally, in January, 1936, regular clearing was suspended in favor of something resembling the Austrian "private clearing" operating upon a ratio of 12.83–14.50 Dinars to one Mark. The return to a relatively true rate apparently rested upon a strengthening of Jugoslavia's bargaining position from the reopening of Italian markets.

This outcome was certainly at variance with German designs, for the very purpose of the high Mark rate had been to serve as the fulcrum to securing abundant imports. The Deutsche Volkswirt depicted the dangers to Jugoslavian exporters which would arise from a diversion of German purchases to other markets. That this journal admitted in the same connection a stimulus of German exports to Jugoslavia proceeding from the new exchange rate is a fact imbued with special significance in view of the bitter polemic launched a year later against the Viennese economist Richard von Strigl, who had asserted that artificial exchange rates are primarily responsible for one-sided accumulations on the clearings. By that time, however, the journal had so far reformed its opinions as to deny pointblank any connection between exchange rates and clearing balances.[2] Undoubtedly control of both exchange rate and domestic prices removes the connection obtaining when both are free to move, but it does not remove the influence of effective German export prices in comparison with those abroad; and that was what counted in the Jugoslavian, as in all other, clearing relations.

The introduction of the private-clearing rate worked toward equating payments, but its influence was confined naturally to

1. Frankfurter Zeitung, December 15, 1935.

2. Der deutsche Volkswirt, Vol. 10 (January 17, 1936), p. 709; Vol. 11 (June 11, 1937), pp. 1797–1798.

current items, and even here it was not adequate, so that in March, 1936, the German balance still continued to rise. During the next month Jugoslavia introduced an import control system in an effort to divert imports away from free-exchange countries and toward Germany, and in May a joint conference at Zagreb agreed upon measures to promote imports, chiefly for public works and armaments, from Germany. On the difficult Jugoslavian terrain, Germany had succeeded in using the accumulated clearing-balances to coerce her partner into expanding bilateral trade with her at the expense of trade with free-exchange countries. The German clearing debt continued to be a chronic malady. The measures adopted by Jugoslavia in the early spring of 1936 resulted in a reduction from 465 million Dinars in March to 327 million Dinars in December; but an intensification of the buying drive swelled the figure to 415 million Dinars by March, 1937, despite these measures and despite occasional declines of the Mark rate in Dinars.[1] Various forms of intervention again reduced the German debt — to 177 million Dinars in December, 1937; but by the end of 1938 it had again increased greatly, reaching 400 million Dinars at the end of 1938.[2]

In order to give the German buying drive momentum, German export goods had been offered at low prices during the first year or two. But when German purchases had raised even the level of domestic prices in Jugoslavia, and when the limit of full employment began to be felt in Germany, the prices of export goods began to rise, not only overtly but also covertly in the deterioration of quality and in long delays in delivery. To offset these effects, German purchasing agencies offered to sell at incredibly generous "terms" with almost negligible down payments. By the middle of 1938 a dominant position was established for German electrical goods, bicycles, motorcycles, machinery and other important exports. The monopsonistic position which Germany had created for herself by clever exploitation of clearing agreements led to her having a monopoly in significant segments of her partner's market. Hitler's annexation of Austria and the Sudetenland augmented this dominating position, not only by virtue of Ger-

1. In March, 1937 the rate fell as low as 11.75 Dinars—1 Mark; cf. Sturrock, Report, July, 1938 (London, 1938), p. 12.

2. The source of the last figures on the German clearing debt is confidential.

many's incorporating the trade of these regions with Jugoslavia, but also by her acquisition of control over the foreign investments of these countries in Jugoslavia. Even more important was the growth of the political power of Germany, which could scarcely fail to menace the economic status of Southeastern Europe generally.

(3) Other Countries of Southeastern Europe. In Bulgaria, undoubtedly the poorest and most backward of the Balkan states,[1] German penetration met with least resistance. Compensation dealings were almost completely excluded and the Mark was maintained within 1-3 per cent of its official parity.[2] Characteristic of the degree of Bulgarian dependence was a secret provision of the Bulgarian-German clearing agreement providing not only for deliveries of goods of German origin but also of overseas imports into Germany, such as coffee and cotton. This was represented as a substantial concession to Bulgaria, but in fact it indicated the progress of isolating the country from world markets and incorporating it into the German *bloc*. The cost of this transformation appeared subsequently, when Bulgaria was obliged to pay 15, then 20, and later (1938) 25 per cent of her German imports in free foreign devisen.[3]

In Turkey, Germany pursued her policy of outbidding all other foreign buyers with great persistence, offering margins as high as 60 per cent over world market levels.[4] In 1935 and 1936 the favorable balance of Turkey in bilateral trade with Germany amounted to 56 million Reichsmarks; and by 1937 the German clearing debt had accumulated to such a magnitude (56 million Turkish pounds) that the National Bank refused any longer to discount exporters' bills on Germany. Why a country as impoverished for capital as Turkey should export capital to Germany by financing her imports for increasingly long periods can only be

1. The Bulgarian Business Cycle Research Institute reported in 1939 that 37 per cent of the 2,710,000 persons classified under agriculture actually represented "hidden unemployment." Cf. Südost Economist, Vol. 1 (June 23, 1939), p. 169.

2. Frankfurter Zeitung, September 16, 1935.

3. Cf. T. Kalinov, "Bulgaria's Trade with Germany" in Stopanski Problemi, Vol. 1 (October, 1936), p. 378. The author ventured the prediction, corroborated by later developments, that the trade offensive of Germany would result in the establishment of a monopoly for her exports. (I am obliged to Dr. Gerschenkron for examining this article.)

4. Economist, May 20, 1939, p. 431.

explained on terms of economic and political pressure. The German claim that Germany exported capital to the Balkan countries because she sold capital goods there rested upon confusion or guile.[1] Where Germany extended long-period "terms" upon her exports, it frequently turned to the purchasing country's disadvantage, inasmuch as these sales increased the amount which Germany could import over the clearing, and which, because no payment was forthcoming, the clearing partner had to finance.[2]

The resistance of Turkey to German strategy met with varying success, but the long-run tendency was adverse. In August, 1937, a new clearing agreement set limits upon the extent to which 28 essential commodities could be exported to Germany. A year later a new agreement embodied further concessions on the German side — the 30 per cent payment in free devisen was abolished, and energetic steps were taken to increase exports from Germany. Through these measures the clearing balance was wiped out by October, 1938;[3] but it began to accumulate anew and in the early months of 1939 reached a figure of eight million Turkish pounds.[4] The autumn of 1938 marked the granting of a 12 million pounds sterling loan by Germany to Turkey to be expended in Germany for industrial and military equipment. The older device of pressure exerted through uncleared bilaterial balances gave way to the more overtly political phase of Germany's predatory activities in the Southeast.[5]

German clearing with Greece was always transacted at the official rate of 40.5 Drachmas to the Mark.[6] Tobacco exports

1. Cf. J. B. Condliffe, in a work in process of publication.

2. Cf. Paul Einzig, Bloodless Invasion: German Economic Penetration into the Danubian and Balkan States, 2d ed. (London, 1939), pp. 36–46. While Einzig's work occasionally seems to overdraw the picture, it portrays the general character of the German tactics with verisimilitude.

3. A special feature of Germany's clearing trade, the reselling of the partner's products at low prices on the world market, in order to secure free devisen, was for some time widely applied to Turkish goods. By spoiling the market for her clearing partner, Germany increased the economic isolation of the country. In the Latin American trade examples of this sort can be multiplied; e.g. the case of Brazilian coffee purchases of Germany in 1937, none of which, it is said on good authority, arrived in Germany for home consumption.

4. In July, 1938, the German clearing account had a debit of 6.5 million pounds and the Turkish account a credit of 6.5 million pounds. But the agreement had not provided for cancellation, with the resulting calamity of uncleared balances and delay in payment on both sides.

5. Economist, Vol. 133 (November 19, 1938), pp. 361–362.

6. Devisenarchiv, Vol. 3, pp. 81–88.

account typically for half of the exports from Greece, and Germany purchased half the tobacco exports.[1] As in Turkey, the National Bank financed the German clearing debt; when it reached 38 million Reichsmarks, the bank attempted to reduce its purchases of exporters' bills to 60 per cent. But a storm of protest from the export interests forced the bank to the alternative of applying the accumulated Mark balances to German exports of supplies for public works and of armaments.[2] This proved effective in reducing the German clearing debt to 9.2 million Reichsmarks at the end of 1937 and to virtually nothing at the end of 1938; but by September, 1939, it had again increased to 13.1 million Reichsmarks.[3] Greece was never able to reduce its purchases of German goods and had to confine attempts at improving the balance of payments by shutting off imports from other countries. Under the influence of German demand, tobacco culture was expanded; the tobacco producers and exporters, as a result, always remained amenable to German dictation.

Rumanian trade with Germany proceeded over the official rate of 55 Lei to the Mark until, in 1937, because of a strengthening of Rumania's position through the recovery of agricultural prices, she was able to reduce the rate to 38–39 Lei. This rate recognized at least a part of the Mark depreciation, but was still high enough to make exports to Germany more profitable than to England.[4] Rumania's situation, as long as it turned upon economic matters, was always strongly supported by her petroleum resources. She succeeded, for example, in limiting petroleum exports to Germany to 25 per cent of total exports in this bilateral relation, in resisting a German demand for the restoration of the 55 Lei rate towards the end of 1938, and in securing a compromise at 40.5–41.5 Lei.[5] The *coup de grâce* to Rumania's economic resistance was delivered by the German occupation of Czechoslovakia. The agreement of March 23, 1939, went far toward subordinating the Rumanian to the German economy: apart from large-scale buying of cereals, swine, and cattle, Germany secured 25 per cent of the oil production,

1. Economist, Vol. 133 (December 3, 1938), p. 479.
2. S. R. Jordan, Report on Economic and Commercial Conditions in Greece, April, 1937, Department of Overseas Trade (London, 1937), pp. 25–29.
3. Jordon, Report, July, 1938 (London, 1938), p. 23, and League of Nations, Balance of Payments 1938 (Geneva, 1939), p. 61.
4. Economist, Vol. 134 (February 18, 1939), pp. 349–350.
5. Economist, Vol. 133 (December 24, 1938), p. 658.

the abandonment of grain monoculture in favor of specific German needs, the re-direction of industry toward timber and oil processing, and finally the granting of free zones for German transit goods in the Danubian and Black Sea ports.[1] This agreement may be regarded as the pattern of German policy in Southeastern Europe in the period immediately preceding the outbreak of war.

(4) Conclusion. It is beyond doubt that the panoply of devices employed by Germany in the five years from 1935 to 1938 had brought her to a position of economic dominance in her relations with Southeastern Europe, as may be read from the following statistics.

GREATER GERMANY'S SHARE IN THE FOREIGN TRADE OF SOUTHEASTERN EUROPE IN 1938*
(In percentages of each country's total exports and imports)

	Total	Old Reich	Austria	Czechoslovakia
	Exports to Greater Germany			
Yugoslavia	50.1	32.5	6.9	10.7
Hungary	48.3	29.8	11.2	7.3
Rumania	48.3	35.2	4.7	8.4
Bulgaria	57.8	47.6	4.3	5.9
Greece	31.9	28.8	1.5	1.6
Total	45.9	27.3	11.2	7.4
	Imports from Greater Germany			
Yugoslavia	49.9	35.9	6.1	7.9
Hungary	50.1	27.7	18.2	4.2
Rumania	35.8	20.8	5.5	9.5
Bulgaria	63.4	51.8	7.0	4.6
Greece	43.1	38.5	1.7	2.9
Total	46.6	32.1	8.4	6.1

* Reichskreditgesellschaft, op. cit. (Berlin ,1939), p. 37.

The triumphs celebrated by German commercial policy in the Balkans greatly exceeded even its successes in Latin America. A reference to the trade statistics[2] will show that German exports to South America remained as a rule far below the pre-crisis level. Only in the case of Brazil did German imports reach the level of

1. Reichskreditgesellschaft, Economic Conditions in Germany at the Middle of the Year 1939 (Berlin, 1939), pp. 39–40.
2. Cf. pp. 146–147 below.

1929; in the Argentine trade they were 40 per cent below this level, even in the peak year of 1937.

We have now completed a survey (in Section A) of German import prices and (in Section B) of her export prices. What is the evidence of the facts regarding the contention of Dr. Fritz Meyer, that

"if imports and exports are considered as a whole, then the relatively more expensive imports are offset by exports at relatively higher prices, because the other country has to agree to accept German goods and has to agree to limit herself in the choice of her supplies?"[1]

This seems to have been written with German trade developments and the exploitation of her clearing debts in Southeastern Europe as the *arrière-pensée*. It is not to be denied that high export prices did to a degree offset high import prices, but the extent of the offset is not altogether certain. As far as the German bids for supplying armaments are concerned, it is reported on good authority that the prices were actually lower than those of England and France. For imaginable reasons, Germany desired to supply the armaments, even if it involved loss. Exportation of this sort undoubtedly extended to other items than armaments, but Meyer gives no intimation of considerations other than economic in the German southeast trade. Furthermore, the process of attaching these countries to her own commercial system extended over several years, but the beginning had to be made through competitive prices on exports. A recent publication of the Royal Institute of Economic Affairs[2] observes that though export prices rose for the Danubian and Balkan countries after 1934 or 1935, there was no great rise of import prices. The statistical evidence advanced by the Institute does not prove to be altogether convincing,[3] but it points to the danger of assuming that Germany obtained high export prices in all countries of Southeastern Europe equally and throughout the entire period.

If a net gain of export prices compared with import prices in trade with Southeastern Europe may be taken as real, though not as great as it appears superficially, there is small likelihood that the net gain in this segment of German trade could offset the high

1. Meyer, op. cit., pp. 468–469.

2. Royal Institute of Economic Affairs, Southeastern Europe (London, 1939), pp. 197–198.

3. E.g. data are lacking regarding Greece, where Germany had marked success in obtaining high export prices.

import prices which had to be paid elsewhere for purchases through the clearings. German (old Reich) imports from this region did not exceed 11.9 per cent of her total imports in 1938, nor did exports amount to more than 13.2 per cent. Outside Southeastern Europe Germany was not able in many instances to pile up adverse clearing balances and subsequently to exploit her debtor position. Even the semi-official Berlin Institute for Business Cycle Research issued an express warning in 1937 that German clearing purchases do not automatically lead to an expansion of German exports, because "the foreign country cannot force her importers to buy German goods."[1] A tremendous effort was made by Germany in Southeastern Europe: ingenious devices were applied; Bulgarians, Jugoslavians, Turks, Greeks, and Rumanians were bullied, cajoled, cheated, and lured into increasing their trade with the Reich; but the volume of trade did not in the end exceed that which had unobtrusively obtained in pre-depression days under freedom of payments. For the prolongation of depression in Southeastern Europe, German exchange control itself bears a certain measure of responsibility, because of the key position occupied by that country in the foreign trade of the region. So far as concerns Germany, was the game worth the candle? A subsequent review of her trading position will point to the likelihood of a net reduction in the "total gain" of foreign trade, despite a small and doubtful improvement in terms.[2] The answer must be no, if we refrain, as Meyers did, from viewing exchange control as an instrument of political power.

Review and Appraisal of German Exchange Control

A. Historical Summary.

The bank failures in the summer of 1931 impinged upon a Germany demoralized from the War of 1914–1918, revolution, post-war inflation, the Versailles system of reparations, and perplexed by grave political strife. The crisis in confidence struck upon an economy burdened with over 26 billion Reichsmarks in foreign debts, of which 16 billion was owed at short term. Obviously the "liquidity" of a national economy within a short period has very narrow limits, and the actual transfer of three billion Reichsmarks of flight capital by the end of 1931 called for extraordinary

1. V.z.K., Vol. 12 (December 30, 1937), pp. 315–322.
2. Cf. pp. 119–125 below.

measures, particularly in view of the devaluation of sterling countries, which left German prices isolated from the necessary competitive level. Devaluation after the English pattern seemed to be precluded on several grounds, the most important being the danger of setting loose a flight from the currency. Assurance was given the public by proclaiming that the Reichsmark would be maintained at its old parity at all costs, and the Reichsbank was given monopoly powers in devisen dealings to put this resolution into effect.

From the early part of December, 1931, to the autumn of 1932 — perhaps even through the remaining months of 1932 — exchange control was viewed as a buffer, no longer a strictly short-term measure but still a transitional makeshift under which to carry through the necessary deflation for international equilibrium. The Fourth Emergency Decree of December 8, 1931, reduced interest rates, commodity prices, the salaries of civil servants, and wages generally. If it be granted that devaluation was psychologically and politically impossible, this was the only course for achieving international equilibrium. Several factors made it appear in 1932 that the policy might succeed: the renewal of the Standstill Agreement with more elastic terms, the Lausanne Conference, which virtually abandoned reparations, and the reorganization of the banks which had closed the previous summer.

The effort to attain price and exchange equilibrium was destined to failure. In competition with the sterling *bloc*, Germany rapidly lost her export capacity, and her favorable balance dwindled in 1932 to a third of its magnitude in 1931. The allocation of devisen at 50 per cent of the average imports by individual firms during the year preceding the imposition of exchange control did not go below the general shrinkage of production and demand for foreign products; and allocations appear on the whole to have been carried through without discrimination against particular types of imports. But discrimination was being practiced by Germany's trade partners, in the form of differential devisen allocations, quotas, special tariffs, and multiple exchange rates — all of which discouraged the effort toward international equilibrium. Furthermore, the rise of clearings made the effort seem superfluous, and Germany had already discovered the possibility of aiding exports through commandeering windfall profits made upon bond repatriations. Finally, the Brüning deflationary policy alienated the wage and salary classes; it invited a drive against trades unionism on the part of industrial interests; and its adherence to the ideal of a liberal international trading system ran afoul of the growing protectionist and autarkic sentiments of industry and agriculture alike. The von Papen and von Schleicher governments inclined toward a reflationary policy. At first, in the decrees of September, 1932, establishing the tax-certificate scheme and rather limited public works, German economic policy represented an admixture of reflation with deflation, which persisted in wage-reduction bonuses. By December, von Schleicher had, however, turned to a more pretentious program of spending.

It would probably be more accurate to say that the Hitler regime, at least during the first eighteen months of its history, ignored rather than repudiated international price and exchange equilibrium. After its accession to power on January 30, 1933, the National Socialist government immediately set afoot a vigorous program of creating employment. The First and Second Reinhardt programs involved a frank avowal of an "autonomous economic policy": thoughts of devaluation were banished, and exchange control was gradually accepted and then welcomed as a permanent complement to state powers over individual enterprise and consumption. As an exporter of industrial finished goods, Germany enjoyed a strongly favorable development in the terms of trade, and this circumstance permitted the continuance of the 50 per cent devisen allocation to February, 1934. Foreign devaluations meant that German exports could only be sold by subventions or by resort to partial devaluation through Sperrmarks. But the burden of debt, aside from the relief afforded through Germany's favorable terms of trade, was greatly reduced by foreign devaluations. Sterling devaluation accounted for over a billion Reichsmark reduction from the original Standstill debt of 6,300,000,000 Reichsmarks, and the devaluation of the dollar subtracted a further half billion during 1933. Nevertheless the rapid expansion of credit in Germany in pursuance of the autonomous economic policy prevented the development of a favorable balance of trade necessary to maintain the debt service. A further breach in the system of international finance was made by the absolute Moratorium of July, 1934.

Western European creditor nations retaliated by the threat of compulsory clearings; but it is not to be imagined that the device was their invention, inasmuch as two years earlier Germany had forced amortization quotas in clearings with her Eastern European debtors. During 1933 and 1934 German wholesale prices rose from 66 to 73 per cent and sensitive prices from 41 to 50 per cent, while prices in England continued to decline. This price differential, together with the use of "Swedish clause" clearings for imports from third countries, produced an unfavorable balance of trade for 1934, piled up large adverse clearing balances, and necessitated the reduction of devisen allocations by successive stages from March to August from 45 per cent to five per cent. The exchange control authorities strove against this development by tightening the Mark allowances of travellers and emigrés, and by establishing *Überwachungsstellen* for textiles, nonferrous metals, cowhides, and rubber — the first introduction of direct qualitative control of foreign trade.

The solution elaborated by Schacht for the trade *impasse* of 1934 was the principle that no import payment should be allocated by the Reichsbank unless the import had been approved by an *Überwachungsstelle*. Further essentials of the New Plan were the reduction of imports of finished goods and of exports of raw materials, the increase of exports to overseas suppliers of essential raw materials, and the restoration of a favorable trade balance. Subsequent developments proved that "the New Plan accomplished the main purpose for which it has been called into being," as Guillebaud maintains,[1] indeed all of these purposes. But, as he adds, this "improvement" was partly achieved through restricting total imports, so that their value in 1936 remained substantially below the trough of depression in 1933 and 1934. The import restriction came as the result of a vigorous extension of the German clearing system throughout South America and Southeastern Europe during 1935–1937. The character of German exchange control underwent no really significant changes thereafter, and even the present war required no fundamental recasting.[2] For a time during the latter part of 1934 and 1935 it seemed that the Aski Marks would permit the formation of an officially tolerated free market in German exchange; but the severe limitations imposed between 1935 and 1937 upon exports to which Aski Marks could be applied, and the successive narrowing of the fraction of the purchase price which could be paid in these Marks, revealed a firm

1. Guillebaud, op. cit., p. 99.
2. Economist, Vol. 138 (May 4, 1940), p. 815.

intention of the authorities to maintain direct and arbitrary control of supply and demand forces and the rates of all varieties of Sperrmarks. Similarly the payment agreements, exemplified by the Anglo-German arrangement, betokened no real departure from clearing, despite the use of effective devisen payments, since the exports of the two countries were constrained by direct interference to conform to a pre-determined ratio at the official rate on Reichsmarks.

B. *Volume, Direction, and Composition of Trade*

As shown in Fig. 24 (p. 67), the introduction of exchange control in mid-1931 started German exports, expressed as a share of world exports, on a downward course which persisted into 1934, while imports, as a share of world imports, rose to the same turning point. This method of expressing exports and imports eliminates the factor of world depression and leaves as a residual those factors peculiar to Germany. Since the terms of trade for Germany rose in depression, it is difficult to ascribe the adverse development to other circumstances than exchange control, especially the adherence to bilateralism. After 1934 exports slowly increased, but did not exceed 10 per cent of world exports in 1938 compared with 12 per cent in 1929. The New Plan throttled imports in 1936 to the share of world imports (at slightly over 7½ per cent) which they had assumed in 1931; thereafter the German recovery increased imports more rapidly than exports; and, though Germany may be said to be a typically export surplus economy, the favorable balance was not as large in the full-employment years 1937 and 1938 as it had been in the bottom of depression in 1933. If the "Greater Germany" of 1938 and early 1939 is considered, the balance of trade in these years was adverse and to a greater extent even than in 1934.[1]

A striking change in direction of German trade was its transfer from Western Europe to overseas and Southeastern Europe. Exchange control and other interferences such as quotas and import prohibitions reduced the Western European share of imports from 23.2 per cent in 1931 to 20.6 per cent in 1932. For four years, the figure remained at 20 per cent, but the New Plan and its drive to pay for overseas raw materials by exporting to these countries

1. Cf. p. 140 below.

reduced the percentage through 1936, 1937, and 1938 to 16.9 per cent. The share of exports to Western Europe hovered about 40 per cent from 1931 to 1934, but again, in response to the scheme of strict bilateralism this share of exports declined strongly from 1935 through 1938 to 27.5 per cent.[1] Thus clearing and compensation forced German trade to more distant markets on both the export and import sides, with an inevitable rise in the net cost of imports, a cost which is technical in character, separable from the rates of exchange involved in clearings. Approximately the same relative changes in the proportion of German exports and imports obtain, if to the five countries of Western Europe (Great Britain, France, Belgium, Netherlands, and Switzerland) there are added Sweden and the United States to complete the list of the chief creditors of Germany.[2] Despite the liquidation of frozen credits in Germany by the application of these depreciated accounts to exports, the pressure of bilateralism carried German trade toward South America and the Danubian and Balkan states. If we compare the shares of German trade with Europe as a whole and with the rest of the world,[3] we discover that the former declined from 1935 through 1938 from 61.6 to 54.5 per cent on the import side, and from 1931 through 1938 from 81 to 69 per cent on the side of exports. The bilateralism of clearings is chiefly responsible for the change from 1929, when an export surplus of 2,857,000,000 Reichsmarks to Europe paid for an import surplus of 2,821,800 Reichsmarks outside Europe, to 1938, when these figures amounted to no more than 698,700 Reichsmarks and 901,700 Reichsmarks, respectively. The greatest change in direction of German trade is given by the combination of bilateralism and autarky, both of which moved German trade away from the predominantly industrial countries — Austria, Belgium, Czechoslovakia, France, Great Britain, Italy, Japan, Luxemburg, the United States, and Switzerland. From 1931 to 1937 German imports from these countries fell from 39.1 to 27.8 per cent of total imports, and German exports from 48.4 to 36.9 per cent.[4]

From the viewpoint of changes in the composition of trade,

1. Cf. p. 143 below.
2. Cf. p. 144 below.
3. Cf. p. 145 below.
4. Cf. p. 149 below. It is impossible to carry the comparison into 1938, because of the incorporation of two of the industrial countries, Austria and the Sudetan part of Czechoslovakia, into Germany itself.

Germany shows the characteristic pattern of a state tending toward autarky. If we draw a comparison between foodstuffs and industrial products, and subdivide the latter according to degree of fabrication, we discover the following changes. Amongst industrial imports, raw materials rose from 27.2 per cent of total imports in 1931 to 33.9 per cent in 1938, whereas finished products fell from 14.4 to 7.3 per cent, or to half their share before exchange control. Cyclical forces predominate in the import of foodstuffs, but their share — it is worth observing in passing — did not recover in 1938 to the pre-crisis level. The export of foodstuffs, never an important item for Germany, declined from 5.0 per cent to 1.2 per cent; exports of raw and semifinished industrial produces shrank slightly; but the share of finished industrial exports rose from 72.4 per cent to 81.5 per cent.[1]

C. Terms and "Gain" of International Trade

The inquiry into volume, direction, and composition of trade would be as dull as the foregoing statistical synopsis were not the whole matter illuminated by the intriguing question, Did Germany gain or lose in international trade through exchange control? Undoubtedly the imperfections of statistical data prevent a precise quantitative answer to this crucial problem, but I do not believe they prevent an answer altogether.

Aside from the prevention of flight psychology, the main purpose of retaining the old gold Reichsmark and the exchange control apparatus which it implied was to sustain Germany's terms of trade, both on current account and in payment of past obligations. The acceptance of this goal implies, of course, that the advantage in terms of trade offsets the possible loss in volume of trade, so that the result of multiplying terms of trade by volume would be greater than otherwise; that is, that the so-called "total gain"[2] would be larger under exchange control (including not only overvaluation of the currency unit but also discrimination between buyers) than under free payments and devaluation. It has already been suggested that a comparison of the terms of trade for Germany and for England give a clue to the effect of the overvaluation of the Mark.[3]

1. Cf. pp. 141–142 below.
2. Cf. Jacob Viner, Studies in the Theory of International Trade (New York, 1937), p. 563.
3. Cf. pp. 78–85 above.

Let us pursue this analytical method further. Examine first the index of terms for England in comparison with the German index, as given in columns two and one in the accompanying table.

INDICES OF GERMAN AND ENGLISH TERMS OF TRADE AND THE OVERVALUATION OF THE REICHSMARK

	German Terms of Trade*	English Terms of Trade*	Excess of German over English Terms	Excess of German over English Wholesale Prices (Gold)†
1929......	100	100	0	.....
1930......	108.2	106.1	2.1	.....
1931......	123.8	115.7	8.1	11–43
1932......	144.4	115.5	28.9	38–50
1933......	142.8	119.9	22.9	46–57
1934......	135.9	118.8	17.1	60–77
1935......	126.3	115.3	9.0	67–78
1936......	122.0	112.6	9.4	59–69
1937......	117.6	108.0	9.6	44–57
1938......	128.8	114.7	14.1	61–86

* For source, cf. p. 139 below.
† Minimum and maximum quarterly averages within each year.

Both countries gained absolutely in terms of trade by virtue of their predominantly industrial exports; but from 1931 the German terms were appreciably higher than the British, the margin being shown in column 3. It is quite apparent from these data that variations of the German index of terms relatively to the British relate closely to the overvaluation of the Reichsmark. The great increase of the German margin comes in 1932 with first annual trade statistics after the introduction of exchange control in Germany. The reduction in this margin in the next few years follows logically from the extension of use of export subsidies of devalued Marks in the clearings and *Sperr* categories. Other factors might indeed affect the relative terms of trade for the two countries — most notably changes in international demand and in capital movements. Whatever influence the demand factor may have had, it is clearly quite subordinate to the Mark currency factor; and the separate influence of capital movements, also subordinate by the evidence of the 1931 figures, will be taken account of later.

Proceed now to a comparison of movements of the German terms of trade with a simple purchasing-power-parity measure of the underlying overvaluation of the Reichsmark (column 4), which is useful as an indicator of German costs of production relatively to costs in the free-currency economics such as the sterling *bloc* and more specifically England. The German positive margin is a mere fraction of the overvaluation, ranging from two-thirds at a maximum in 1931 to one-eighth at a minimum in 1935, typically closer to the latter than to the former limit.

Why should the extensive overvaluation of the Mark produce so small improvement in the German terms of trade? The primary cause, in all probability, is the practice of exporting over depreciated Mark categories and by means of subsidies. The probability would be a certainty if we knew that the German official export-price index represented prices net of these aids. But the probability amounts to a practical certainty. Our previous investigation of overvaluation of the Reichsmark[1] revealed that export prices articulate quite smoothly in the margin between subsidy per unit of export and domestic wholesale prices. It would furthermore be the natural bargaining strategy of exchange control authorities to quote the lower figure, i.e. the price after subtraction of various export aids. A second and very important cause of the relatively small advantage in terms of trade was the high cost of imports. Germany regularly paid prices in clearing, compensation, and Aski deals which considerably exceeded world prices, because of the necessity of buying within the confines of bilateral balancing, as an earlier analysis has shown.[2] Since bilateralism was a consequence of exchange control (including overvaluation), so too was the reduction of the improvement in terms of trade, ascribable to import costs. As a specific example, German import prices, after having moved along the same level with the British index from 1929 to 1931, exceeded it by 2½ per cent in 1931 and by successively wider margins to eight per cent in 1938.[3] Nevertheless, despite its small magnitude relatively to Reichsmark overvaluation, the combination of the artificially high rate of exchange and the use of discriminating *sub rosa* devaluations apparently gave Germany more favorable terms than England's.

To complete the argument as to total gain, it is necessary to move to the second term of the multiplication, that is, to the volume of trade. A favorable change in terms could be attended with a fall in total gain if volume increased sufficiently. But it is

1. Cf. pp. 76–85 above.
2. Cf. pp. 85–100 above.
3. Cf. p. 139 below.

unfortunately impossible to use physical volume directly, because of the very changes in the exchange-control period in composition of exports and imports which we have just reviewed. Changes in total value of exports and imports are taken in a substitute rôle for volume, and in order to avoid the cumbersome expressions of actual magnitudes, they are expressed in percentages of world exports and imports. Percentages are also used in comparisons with the value of exports and imports of Great Britain, a country of predominantly industrial exports as is Germany.

At first consideration, this method is apt to yield conclusions very favorable to the German exchange control. In 1932 and 1933, the years of highest German barter terms relatively to the British, German exports were 107 per cent and 95 per cent of British exports in the two years respectively; whereas in 1935, the year of lowest German terms relatively to the British, German exports were only 82 per cent of British exports.[1] German imports showed no change relatively to imports to England. It appears that despite exacting higher barter terms in the first two years, Germany increased its export position relatively to the free-payments devalued-currency England: Germany both ate and had its cake. In 1935 the lower barter terms were accompanied by a relative deterioration in export position: Germany lost both the cake and the eating.[2] The same conclusion could be drawn in the English comparison, though with less striking extremes, as between any year from 1931 through 1933, on the one hand, and any year from 1934 through 1937, on the other. If the basis of comparison is shifted to world trade,[3] the general relations for the same groups of years with their accompanying indices of trade terms are not changed.

It is no mere academic exercise to construct such an argument,

1. For a statistical summary of these relations through 1929–1937, cf. the table on p. 120 above in conjunction with the figures on p. 139 below. The changes of the German territorial area in 1938 and 1939 interfere with comparisons in these years.

2. It might be imagined that just the opposite interpretation could be made: 1932 and 1933 represent bad years, since Germany paid a large volume of exports for small volume of imports — what Taussig calls the "gross barter terms of trade" had declined. But this ignores (1) that the barter terms were in fact relatively favorable; (2) that the magnitudes under comparison are not physical volume of exports and imports, but total values. Since the balance of payments balances, the residual from the visible trade must appear in the capital items; upon their behavior in the German situation much depends, as will presently become apparent.

3. Cf. statistics on Germany's share of world trade, p. 153 below.

for German exchange control does not lack its advocates precisely upon the basis of total gain of foreign trade, both within the country and abroad.[1] But the argument is based upon a notorious *non causa pro causa.* Because relatively favorable terms attended improvements in Germany's relative export position, the former is assumed to be the cause of the latter. But this is to ignore the one most conspicuous phenomenon of Germany's international situation from 1931 through 1933 — the export of capital. The violent effort of foreigners and nationals to transfer wealth in both monetary and real form abroad caused the "favorable" balance; this balance developed *not because* of the favorable German terms of trade, but *despite* them. From July, 1930, to February, 1934, German foreign indebtedness decreased from 26.8 to 13.9 billion Reichsmarks, and this was a period of the "favorable" showing on the basis of export position and terms; from February, 1934, to February, 1938, foreign debts declined only from 12.9 to 10.0 billion Reichsmarks, and this was the period of the less favorable aspect of exports and terms.[2] In the first three and a half years debts fell by around 13 billion, in the second four-year period by four billion Reichsmarks. Devaluations, it is true, accounted for a relatively larger share of the debt reduction before 1934 than after; but the offset is not sufficient to matter seriously in the present context.[3]

As far, then, as we are able to trust the evidence given by a comparison of German terms of trade with developments in a single foreign country, there appears to be no ground for supposing that the relatively high level of the German terms had itself any discoverable tendency to increase the relative import and export position of Germany in world trade or, by the same token, the "total gain" of her foreign trade. Limitation of the comparison to the English terms does, indeed, leave much to be desired; but it is impossible to find another significant industrial country which did not undergo devaluation within the period of German exchange control, making it eligible for comparison. Furthermore, export and import price indices have to be accepted with some caution.

It must be emphasized, however, that the preceding calculations have accepted the official German index of export and import prices without question, but that there are two important offsets.

1. This issue will recur in the concluding chapter.
2. Cf. pp. 74, 120 above.
3. Cf. p. 131 below.

These offsets reduce the "total gain" substantially from a genuinely economic angle. In the first place, we may be certain that nothing is allowed in the report of net export prices for two impressive sets of costs: the first, interest and risk costs involved in taking payment through the lagging and uncertain process of clearing and compensation; the second, the entire weight of administrative costs of exchange control upon the state budget and the taxpayer.[1] In the second place, however the net terms of trade really stood in the German case, they were more favorable in any event than exchange control as a mere *economic* device would have given. Our investigation of German exports through clearings with Southeastern European countries disclosed that German goods were frequently sold, to put the matter mildly, at higher prices than competitive conditions could explain. In part, the high prices proceeded from regional quasi-monopolies on the part of Germany. But in part, they arose from her adroitness in exploiting her debtor position in the clearing accounts; and in part, they rested on political might and hard bargaining.

In concluding the subject of the German "total gain" from foreign trade, I should like to remark that no more easy method of analysis exists than the laborious calculus of terms and volume, and the making of allowances for capital movements, concealed costs, and other relevant but complicating factors. A mere appeal to the generalization that authoritarian interference with the operation of comparative costs is bound to reduce the net yield of foreign trade does not suffice. The principle of comparative costs looks aside from discriminating monopoly, but this is one of the chief phenomena which admit the theoretical possibility of greater total gain with exchange control than without. But if exports and imports are accurately reported, both as to price and volume, the total gain is implicit in the data. The same must be said with regard to a shift of trade to more distant markets: discriminating monopoly might still make the trade more profitable, and if so, accurate statistics of price and volume would reveal the fact.

Furthermore, it is impossible to test the economic efficiency of the German international trading system by the movement of the cost of living or real wages in Germany. Evidence is indeed not wanting that the official cost of living index concealed qualitative

1. For Germany there has never been the slightest breach in the secrecy surrounding the costs of administering exchange control.

deterioration in the standard of life and a decline in real wages.[1] In a competitive or free-enterprise economy, the debasement of real consumer income would be damaging evidence concerning general effectiveness of its production, including the yield of foreign trade. In a totalitarian society in which an avowed aim was to divert most of the increased social dividend from consumption to capital goods and rearmament, the test fails. We therefore have to analyze the total gain of foreign trade directly in its components, terms and volume, as in the preceding paragraphs.

D. *Conclusions*

As these concluding pages are being written, Germany is astounding and dismaying the world with her military might. A danger exists that this military prowess be taken as a vindication of Germany's entire economic apparatus. Since exchange control is accepted by its authors as part of this apparatus, the sanction may extend to this particular phase of the German economy. The question becomes significant in these circumstances whether German exchange control through the eight years of its *ante bellum* history proved to be an effective institution, and for what it was effective. In brief compass, what have been the findings of the present investigation? The retrospect profitably includes the results of German exchange control respecting the monetary standard, the character of foreign trade, the terms and total gain of foreign trade and the foreign debts, as well as conclusions regarding the control as a new system, and its connection with the totalitarian state.

As long as the bulk of Germany's international trade and payments actually passed at the official Reichsbank rate of exchange, and as long as the panic following the summer crisis of 1931 lasted, German exchange control may be adjudged a success in thwarting an economically purposeless capital flight and in preserving the integrity of the national monetary standard. The justification of the maintenance of the Mark parity persisted only to the juncture when devaluation became practicable; and the justification of the various devices to prevent a capital outflow persisted only to the

1. Cf. International Labor Office, Employment, Wages, and International Trade (Geneva, 1940), Appendix II, Incomes of German Workers, pp. 95–103; Balogh, op. cit., pp. 466–467, 482, 495; Guillebaud, op. cit., pp. 186, 206, 208–209, 211; Poole, op. cit., pp. 221–222; Fritz Sternberg, "Why Isn't Germany Bankrupt?", New Republic, Vol. 102, No. 22 (May 27, 1940), pp. 717–719.

time when satisfactory arrangements had been made with foreign creditors. It is, of course, impossible to designate a precise time at which these conditions were fulfilled. Devaluation immediately following the English action in September, 1931, would probably have been a hazardous venture, because of a possible flight from the currency.[1] By the summer of 1933 the case for devaluation was strong, though not perfect. A great deal of German trade already proceeded over *de facto* devalued rates, the capital flight was under control, debt service had proceeded satisfactorily, and there were clear signs of economic recovery in Western Europe. Dollar devaluation still in process represented the one great obstacle, because of its uncertain extent. Had Germany devalued *pari passu* with the United States, however, the probabilities are strong that the American move, instead of imposing downward price adjustments on the gold *bloc*, would have induced the alternative adjustment of rising prices and economic expansion, both at home and abroad. It must not be forgotten that even before the economic expansion program of the National Socialist government had got under way, Germany held a key position in the economy of Central Europe. So far as concerns foreign debts, the situation was even more favorable. Reparations had been virtually annulled in the Lausanne Conference a year earlier, and the Standstill agreements had provided fairly adaptable *modus operandi* for short-term debt. After 1933 it is difficult to discover justification for exchange control as a monetary and financial measure; its aims became "ulterior."[2]

If the case for devaluation was strong by 1933, it was ironclad in 1934 and 1935, and the "justification" of exchange control had to be shifted completely from monetary and financial matters. By the middle of 1935 Austria had pioneered the way to an equilibrium adjustment of the Schilling and had liberated payments except for capital flight purposes. Foreign indebtedness *per capita* had been as heavy as Germany's, unemployment more severe, and the general economy much weaker through territorial losses and the absence of an industrial rationalization movement in the 'twenties. In refusing to follow the course of Austria in 1934 and 1935, Germany not only sealed the fate of her gold *bloc* neighbors, which in general had not followed an "autonomous-economic" or credit-expansion policy such as to make currency depreciation

1. Cf. pp. 15–16 above.
2. Cf. pp. 71–76 above.

inevitable; Germany also accepted as a prospectively permanent institution a fictitious currency unit which imposed the necessity of multifarious *ad hoc* but concealed devaluations. Inflation has its counterpart in a controlled economy, so far as concerns both foreign and domestic trade, in shortages and rationing. Prices do not rise, but this is not the only way in which it is possible to "get less for your money." In the field of imports, devisen are rationed out, and thereby from the angle of the economy as a whole imported goods are also rationed[1]; in the field of domestic goods, individuals see the rationing directly. In both cases money buys less, and this is the meaning of monetary depreciation. It is in vain, therefore, that German writers protested that the Reichsmark did not depreciate,[2] for the rationing of imports to German consumers as a group and of domestic goods to German consumers of specific commodities bore directly upon the holders of Reichsmarks, not the holders of the special *Sperr* varieties. Exchange control failed of its purpose in maintaining the integrity of the currency unit. So far as concerns the flight of capital, a direct embargo without the other apparatus of exchange control — official rate, rationing of devisen, and bilateralism — would have served as well, for it would have used the same devices as did the control authorities. Exchange control from the monetary and financial angles was superfluous as early as 1933 in all probability, but by 1935 for a certainty. We must turn thereafter to the "ulterior" ends.

Analysis of German trade reveals that, in all respects save the doubtful issue of "total gain," exchange control produced results which were not only ulterior to its avowed monetary and financial aims, but more significantly, ulterior to any economic calculus. Schacht's New Plan ostensibly introduced the altogether unexceptionable principle of refusing to permit imports for which the means of payment were lacking.[3] In fact, it ushered in the complete

1. During the period of devisen allocation on a percentual basis, from the autumn of 1931 to the autumn of 1934, the rationing was indeed explicit; thereafter it was only implicit but undoubtedly present in the limitation of imports through *Überwachungsstellen* decisions as to what was an "essential" foreign purchase.

2. E.g. Rudolf Eicke, Warum Aussenhandel (Berlin, 1936), passim; Carl-Hermann Müller, op. cit., p. 326.

3. As well informed a critic as Heuser apparently fell victim to German propaganda upon this matter, in pronouncing the New Plan to be "a step in the right direction"; cf. Heinrich Heuser, Control of International Trade (London, 1939), p. 133.

authoritarian control of what should be imported and what exported, in what quantities, for what means of payment, at what prices, and with what countries. Thereby exchange control became a misnomer, for it really signified foreign trade control. The exchanges were allowed to fend for themselves in the *sub rosa Sperrmark* categories, or determined *ad hoc* upon the grounds of temporary expediency in trade negotiations with clearing partners. As for foreign trade, the phenomena against which the control was directed were production for export on the basis of relative costs and the maximization of profits, on the one hand, and consumption on the basis of relative prices and the maximization of utility by free choice on the other. Political aims engulfed the economic calculus. There is no denying, of course, that the extension of employment not only supplied one of the main objectives of the National Socialist "autonomous economic policy" but also that it represented one of its actual accomplishments. A theoretical possibility does exist that protectionist measures may, with specific international demand and cost functions, extend the volume of home employment, at least for the short run. None of the proponents of this theoretical position, however, have had the hardihood to suggest that protection is best achieved through the panoply of exchange control devices — overvaluation, differential *de facto* devaluations, and bilateralism. Reëmployment necessitates no exception to the statement that, with the possible exception of the terms of trade, German exchange control can be explained after the first two years of its history only in non-economic terms.

The non-economic character of international trade under German exchange control appears in its volume, direction, and composition. The point may be raised that no matter what violent alterations may have come about in the character of German international trade in the change from a liberal to a totalitarian system, the question whether these changes were economic (i.e. governed by a calculus of relative costs and pecuniary profit) or not is answered solely by findings as to "total gain" (terms multiplied by volume). Such a contention would ignore the *announced* aims of German trade policy and the realization, in part at least, of these aims in the actual course of trade. Neither the aims nor the actual developments correspond to economic criteria. As we have seen,[1] the New Plan was oriented toward reduced imports and increased

1. Cf. pp. 54–55 above.

exports of finished goods: during the National Socialist regime imports of this sort decreased from 12 per cent to seven per cent of the total and exports increased from 72 per cent to 82 per cent. Both aim and accomplishment defy the comparative cost principle. Another aim was the transference of industrial exports from European to South American and other overseas markets: here again a distinct shift in actual trade responded to the effort. Not the higher prices of the overseas markets but the maintenance of bilateralism — without which exchange control under an artificial rate cannot function — explained these facts. The New Plan set as another goal the enlargement of the favorable trade balance, and the years 1935–1937 saw an improvement over 1934. Not by the extension of exports through competitive advantage, however, but by the restriction of imports through the direct interference of *Überwachungsstellen*. As Piatier points out,[1] the temper of German trade policy is well revealed in an article of Die Bank of March, 1936, enumerating the major items of import and describing ways in which Germany might hope to dispense with three-fourths the going volume of foreign purchases. Such examples — and the list might be extended indefinitely — do not bespeak a preoccupation with some grand economic end to which the examples are subordinate details. They are the components of autarky, which negates the economic calculus of costs and productivity.

Throughout the exchange-control period from 1931 through 1939, Germany enjoyed relatively high terms of international trade (export prices as percentages of import prices) and may have benefited from an increase in "total gain." The largest part of the advantage in terms is clearly ascribable to the high ratio of industrial to agricultural prices during depression and the marked predominance of the former in German exports. The analysis of German terms relatively to England, likewise a country of industrial exports, showed[2] that the apparent margin in terms secured by the overvaluation of the Mark was a relatively small fraction, varying between two-thirds and one-eighth and generally closer to the latter limit, of the overvaluation. Responsibility for this rested, first, upon the gradual resort to devalued *Sperrmark* rates and subsidies for exports and, second, upon the high import prices which, as

1. André Piatier, Le contrôle des devises dans l'économie du III[e] Reich (Paris, 1937), p. 130.
2. Cf. pp. 119–125 above.

we discovered in the section on this subject,[1] attended German purchases through the clearings. But the relatively favorable terms of trade cannot even be taken — small as the advantage is — at their face value, since substantial reductions have to be made for two sources of concealed cost — losses to exporters through risk, delay, and technical costs of operating through clearings and compensation, and the administrative costs to the State of exchange control.[2] If we are interested in the economics of the German trade terms, we are bound also to record that the relatively high export prices secured in German clearings, with Southeastern Europe especially, are less ascribable to extensive and inelastic demand for German products than they are to chicanery, exploitation of Germany's debtor position, and political pressure.[3]

If the case for a genuine economic advantage in barter terms proceeding from exchange control is not strong, the case for an increase of "total gain" from this source is impossible to establish. The years in which Germany's share of world exports was high, 1930–1932, were also years of highest terms of trade and presumably also of "total gain." But high terms of trade, induced not by any discernible increase in foreign preference for German products but by the enforcement, for the time being, of the excessive official rate on the Reichsmark, would serve to reduce and not to increase the German export position. The large export surplus of these years is explained by the flight of capital, and the increase of "total gain" was transferred to foreigners! For the years after the stoppage of capital exports, both the nominal advantage in terms and the relative export position sagged off. In view of the necessary offsets which have to be made to the apparent gain in terms, the probabilities seem to indicate that exchange control produced a net reduction in the economic "total gain" of Germany's foreign trade. Many of Germany's important exports, it may be observed in passing, must have enjoyed the advantage of inelastic demand over rather wide contiguous regions.

It remains to review the record of exchange control regarding the foreign indebtedness of Germany. From mid-1931 to early in 1938, indebtedness was reduced from 24 billion to 10 billion Reichs-

1. Cf. pp. 85–100 above.
2. According to hearsay, 36,000 civil servants devoted their time to this activity.
3. Cf. pp. 100–113 above.

marks. Of this sum, eight billions represented repurchases and redemptions, and six billions the depreciation of foreign debts through foreign devaluations.[1] To arrive at the amount of effective transfer it is necessary to subtract from eight billion Reichsmarks the depreciation of blocked accounts below a level corresponding to foreign devaluations due to the restricted applicability of these accounts, and a further sum for the repatriation of German bonds at bargain prices. A rough estimate might be in the neighborhood of one-half to one billion Reichsmarks. Thus windfalls reduced the German foreign indebtedness approximately as much as repayments. The "windfalls" are a consequence of German exchange control, for the fiction of Reichsmark parity produced the gains of foreign devaluations, and the embargo on capital exports secured the profits on bond repatriations and export against blocked marks. It should be noted that the latter two sources have yielded real profits, since they are actually already realized, whereas the first source, pertaining to debts in foreign currencies, has yielded paper profits only, which would disappear with the devaluation of the Mark. With this one reservation there is no doubt that exchange control gave to Germany substantial economic gains on its foreign debts; indeed, Piatier lists the windfalls (from the three sources named) as three out of four items in his list of advantages derived from the control by Germany.[2] The gain is "economic" in the sense of pecuniary advantage, but it is not an economic gain in the sense of its origin. Effective transfer from 1931 to 1938 amounted to seven to seven and one-half billion Reichsmarks, whereas expenditures upon armaments to the outbreak of war have been estimated as high as 90 billion Reichsmarks.[3] In view of such facts, Germany has not secured the windfalls upon her foreign obligations without an indirect cost; for, as Saint Jean declares, she has solidly established her reputation as a bad debtor.[4]

As an emergency device for coping with the panicky withdrawals and flight of capital in 1931, and as an intermediate device

1. League of Nations, Balances of Payments 1937 (Geneva, 1938), p. 110. The League estimate of the effect of devaluations pertains to the period mid-1930 to early in 1937; but devaluations from mid-1930 to mid-1931 and from early 1937 to early 1938 could make no significant difference.

2. Piatier, op. cit., p. 138.

3. Sternberg, op. cit., p. 717.

4. Maurice de Saint Jean, La Politique économique et financière du Troisième Reich (Paris, 1936), p. 438.

for controlling the balance of payments during attempts to adjust prices to international equilibrium (devaluation being in practice impossible), exchange control answered to economic ends. Since 1933 or thereabouts the German exchange control is impossible to justify on economic grounds — the monetary situation, international trade and foreign debts. It is important to establish these facts, for the German exchange control has not lacked its apologists upon economic grounds. I am inclined to believe that the political and economic powers of the National Socialist state would regard the nice calculation of economic pro's and con's with ironical amusement, knowing full well their complete irrelevancy. Even if the case were conclusive to these authorities that exchange control entailed net economic losses, it would have been retained. The losses would in all events be rendered less obvious by certain windfalls: the effect of foreign devaluations and the German capital-export embargo, the forcing of loans through accumulating clearing debts,[1] the achievement of high export prices in clearings through political pressure, the restraint upon real wages through control of "non-essential" imports, and the favorable terms of trade through the relatively high prices of industrial exports. The institution persisted because it was an instrument *par excellence* of political power — political power not only over other states but equally significantly over vested economic interests within the country. The National Socialist state developed this totalitarian instrument to one of its most formidable weapons. Unfortunately it must also be recorded that, in creating an authority against the decisions of which the law afforded no redress, the political predecessors of Hitler nurtured an institution which paved the way for totalitarianism.

1. In 1935 the German clearings debts amounted to 500,000,000 Reichsmarks and in 1938 to 250,000,000 Reichsmarks: Cf. League of Nations, loc. cit., p. 111.

REICHSBANK[1]

Monthly Averages
(In million Reichsmarks)

Months	Notes in Circulation	Demand Deposits	Gold and Devisen Reserves	Bills Discounted	Reserves as Per Cent of Notes in Circulation
			1929		
I	4,206.9	608.8	2,886.6	1,772.4	68.6
II	4,192.1	516.7	2,836.5	1,633.5	67.6
III	4,339.6	489.5	2,739.5	1,884.1	63.1
IV	4,285.6	673.3	2,319.1	2,433.1	54.1
V	4,305.6	625.9	1,903.7	2,796.1	44.2
VI	4,367.9	611.3	2,130.7	2,742.9	48.8
VII	4,443.5	571.4	2,415.0	2,508.8	54.3
VIII	4,453.6	455.5	2,478.2	2,335.4	55.6
IX	4,532.6	479.8	2,519.6	2,384.5	55.6
X	4,495.0	476.4	2,571.6	2,283.1	61.6
XI	4,493.9	499.3	2,615.6	2,187.8	58.2
XII	4,723.9	511.1	2,659.6	2,357.4	56.3
			1930		
I	4,349.4	548.4	2,687.4	2,036.8	61.8
II	4,318.6	509.4	2,777.4	1,816.3	64.3
III	4,415.2	509.6	2,895.3	1,786.2	65.6
IV	4,412.5	606.7	2,901.8	1,869.9	65.8
V	4,364.6	559.7	2,910.4	1,730.8	66.7
VI	4,393.7	531.6	3,048.4	1,622.5	69.4
VII	4,320.6	468.1	2,881.0	1,588.8	66.7
VIII	4,346.2	471.3	2,957.4	1,520.9	68.0
IX	4,377.3	409.6	2,851.8	1,598.3	65.1
X	4,336.4	376.4	2,413.8	2,092.1	55.7
XI	4,264.8	344.8	2,614.9	1,890.9	61.3
XII	4,937.3	437.2	2,732.6	2,119.4	61.6
			1931		
I	4,106.9	366.7	2,495.9	1,867.4	60.8
II	4,028.5	311.8	2,442.4	1,753.8	60.6
III	4,083.5	324.4	2,497.6	1,770.6	61.2
IV	4,068.9	363.6	2,493.4	1,722.9	62.0
V	4,009.3	335.0	2,555.9	1,592.9	63.7
VI	3,997.1	356.3	1,876.8	2,199.7	46.9
VII	4,230.1	517.2	1,601.3	2,975.0	37.9
VIII	4,261.6	586.8	1,689.2	3,193.5	39.6
IX	4,331.2	495.3	1,652.7	3,146.3	38.2
X	4,542.1	513.7	1,304.4	3,808.7	28.7
XI	4,478.2	434.1	1,200.7	3,805.9	26.8
XII	4,604.4	502.9	1,161.8	3,933.5	25.2

[1] Economist (London).

REICHSBANK[1]— (*Continued*)
Monthly Averages
(In million Reichsmarks)

Months	Notes in Circulation	Demand Deposits	Gold and Devisen Reserves	Bills Discounted	Reserves as Per Cent of Notes in Circulation
			1932		
I	4,390.5	391.5	1,115.7	3,640.1	25.4
II	4,175.7	364.5	1,075.2	3,314.4	25.7
III	4,132.3	433.1	1,023.7	3,285.7	24.8
IV	4,022.3	382.4	996.7	3,067.6	24.8
V	3,903.4	378.0	989.3	2,994.5	25.3
VI	3,851.5	402.7	967.0	2,998.4	25.1
VII	3,840.4	369.7	905.7	3,055.7	23.6
VIII	3,786.0		907.7	2,959.7	24.0
IX	3,636.3	402.6	922.1	2,886.2	25.4
X	3,542.8	386.4	934.4	2,815.5	26.4
XI	3,438.3	392.8	934.8	2,688.5	27.2
XII	3,442.8	408.2	917.9	2,681.9	26.7
			1933		
I	3,281.6	356.0	921.2	2,435.1	28.1
II	3,222.3	359.5	920.5	2,366.4	28.6
III	3,319.0	374.1	846.9	2,599.4	25.5
IV	3,417.9	365.2	576.8	2,978.4	16.9
V	3,365.2	382.1	470.2	3,004.5	14.0
VI	3,334.6	412.6	340.4	3,099.2	10.2
VII	3,371.0	381.1	303.4	3,104.4	9.0
VIII	3,369.6	380.1	355.8	3,046.9	10.6
IX	3,434.2	410.2	400.7	3,117.5	11.7
X	3,449.2	404.4	412.0	3,124.6	11.9
XI	3,408.7	446.1	407.8	2,947.4	12.0
XII	3,499.2	482.1	399.6	3,036.8	11.4
			1934		
I	3,377.1	496.8	391.9	2,819.9	11.6
II	3,337.4	515.2	341.9	2,730.3	10.2
III	3,427.6	535.7	275.0	2,925.6	8.0
IV	3,462.9	496.6	227.4	2,971.6	6.6
V	3,495.4	506.1	161.9	3,046.1	4.6
VI	3,541.9	534.3	93.6	3,161.9	2.6
VII	3,617.1	608.1	77.7	3,303.2	2.1
VIII	3,641.3	676.1	78.3	3,333.6	2.1
IX	3,714.7	762.5	78.8	3,521.6	2.1
X	3,706.8	837.0	84.6	3,580.7	2.2
XI	3,650.4	923.4	82.4	3,606.8	2.3
XII	3,765.3	841.0	83.2	3,748.2	2.2

[1] Economist (London).

REICHSBANK[1] — (*Continued*)
Monthly Averages
(In million Reichsmarks)

Months	Notes in Circulation	Demand Deposits	Gold and Devisen Reserves	Bills Discounted	Reserves as Per Cent of Notes in Circulation
			1935		
I	3,584.2	907.2	83.9	3,530.5	2.3
II	3,475.8	833.3	84.6	3,509.8	2.4
III	3,462.8	911.8	84.9	3,569.1	2.5
IV	3,538.0	917.3	85.4	3,654.8	2.4
V	3,571.7	862.6	86.3	3,605.4	2.4
VI	3,681.1	770.1	88.4	3,646.8	2.4
VII	3,707.7	737.4	98.6	3,614.1	2.6
VIII	3,781.9	753.1	102.5	3,717.5	2.7
IX	3,908.0	752.1	100.2	3,865.5	2.6
X	3,969.4	713.5	94.8	3,991.9	2.4
XI	3,967.5	720.8	93.4	3,875.9	2.4
XII	4,121.7	822.1	89.2	4,098.1	2.2
			1936		
I	3,931.7	709.1	83.2	3,778.8	2.1
II	3,925.7	627.7	80.0	3,745.0	2.0
III	4,015.9	655.9	77.2	3,888.5	1.9
IV	4,106.1	721.1	73.5	4,142.1	1.8
V	4,157.8	703.0	76.1	4,281.4	1.8
VI	4,146.5	767.5	76.1	4,330.9	1.8
VII	4,211.8	787.2	77.6	4,428.9	1.8
VIII	4,307.0	692.4	76.5	4,464.2	1.8
IX	4,380.4	702.0	71.0	4,565.7	1.6
X	4,463.9	686.0	69.1	4,660.5	1.5
XI	4,451.2	676.5	70.6	4,609.8	1.6
XII	4,686.3	773.0	71.9	4,909.5	1.5
			1937		
I	4,580.6	741.7	72.5	4,680.5	1.6
II	4,541.4	743.3	72.6	4,495.3	1.6
III	4,631.6	794.9	73.1	4,623.2	1.6
IV	4,628.3	790.6	74.0	4,688.4	1.6
V	4,698.5	773.7	74.3	4,811.2	1.6
VI	4,676.7	745.0	74.6	4,789.1	1.6
VII	4,787.1	700.8	74.9	4,945.5	1.6
VIII	4,832.1	659.2	75.5	4,968.7	1.6
IX	4,905.9	701.1	75.8	5,070.9	1.5
X	4,975.0	689.5	75.9	5,179.2	1.5
XI	4,922.7	724.1	76.1	5,150.1	1.5
XII	5,150.8	806.8	76.1	5,493.5	1.5

1. **Economist (London).**

REICHSBANK[1]— (*Continued*)
Monthly Averages
(In million Reichsmarks)

Months	Notes in Circulation	Demand Deposits	Gold and Devisen Reserves	Bills Discounted	Reserves as Per Cent of Notes in Circulation
			1938		
I	4,972.2	788.8	76.3	5,176.8	1.5
II	4,925.0	790.8	76.2	5,126.0	1.5
III	5,116.2	947.3	76.2	5,343.8	1.5
IV	5,592.5	1,204.0	76.2	5,460.9	1.4
V	5,885.2	984.2	76.3	5,431.2	1.3
VI	6,038.6	1,067.2	76.6	5,633.4	1.3
VII	6,224.6	940.8	76.3	5,830.8	1.2
VIII	6,432.9	957.8	76.5	6,082.6	1.2
IX	7,031.4	1,007.7	76.4	6,857.2	1.1
X	7,384.7	937.8	76.6	7,151.2	1.0
XI	7,342.2	1,012.6	76.8	6,980.3	1.0
XII	7,794.9	1,154.9	76.6	7,524.8	1.0
			1939		
I	7,528.2	997.3	76.5	6,983.3	1.0
II	7,517.7	1,070.8	76.5	6,834.5	1.0
III	7,771.4	1,063.8	76.6	7,331.2	1.0
IV	8,029.7	1,088.7	76.6	7,470.5	0.9
V	8,145.8	1,168.2	76.8	7,382.9	0.9
VI	8,204.2	1,077.1	76.7	7,582.3	0.9
VII	8,520.7	1,106.2	76.8	8,042.9	0.9
VIII	9,280.0	1,216.8	76.8	8,746.1	0.8

[1] Economist (London).

Reichsbank Rate of Discount[1]
1929–1938

1929		Per Cent
January	12, 1929	6½
April	25, 1929	7½
November	2, 1929	7
1930		
January	14, 1930	6½
February	6, 1930	6
March	8, 1930	5½
March	25, 1930	5
May	20, 1930	4½
June	21, 1930	4
October	9, 1930	5
1931		
June	14, 1931	7
July	16, 1931	10
August	1, 1931	15
August	12, 1931	10
September	2, 1931	8
December	10, 1931	7
1932		
March	9, 1932	6
April	9, 1932	5½
April	28, 1932	5
September	22, 1932	4 — to date

[1] Economist (London).

Bank of England Rate of Discount [1]

	1929	1930	1931	1932
I......	4.50	5.0	3	6
II......	5.50	4.5	3	5
III......	5.50	3.5	3	3.5
IV......	5.50	3.5	3	3
V......	5.50	3.0	2.5	2.5
VI......	5.50	3	2.5	2
VII......	5.50	3	4.5	2
VIII......	5.50	3	4.5	2
IX......	6.50	3	6.0	2
X......	6.00	3	6	2
XI......	5.50	3	6	2
XII......	5.00	3	6	2

[1] League of Nations, Monthly Bulletin of Statistics.

British, French, and German Prices
(Revised basis: 1925–1927 = 100)

	British Wholesale Prices in Gold[1]				German Wholesale Prices[2]			
	I	II	III	IV	I	II	III	IV
1931....	67.8	66.6	62.0	48.7	83.0	82.1	79.9	76.7
1932....	46.5	46.4	43.2	41.0	72.4	70.6	69.3	67.8
1933....	41.3	41.1	41.1	40.4	66.1	66.6	68.4	69.6
1934....	39.5	38.4	38.4	37.6	69.8	69.9	72.4	73.3
1935....	37.3	38.4	39.3	40.7	73.2	73.2	74.1	74.8
1936....	40.7	40.6	42.4	43.4	75.2	75.3	75.7	75.8
1937....	47.1	48.5	47.6	44.7	76.6	76.8	77.7	76.6
1938....	43.4	41.8	39.7	37.6	76.7	76.6	76.7	77.0
1939....					77.3			

	German Sensitive Prices[3]				German Cost of Living[2]			
1931....	58.6	53.6	48.4	43.9	96.9	95.4	94.2	91.9
1932....	39.7	36.4	38.0	40.9	85.7	83.9	83.2	82.3
1933....	41.3	44.3	46.5	44.5	81.0	81.4	82.1	83.4
1934....	46.3	48.6	50.6	49.7	83.5	83.3	84.6	84.9
1935....	50.3	52.6	53.5	56.6	85.0	86.3	86.2	85.5
1936....	57.0	57.4	57.8	59.1	86.5	86.4	86.9	86.4
1937....	62.7	61.6	61.1	58.0	86.7	87.0	87.4	86.7
1938....	57.2	56.3	56.8	57.6	87.0	87.4	87.7	86.9
1939....					87.4			

	French Wholesale Prices, Actual Values[4]				French Wholesale Prices in Gold[4]			
	I	II	III	IV	I	II	III	IV
1931....	77.4	76.0	71.1	65.6				
1932....	66.0	65.6	62.5	61.4				
1933....	60.9	61.0	61.6	60.5				
1934....	60.3	58.3	56.7	54.7				
1935....	54.3	54.6	53.5	55.4				
1936....	58.6	58.8	62.3	74.5				52.3
1937....	82.0	83.7	93.6	94.2	57.3	56.5	52.0	48.2
1938....	96.6	100.2	101.6	103.5	47.3	43.9	41.9	41.2
1939....								

[1] Board of Trade Index, converted to gold in the Reports of the Hungarian Institute for Economic Research.
[2] Vierteljahrshefte zur Konjunkturforschung.
[3] Statistisches Jahrbuch für das Deutsche Reich.
[4] Statistique générale de la France.

BRITISH AND GERMAN EXPORT AND IMPORT PRICES[1]

(1929 = 100)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
1. British Index of Export Prices[2] . . .	100	93.3	75.7	54.4	51.1	47.4	45.3	47.2	51.3	50.5
	111.1	104.3	84.1	60.4	56.8	52.7	50.3	52.4	57.0	56.1
2. British Index of Import Prices. . . .	100	87.8	65.4	47.1	42.6	39.9	39.3	41.9	47.5	44.1
3. German Index of Export Prices. . .	100	94.1	82.5	71.6	64.7	62.0	59.0	60.0	64.0	67.1
4. German Index of Import Prices. . .	100	87.0	66.6	49.6	45.3	45.6	46.7	49.2	54.4	52.1
5. British Terms of Trade.	100	106.1	115.7	115.5	119.9	118.8	115.3	112.6	108.0	114.7
6. German Terms of Trade.	100	108.2	123.8	144.4	142.8	135.9	126.3	122.0	117.6	128.8
7. 2 as per cent of 1, as adjusted	90	90.2	98.1	118.5	113.9	117.6	117.2	114.5	112.3	119.6

[1] League of Nations, Review of World Trade 1938 (Geneva, 1939), pp. 75–76, 78–79.

[2] The figures in the lower line represent an 11.11 per cent upward adjustment of the original index in each case to correct for a 10 per cent over-valuation of sterling 1925–1931.

GERMANY'S FOREIGN TRADE BY QUARTERS[1]

(Values in million Reichsmarks)

YEAR	I QUARTER			II QUARTER			III QUARTER			IV QUARTER			TOTAL		
	Imports	Exports	Balance of Trade	Imports	Exports	Balance of Trade	Imports	Exports	Balance of Trade	Imports	Exports	Balance of Trade	Imports	Exports	Balance of Trade
1929......	3,354.9	3,054.7	−300.2	3,465.1	3,476.6	+11.5	3,338.8	3,487.3	+148.5	3,288.0	3,464.4	+176.4	13,446.8	13,483	+36
1930......	3,171.0	3,222.0	+51.0	2,533.0	2,983.0	+450.0	2,440.0	2,923.0	+483.0	2,249.0	2,908.0	+659.0	10,393.0	12,036	+1643
1931......	1,919.0	2,420.0	+501.0	1,885.0	2,348.0	+463.0	1,464.0	2,465.0	+1,001.0	1,459.0	2,366.0	+907.0	6,727.0	9,599	+2872
1932......	1,251.7	1,605.4	+353.7	1,142.7	1,382.4	+239.7	1,057.9	1,302.6	+244.7	1,214.1	1,448.0	+233.9	4,667.0	5,739	+1072
1933......	1,077.0	1,190.0	+113.0	1,011.0	1,188.0	+177.0	1,044.0	1,230.0	+186.0	1,072.0	1,263.0	+191.0	4,204.0	4,871	+667
1934......	1,147.4	1,094.3	−53.1	1,152.8	991.9	−160.9	1,056.7	1,005.4	−51.3	1,094.1	1,075.3	−18.8	4,451.0	4,167	−284
1935......	1,129.7	967.0	−162.7	1,008.7	995.0	−13.7	965.3	1,099.7	+134.4	1,055.0	1,208.0	+153.0	4,159.0	4,270	+111
1936......	1,052.9	1,134.2	+81.3	1,058.4	1,107.7	+49.3	1,027.6	1,215.8	+188.2	1,079.2	1,310.5	+231.3	4,218.0	4,768	+550
1937......	1,092.7	1,285.2	+192.5	1,433.7	1,431.3	−2.4	1,443.4	1,565.8	+122.4	1,498.5	1,628.8	+130.3	5,468.0	5,911	+443
1938[2].....	1,399.0	1,360.0	−39.0	1,316.0	1,253.0	−63.0	1,324.0	1,274.0	−50.0	1,427.0	1,376.0	−51.0	5,466.0	5,263	−203
1938[3].....	1,399.0	1,360.0	−39.0	1,482.0	1,354.0	−128.0	1,476.0	1,375.0	−101.0	1,592.0	1,449.0	−143.0	5,949.0	5,538	−411
1939[3].....	1,445.8	1,333.4	−112.4	1,285.5	1,459.9	+174.4									

[1] Wirtschaft und Statistik.
[2] Old Reich (without trade with Austria after April, 1938).
[3] Greater Germany. Figures for this year from Wirtschaft und Statistik, Vol. 19, No. 9, p. 352.

GERMANY'S FOREIGN TRADE: IMPORTS[1]
(Values in million Reichsmarks)

I. Actual Values

	Value of all Imports	Food Supplies: Total Foods	Livestock	Staple Groceries	Semi-Luxuries	2 as Per Cent of 1	Industrial Imports: Raw Materials	7 as Per Cent of 1	Semi-Finished Goods	9 as Per Cent of 1	Finished Goods	11 as Per Cent of 1
	1	2	3	4	5	6	7	8	9	10	11	12
1929	13,446.8	5,380.6	149.7	4,487.6	743.3	40.0	3,927.4	29.2	2,374.0	17.7	1,764.8	13.1
1930	10,393.1	4,229.7	118.3	3,476.4	635.0	40.7	2,904.4	27.9	1,848.1	17,8	1,410.9	13.6
1931	6,727.1	2,783.2	54.9	2,289.8	438.5	41.4	1,832.2	27.2	1,145.3	17.0	966.4	14.4
1932	4,666.5	2,132.7	34.3	1,775.9	322.5	45.7	1,271.7	27.3	704.3	15.1	557.8	11.9
1933	4,203.6	1,629.7	30.9	1,302.4	296.4	38.8	1,367.6	32.5	701.4	16.7	504.9	12.0
1934	4,451.0	1,543.2	33.3	1,213.2	296.7	34.7	1,540.7	34.6	791.5	17.8	575.6	12.9
1935	4,158.7	1,435.2	45.2	1,110.4	279.6	34.5	1,567.9	37.7	747.5	18.0	408.1	9.8
1936	4,217.9	1,499.4	96.3	1,113.9	289.2	35.5	1,571.1	37.3	750.0	17.8	397.4	9.4
1937	5,468.4	2,045.1	107.5	1,614.9	322.7	37.4	1,996.2	36.5	980.3	17.9	396.6	7.3
1938[2]	5,449.3	2,110.8	113.0	1,650.9	346.9	38.7	1,849.8	33.9	1,041.0	19.1	396.7	7.3

II. Values at 1928 Prices

	1	2	3	4	5	6	7	8	9	10	11	12
1929	13,511.9	5,522.9	150.2	4,669.9	702.8	40.9	3,980.5	29.4	2,308.3	17.1	1,700.2	12.6
1930	12,039.0	5,013.8	122.0	4,190.4	701.4	41.6	3,617.2	30.0	1,995.5	16.6	1,412.1	11.7
1931	10,156.4	4,245.9	71.1	3,572.2	602.6	41.8	3,140.7	30.9	1,700.4	16.7	1,069.4	10.5
1932	9,464.6	4,212.1	71.2	3,600.0	540.9	44.5	3,045.9	32.2	1,417.8	15.0	788.8	8.3
1933	9,311.9	3,601.9	69.0	2,967.4	565.5	38.7	3,425.4	36.8	1,508.9	16.2	775.7	8.3
1934	9,809.4	3,676.8	71.2	2,963.3	642.3	37.5	3,447.8	35.1	1,768.8	18.0	916.0	9.3
1935	8,956.2	3,180.6	85.1	2,467.4	628.1	35.5	3,423.9	38.2	1,695.8	18.9	655.9	7.3
1936	8,610.0	3,194.0	166.9	2,381.7	645.4	37.0	3,155.9	36.7	1,640.3	19.0	619.8	7.2
1937	10,089.3	4,133.6	168.2	3,253.0	712.4	41.0	3,486.5	34.6	1,786.7	17.7	603.3	6.0
1938[2]	11,008.6	4,539.4	176.5	3,658.9	764.3	41.2	3,589.7	32.6	2,134.5	19.4	644.0	5.8

[1] Statistisches Jahrbuch für das Deutsche Reich.
[2] Old Reich, from April, 1938, and without trade with Austria

GERMANY'S FOREIGN TRADE: EXPORTS[1]
(Values in million Reichsmarks)

I. Actual Values

	Value of all Exports	Total Foods	Food Supplies: Livestock	Food Supplies: Staple Groceries	Food Supplies: Semi-Luxuries	2 as Per Cent of 1	Raw Materials: Value	Raw Materials: 7 as Per Cent of 1	Semi-Finished Goods: Value	Semi-Finished Goods: 9 as Per Cent of 1	Finished Goods: Value	Finished Goods: 11 as Per Cent of 1
	1	2	3	4	5	6	7	8	9	10	11	12
1929	13,482.7	869.9	22.0	778.2	69.7	6.5	1,582.0	11.7	1,596.3	11.8	9,434.5	70.0
1930	12,035.6	660.7	68.7	527.9	64.1	5.5	1,332.5	11.1	1,333.2	11.1	8,709.2	72.3
1931	9,598.6	483.8	46.9	382.8	54.1	5.0	989.6	10.3	985.1	10.3	7,140.1	72.4
1932	5,739.2	260.0	14.5	213.6	31.9	4.5	577.6	10.1	556.3	9.7	4,345.3	75.7
1933	4,871.4	222.3	9.0	175.7	37.6	4.6	515.9	10.6	473.7	9.7	3,659.5	75.1
1934	4,166.9	150.3	3.8	110.3	36.2	3.6	463.5	11.1	404.7	9.7	3,148.4	75.6
1935	4,269.7	95.7	2.9	63.0	29.8	2.2	446.7	10.5	415.7	9.7	3,311.6	77.6
1936	4,768.2	87.6	2.6	55.1	29.9	1.8	419.2	8.8	459.1	9.6	3,802.3	79.8
1937	5,911.0	88.8	2.8	55.3	30.7	1.5	577.6	9.8	543.2	9.2	4,700.0	79.5
1938[2]	5,256.9	60.6	....	....	....	1.2	504.0	9.6	403.1	7.7	4,285.9	81.5

II. Values at 1928 Prices

	1	2	3	4	5	6	7	8	9	10	11	12
1929	13,669.2	950.2	19.5	859.7	71.0	6.9	1,632.5	11.9	1,636.9	12.0	9,449.6	69.1
1930	12,957.5	877.6	78.1	728.1	71.4	6.8	1,549.7	11.9	1,460.9	11.3	9,069.3	70.0
1931	11,770.6	778.4	68.7	639.7	70.0	6.6	1,421.5	12.1	1,330.9	11.3	8,239.8	70.0
1932	8,122.8	490.4	27.2	419.0	44.2	6.0	1,062.5	13.1	981.9	12.1	5,588.0	68.8
1933	7,627.1	520.7	17.1	457.3	46.3	6.8	1,016.9	13.3	943.0	12.3	5,146.5	67.4
1934	6,810.3	349.2	5.6	297.1	46.5	5.1	936.4	13.7	858.9	12.6	4,665.8	68.5
1935	7,333.6	169.6	3.9	124.0	41.7	2.3	932.1	12.7	938.3	12.8	5,293.6	72.2
1936	8,091.6	159.4	3.9	108.1	47.4	2.0	833.4	10.3	989.2	12.2	6,109.6	75.5
1937	9,360.0	154.9	2.8	100.5	51.6	1.6	1,014.3	10.8	1,059.5	11.3	7,128.6	76.2
1938[2]	8,150.2	120.9	....	....	....	1.5	823.3	10.1	802.9	9.8	6,355.1	77.9

[1] Statistisches Jahrbuch für das Deutsche Reich.
[2] Old Reich; from April 1938 on, without trade with Austria.

GERMANY'S TRADE WITH WESTERN EUROPE[1]
(In percentage of total and in million Reichsmarks)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Great Britain	*6.4*	*6.1*	*6.7*	*5.5*	*5.7*	*4.6*	*6.2*	*6.3*	*5.6*	*5.2*
Imports....	865.3	639.0	453.3	258.5	238.4	205.7	256.2	263.7	308.6	282.7
	9.7	*10.1*	*11.8*	*7.8*	*8.3*	*9.2*	*8.8*	*8.5*	*7.3*	*6.7*
Exports....	1,305.5	1,218.9	1,133.6	446.0	405.6	382.9	374.9	405.8	432.2	350.9
Balance....	+440.2	+579.9	+680.3	+187.5	+167.2	+177.2	+118.7	+142.1	+123.6	+68.2
France	*4.8*	*5.0*	*5.1*	*4.1*	*4.4*	*4.0*	*3.7*	*2.3*	*2.9*	*2.6*
Imports....	641.9	518.7	341.6	189.9	184.0	176.9	154.2	98.9	155.7	143.7
	6.9	*9.5*	*8.7*	*8.4*	*8.1*	*6.8*	*5.9*	*5.3*	*5.3*	*4.1*
Exports....	934.6	1,148.6	834.1	482.5	395.0	281.7	252.8	254.5	313.4	216.7
Balance....	+292.7	+629.9	+492.5	+292.6	+211.0	+104.8	+98.6	+155.6	+157.7	73.0
Belgium	*3.3*	*3.1*	*3.3*	*3.1*	*3.3*	*3.6*	*3.0*	*3.3*	*3.6*	*3.6*
Imports....	447.2	324.6	222.1	146.3	138.8	161.0	126.2	138.6	197.6	194.4
	4.5	*5.0*	*4.8*	*5.7*	*5.7*	*5.3*	*4.7*	*4.4*	*4.9*	*4.3*
Exports....	608.8	600.6	463.5	301.5	278.1	235.9	201.8	211.5	287.8	227.4
Balance....	+161.6	+276.0	+241.4	+155.2	+139.3	+74.9	+75.6	+72.9	+90.2	+33.0
Netherlands	*5.2*	*5.4*	*5.7*	*5.9*	*5.5*	*5.9*	*4.7*	*4.0*	*3.9*	*3.6*
Imports....	700.9	560.8	383.6	273.1	232.0	264.1	196.1	168.5	215.8	197.9
	10.1	*10.0*	*9.9*	*11.0*	*12.6*	*11.6*	*9.5*	*8.3*	*7.9*	*8.5*
Exports....	1,355.2	1,205.8	954.6	632.8	612.8	481.8	404.2	395.5	468.0	447.8
Balance....	+654.3	+645.0	+571.0	+359.7	+380.8	+217.7	+208.1	+227.0	+252.2	+249.9
Switzerland	*2.4*	*2.5*	*2.4*	*2.0*	*2.0*	*2.6*	*2.7*	*2.5*	*1.7*	*1.9*
Imports....	317.8	255.5	164.6	92.1	82.5	116.1	114.4	106.2	93.7	102.6
	4.7	*5.2*	*5.6*	*7.2*	*7.2*	*7.1*	*6.0*	*4.7*	*3.9*	*3.9*
Exports....	627.1	627.6	541.6	411.7	352.4	295.3	256.9	225.5	231.0	207.6
Balance....	+309.3	+372.1	+377.0	+319.6	+269.9	+179.2	+142.5	+119.3	+137.3	+104.2
Totals for Western Europe	*22.1*	*22.1*	*23.2*	*20.6*	*20.9*	*20.7*	*20.3*	*18.4*	*17.7*	*16.9*
Imports....	2,973.1	2,298.6	1,565.2	959.9	875.7	923.8	847.1	775.9	971.4	921.3
	35.9	*39.8*	*40.8*	*39.7*	*41.9*	*40.4*	*34.9*	*31.2*	*29.3*	*27.5*
Exports....	4,831.2	4,801.5	3,927.4	2,274.5	2,043.9	1,677.6	1,490.6	1,492.8	1,732.4	1,450.0
Balance....	1,858.1	2,502.9	2,362.2	1,314.6	1,168.2	753.8	643.5	716.9	761.0	528.7

[1] Statistisches Jahrbuch für das Deutsche Reich, 1931–1938.
[2] Wirtschaft und Statistik 1939, Vol. 19, No. 5, p. 177. The figures for 1938 do not include the new territories.

GERMANY'S TRADE WITH CREDITOR COUNTRIES[1]
U. S. A., Sweden and Five Countries of Western Europe[2]
(In percentage of total and in million Reichsmarks)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
Sweden										
	2.6	*2.9*	*2.4*	*2.0*	*2.4*	*3.0*	*3.7*	*4.5*	*4.2*	*4.8*
Imports....	350.3	304.1	158.1	95.1	102.6	133.8	152.9	191.7	231.9	261.7
	3.5	*4.1*	*4.4*	*4.0*	*3.9*	*4.8*	*4.8*	*4.8*	*4.7*	*5.1*
Exports....	475.7	494.2	424.2	228.1	191.1	198.3	206.8	230.4	277.3	267.3
Balance....	+125.4	+190.1	+266.1	+133.0	+88.5	+64.5	+53.9	+38.7	+45.4	+5.6
U. S. A.										
	13.3	*12.6*	*11.8*	*12.7*	*11.5*	*8.4*	*5.8*	*5.5*	*5.2*	*7.4*
Imports....	1,790.4	1,306.8	791.4	591.8	482.8	372.7	240.7	232.2	281.9	404.6
	7.4	*5.7*	*5.1*	*4.9*	*5.1*	*3.8*	*4.0*	*3.6*	*3.5*	*2.8*
Exports....	991.1	685.2	487.5	281.2	245.9	157.8	169.5	172.0	208.8	149.3
Balance....	−799.3	−621.6	−303.9	−310.6	−236.9	−214.9	−71.2	−60.2	−73.1	−255.3
Totals for *U. S. A.* *and Sweden*...	*15.9*	*15.5*	*14.2*	*14.7*	*13.9*	*11.4*	*9.5*	*10.0*	*9.6*	*12.2*
Imports....	2,140.7	1,610.9	949.5	686.9	585.4	506.5	393.6	423.9	513.8	666.3
	10.9	*9.8*	*9.5*	*8.9*	*9.0*	*8.6*	*8.8*	*8.4*	*8.2*	*7.9*
Exports....	1,466.8	1,179.4	911.7	509.3	437.0	356.1	376.3	402.4	486.1	416.6
Totals for Creditor Countries										
	38.0	*37.6*	*37.4*	*35.3*	*34.8*	*32.1*	*29.8*	*28.4*	*27.3*	*29.1*
Imports....	5,113.8	3,909.5	2,514.7	1,646.8	1,461.1	1,430.3	1,240.7	1,199.8	1,485.2	1,587.6
	46.8	*49.6*	*50.3*	*38.6*	*50.9*	*49.0*	*43.7*	*39.6*	*37.5*	*35.4*
Exports....	6,298.0	5,980.9	4,839.1	2,783.8	2,480.9	2,033.7	1,866.9	1,895.2	2,218.5	1,866.6

[1] Statistisches Jahrbuch für das Deutsche Reich, 1931–1938.
[2] Five countries of Western Europe as given on the preceding page,— Great Britain, France, Belgium, Netherlands and Switzerland.

Germany's Trade with Europe and the Rest of the World[1]

	Imports					Exports				
	Europe		Rest of the World		Total	Europe		Rest of the World		Total
	Million Rm	As Per Cent of Total	Million Rm	As Per Cent of Total	Million Rm	Million Rm	As Per Cent of Total	Million Rm	As Per Cent of Total	Million Rm
1929	7,066.5	52.6	6,380.3	47.4	13,446.8	9,924.1	73.7	3,558.5	26.3	13,482.7
1930	5,825.0	56.0	4,568.2	44.0	10,393.2	9,377.2	77.9	2,658.4	22.1	12,035.6
1931	3,763.5	55.9	2,963.5	44.1	6,727.0	7,777.8	81.0	1,820.8	19.0	9,598.6
1932	2,499.4	53.6	2,167.1	46.4	4,666.5	4,646.5	81.0	1,092.6	19.0	5,739.1
1933	2,281.4	54.3	1,922.2	45.7	4,203.6	3,801.1	78.0	1,070.3	22.0	4,871.4
1934	2,560.5	57.5	1,890.6	42.5	4,451.1	3,188.3	76.5	978.6	23.5	4,166.9
1935	2,564.0	61.6	1,594.7	38.4	4,158.7	3,124.5	73.2	1,145.2	26.8	4,269.7
1936[2]	2,521.5	59.8	1,696.4	40.2	4,217.9	3,372.9	70.7	1,395.3	29.3	4,768.2
1937	3,038.6	55.6	2,429.8	44.4	5,468.4	4,093.2	69.3	1,817.8	30.7	5,911.0

Balance of Trade[1]
(In million Reichsmarks)

	Europe	Rest of the World	Total
1929	+2,857.6	−2,821.8	+35.8
1930	+3,552.2	−1,909.8	+1,642.4
1931	+4,014.3	−1,142.7	+2,871.6
1932	+2,147.1	−1,074.5	+1,072.6
1933	+1,519.7	−851.9	+667.8
1934	+627.8	−912.0	−284.2
1935	+560.5	−449.5	+111.0
1936[2]	+851.4	−301.3	+550.1
1937	+1,054.6	−612.0	+442.6

[1] Statistisches Jahrbuch für das Deutsche Reich.
[2] From 1936 on, Turkey (previously under Asia) is included under Europe.

GERMANY'S TRADE WITH SOME COUNTRIES OF LATIN AMERICA[1]

(In million Reichsmarks)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938[a]
Argentina										
Imports	744.7	403.0	208.7	191.6	149.4	151.5	142.7	118.5	295.2	216.1
Exports	371.3	287.4	174.0	90.1	100.3	87.0	97.2	97.7	147.1	147.3
Balance	−373.4	−115.6	−34.7	−101.5	−49.1	−64.5	−45.5	−20.8	−148.1	−68.8
Bolivia										
Imports	8.6	8.1	7.6	2.5	1.6	3.1	6.3	7.4	11.0	8.3
Exports	12.1	9.3	3.8	2.1	2.8	2.9	2.4	4.2	5.6	9.4
Balance	+3.5	+1.2	−3.8	−0.4	+1.2	−0.2	−3.9	−3.2	−5.4	+1.1
Brazil										
Imports	214.9	155.9	123.1	81.4	68.7	77.2	178.9	131.4	186.2	214.3
Exports	210.2	120.7	66.7	48.4	76.5	74.5	118.6	133.4	177.0	161.4
Balance	−4.7	−35.2	−56.4	−33.0	+7.8	−2.7	−58.3	+2.0	−9.2	−53.1
Chile										
Imports	121.7	56.4	41.8	23.5	20.0	36.4	52.3	58.8	81.2	90.7
Exports	99.5	100.1	39.4	8.3	8.1	11.8	32.1	49.4	56.4	60.5
Balance	−22.2	+43.7	−2.4	−15.2	−11.9	−24.6	−20.2	−9.4	−24.8	−30.2

Colombia										
Imports	27.6	19.8	12.7	9.0	11.2	13.4	20.6	41.5	45.0	46.6
Exports	60.8	27.0	17.7	14.3	20.4	17.4	27.7	45.3	33.1	41.2
Balance	+33.2	+7.2	+5.0	+5.3	+9.2	+4.0	+7.1	+3.8	−11.9	−5.4
Mexico										
Imports	95.4	61.1	40.6	23.8	20.1	24.1	38.1	56.4	64.6	62.2
Exports	59.0	57.0	28.4	25.7	27.1	25.3	34.0	51.1	65.7	45.8
Balance	−36.1	−4.1	−12.2	+1.9	+7.0	+1.2	−4.1	−5.3	+1.1	−16.4
Peru										
Imports	14.9	24.1	20.3	10.4	17.6	19.4	35.6	34.0	49.0	38.7
Exports	25.6	18.8	7.2	5.7	6.0	7.8	17.6	29.0	33.2	30.9
Balance	+10.7	−5.3	−13.1	−4.7	−11.6	−11.6	−18.0	−5.0	−15.8	−7.8
Total Imports	1,227.8	728.4	459.8	342.2	288.6	325.1	472.5	448.0	732.2	677.0
Total Exports	838.5	620.3	337.2	194.6	241.2	226.7	329.6	410.1	518.1	496.4
Total Balance	−389.3	−108.1	−117.6	−147.6	−47.4	−98.4	−142.9	−37.9	−214.1	−180.6

[1] Statistisches Jahrbuch für das Deutsche Reich, and Wirtschaft und Statistik. [2] Old Reich.

GERMANY, AUSTRIA, AND UNITED KINGDOM IN THE TRADE OF SOUTHEASTERN EUROPE[1]

PERCENTAGE SHARES OF INDIVIDUAL COUNTRIES

(*I* = Imports, *E* = Exports)

	1929		1930		1931		1932		1933		1934		1935		1936		1937	
	I	*E*	*I*	*E*	*I*	*E*	*I*	*E*	*I*	*E*	*I*	*E*	*I*	*E*	*I*	*E*	*I*	*E*
Bulgaria																		
Germany	22.2	29.9	23.2	26.2	23.3	29.5	25.9	26.0	38.2	36.0	40.6	42.8	53.5	48.0	61.0	47.6	54.8	43.1
Austria	7.6	12.5	6.8	7.7	7.2	16.7	6.0	15.0	6.2	9.7	4.8	5.3	6.4	4.6	5.7	3.0	3.4	4.0
United Kingdom	8.9	1.6	8.2	2.1	13.2	1.0	10.3	2.5	6.9	1.8	6.4	2.1	4.7	4.4	4.6	11.6	4.7	13.8
Greece																		
Germany	9.4	23.2	10.4	23.3	12.2	14.0	9.6	14.5	10.2	17.9	14.7	22.5	18.7	29.7	22.4	36.4	27.2	31.0
Austria	1.1	2.5	1.2	2.8	1.5	5.6	2.2	4.2	1.3	1.8	1.8	2.1	2.0	1.4	2.1	2.3	2.5	1.7
United Kingdom	12.7	11.7	13.0	12.5	13.2	15.0	13.7	23.4	14.4	18.9	16.7	17.4	15.5	12.6	16.1	12.2	11.0	9.6
Hungary																		
Germany	20.0	11.7	21.3	10.3	24.4	12.7	22.4	14.8	19.7	11.2	18.2	22.1	22.6	23.9	26.0	22.8	26.2	24.1
Austria	13.2	30.4	11.5	28.1	12.4	29.8	15.9	31.1	20.0	27.0	23.7	24.5	19.1	18.9	16.6	17.2	18.0	16.9
United Kingdom	2.8	3.6	4.2	5.6	3.9	9.8	4.5	6.7	4.4	8.0	5.2	7.8	5.1	8.1	5.1	8.7	5.3	7.1
Jugoslavia																		
Germany	15.6	8.5	17.6	11.7	19.3	11.3	17.7	11.3	13.2	13.9	13.9	15.4	16.2	18.6	26.7	23.7	32.4	21.7
Austria	17.4	15.6	16.8	17.7	15.2	15.2	13.4	22.1	16.1	21.7	12.4	16.4	11.9	14.3	10.3	14.6	10.3	13.5
United Kingdom	5.6	1.3	5.9	1.5	6.6	2.0	7.4	2.1	9.7	2.7	9.3	4.7	10.1	5.3	8.5	9.9	7.8	7.4
Rumania																		
Germany	24.1	27.6	25.1	18.8	29.1	11.4	23.7	12.3	18.6	10.6	15.5	16.6	23.8	16.7	36.1	17.8	28.9	19.2
Austria	12.5	9.4	11.6	9.1	8.8	10.7	4.9	6.4	9.2	6.6	9.9	9.1	10.8	12.6	13.4	8.6	8.5	6.8
United Kingdom	7.3	6.3	8.1	11.3	8.3	10.1	10.8	14.0	14.9	15.4	16.3	10.0	9.8	9.6	7.4	14.4	9.4	8.8
Turkey																		
Germany	15.3	13.3	18.6	13.1	21.3	10.7	23.3	13.5	25.5	18.9	33.8	37.4	40.0	40.9	45.1	51.0	42.1	36.5
Austria	2.2	0.5	2.2	0.9	2.2	0.9	2.0	1.6	1.9	1.0	2.4	1.6	3.3	1.9	2.8	1.2	1.6	2.0
United Kingdom	12.2	9.6	11.2	8.9	11.4	8.6	12.3	9.9	13.5	8.9	9.9	5.8	9.8	5.4	6.6	5.4	6.2	7.1

[1] League of Nations, International Trade Statistics (Geneva, 1938).

GERMAN TRADE WITH INDUSTRIAL AND OTHER COUNTRIES[1]
(Percentages of total imports and exports)

	Imports from: Industrial[2] Countries	Imports from: Rest of the World	Exports to: Industrial[2] Countries	Exports to: Rest of the World
1928	40.9	59.1	46.2	53.8
1929	38.9	61.1	47.6	52.4
1930	38.4	61.6	48.6	51.4
1931	39.1	60.9	48.4	51.6
1932	36.1	63.9	45.9	54.1
1933	35.4	64.6	46.4	53.6
1934	33.0	67.0	46.4	53.6
1935	31.1	68.9	43.5	56.5
1936	29.9	70.1	38.4	61.6
1937	27.8	72.2	36.9	63.1

[1] Austria, Belgium, Czechoslovakia, France, Great Britain, Italy (with colonies), Japan, Luxemburg, U. S. A., Switzerland.
[2] V.z.K., Vol. 13, No. 3, N. S., p. 316.

BRITISH AND GERMAN IMPORTS AND EXPORTS[1]
(In millions of old gold dollars)

	1929	1930	1931	1932	1933	1934	1935	1936	1937
1. British Imports	5,047	4,658	3,585	2,276	2,073	2,048	2,039	2,313	2,787
2. British Exports	3,549	2,778	1,772	1,279	1,213	1,190	1,239	1,295	1,523
3. German Imports	3,203	2,476	1,602	1,112	996	1,046	991	1,005	1,299
4. German Exports	3,212	2,867	2,286	1,367	1,155	979	1,017	1,136	1,406
3 as per cent of 1	63.5	53.2	44.6	48.8	48.1	51.07	48.6	43.7	46.6
4 as per cent of 2	90.5	103.9	129.0	106.8	95.2	82.3	82.1	87.7	92.3

[1] League of Nations, Review of World Trade.

A DECADE OF GERMAN IMPORTS OF COTTON

Quantity and Value by Countries[1]

A. Quantity in metric tons

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Egypt	19,134	24,210	24,763	29,740	33,715	39,838	44,930	39,607	29,610	40,850
British India	48,233	57,300	55,920	37,552	23,521	38,378	37,599	32,182	38,840	36,560
U. S. A.	337,682	336,165	296,131	256,594	317,371	341,232	220,173	106,226	116,850	118,850
Turkey	......	.....	2,429	1,460	2,305	624	5,809	15,405	16,240	8,420
Brazil	754	726	3,888	2,524	237	....	8,299	82,778	38,120	70,090
Argentina	2,237	3,447	3,415	2,312	4,793	5,280	5,673	14,503	9,640	5,870
Peru	2,647	2,172	6,003	10,259	8,473	9,710	11,329	25,296	18,800	18,580
Mexico	899	2,344	72	.....	.....	.....	311	3,534	8,870	7,860
Total	462,983	476,802	433,128	379,809	424,724	473,333	399,455	397,439	325,030	349,650

B. Value in million Reichsmarks

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Egypt	47.97	58.50	46.00	37.63	31.88	36.58	39.19	39.53	32.7	43.1
British India	71.36	76.41	55.26	26.13	13.74	20.44	17.90	20.59	25.9	23.6
U. S. A.	619.03	618.54	427.62	235.78	219.72	233.14	146.09	71.13	77.8	78.4
Turkey	.....	.....	3.21	1.29	1.75	.47	4.91	15.49	14.7	8.3
Brazil	1.38	1.27	5.92	2.50	.10	.....	7.24	92.08	38.4	65.0
Argentina	4.56	6.81	5.21	2.17	3.23	3.97	4.17	13.71	8.7	5.7
Peru	5.19	5.03	9.43	11.03	6.87	7.70	9.14	25.89	20.2	20.8
Mexico	1.69	4.85	.10	.....	.....	.....	.21	3.92	8.0	7.1
Total	795.03	814.71	580.53	336.64	291.27	306.99	260.24	329.72	257.7	275.1

[1] Statistisches Jahrbuch für das Deutsche Reich.

A DECADE OF GERMAN IMPORTS OF COPPER

Quantity and Value by Countries[1]

A. Quantity in metric tons

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
U. S. A.	181,175	110,421	64,982	57,462	37,420	32,137	67,261	35,416	21,380	51,140
Chile	34,987	39,763	23,739	20,315	17,666	27,423	23,323	35,309	19,070	19,980
Spain	10,031	8,555	7,256	5,829	3,186	1,350	....	....	....	....
Yugoslavia	6,741	8,139	15,940	15,115	13,970	18,576	8,930	11,681	13,000	11,530
U. K.	8,448	13,309	4,553	4,610	8,260	14,608	10,881	19,123	26,300	34,260
Belgian Congo	2,689	4,359	8,744	21,917	18,235	22,630	24,876	25,037	27,810	29,610
British South Africa	938	1,280	1,264	907	25,730	36,079	45,755	....	....	....
Rhodesia	....	....	....	....	....	....	....	47,827	39,120	52,000
Total	296,375	262,071	211,216	192,104	175,161	207,141	228,623	216,031	195,120	262,510

B. Value in million Reichsmarks

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
U. S. A.	230.60	173.20	78.94	46.99	18.77	14.67	29.82	13.68	9.7	35.6
Chile	48.45	65.98	29.38	16.83	9.88	13.31	10.76	13.55	8.8	14.3
Spain	13.20	13.25	8.92	4.05	1.69	0.48	....	....	....	....
Yugoslavia	9.10	13.38	20.99	12.97	7.11	10.76	4.96	5.83	7.4	9.7
U. K.	8.78	17.12	4.44	2.73	3.07	5.58	3.87	6.77	10.4	19.9
Belgian Congo	3.70	7.41	10.24	18.67	9.20	11.07	10.40	8.73	13.2	20.1
British South Africa	1.25	2.12	1.42	0.72	11.64	15.41	17.35	....	....	....
Rhodesia	....	....	....	....	....	....	....	17.27	17.7	35.3
Total	376.36	403.92	250.76	156.69	95.64	102.25	96.77	80.70	87.70	174.6

[1] Statistisches Jahrbuch für das Deutsche Reich.

GERMAN IMPORTS, EXPORTS, TERMS, AND BALANCE OF TRADE
(In billion Reichsmarks)

	1929	1930	1931	1932	1933	1934	1935	1936	1937	1938
1. Imports, actual prices[1]	13.44	10.39	6.73	4.67	4.20	4.45	4.16	4.22	5.47	5.46[2]
2. Exports, actual prices[1]	13.48	12.03	9.60	5.74	4.87	4.17	4,27	4.77	5.91	5.26[2]
3. Balance of Trade, actual prices	+0.04	+1.64	+2.87	+1.07	+0.67	−0.28	+0.11	+0.55	+0.44	−0.20
4. Imports at prices of 1929	13.44	11.97	10.12	9.42	9.27	9.76	8.91	8.57	10.04	10.70
5. Exports at prices of 1929	13.48	12.77	11.63	8.01	7.52	6.72	8.23	7.98	9.23	7.75
6. Balance of Trade at prices of 1929	+0.04	+0.80	+1.51	−1.41	−1.74	−3.05	−1.68	−0.59	−0.81	−2.95
7. Import Price Index[3]	100	87.0	66.6	49.6	45.3	45.6	46.7	49.2	54.4	52.1
8. Export Price Index[3]	100	94.1	82.5	71.6	64.7	62.0	59.0	60.0	64.0	67.1
9. Terms of Trade[4]	100	108.2	123.8	144.4	142.8	135.9	126.6	122.0	117.6	128.8
10. Difference: Actual balance minus balance at prices 1929 (3–6)	0	0.84	1.36	2.48	2.41	2.77	1.79	1.14	1.25	2.75

[1] Statistisches Jahrbuch für das Deutsche Reich 1938, pp. 256–257. Figures for 1938 do not include Austria, but after October 1 do include Sudetenland.

[2] Wirtschaft und Statistik, Vol. 19, (March, 1939), p. 177.

[3] League of Nations, Review of World Trade 1938 (Geneva, 1939), pp. 75, 76.

[4] Computed after the formula: $$\frac{\frac{eP_1}{eP_2}}{\frac{iP_1}{iP_2}}$$

GERMANY'S SHARE OF WORLD TRADE[1]

(Values in million of old gold dollars)

	1 World Imports	2 World Exports	3 World Total	4 World Trade Index	5 German Imports	6 German Exports	7 5 as Per Cent of 1	8 6 as Per Cent of 2	9 German Imports Index	10 German Exports Index
1929.........	35,595	33,024	68,619	100	3,203.1	3,211.6	9.00	9.72	100	100
1930.........	29,093	26,492	55,585	81.0	2,367.0	2,867.0	8.20	10.82	77.3	89.2
1931.........	20,847	18,922	39,769	57.9	1,602.0	2,286.0	7.70	12.09	50.0	71.2
1932.........	13,968	12,887	26,855	39.1	1,112.0	1,367.0	7.96	10.60	34.7	42.3
1933.........	12,485	11,694	24,179	35.2	1,996.0	1,155.0	7.98	9.88	31.1	36.0
1934.........	11,983	11,305	23,286	34.0	1,045.5	991.0	8.72	8.76	32.6	30.8
1935.........	12,093	11,457	23,550	34.3	990.6	1,017.0	8.20	8.88	30.9	31.7
1936.........	13,145	12,577	25,722	37.5	1,004.7	1,137.0	7.64	9.03	31.4	35.4
1937.........	16,222	15,369	31,591	46.0	1,299.4	1,406.0	8.01	9.15	40.6	43.8

[1] League of Nations, Review of World Trade

German Foreign Trade under Payment Agreements in 1937 and 1938[1]
(Imports and exports in million Reichsmarks)[2]

Country	Date of Agreement	1937 Imports	1937 Exports	1937 Balance	1938 Imports	1938 Exports	1938 Balance
Belgium, Luxemburg	July 27, 1935	197.6	287.7	+ 90.1	194.4	227.4	+33.0
France...........	July 7, 1937	155.7	313.3	+157.6	143.7	216.7	+73.0
Great Britain.....	November 1, 1934	308.6	432.2	+123.4	282.7	350.9	+68.2
Ireland..........	January 28, 1935	9.7	14.1	+4.4	11.3	29.1	+17.8
Canada..........	October 22, 1936	48.7	33.4	−15.3	72.8	25.4	−47.4
Japan............	May 27, 1937	25.7	117.3	+91.6	25.0	93.0	+68.0
New Zealand.....	September 30, 1937	10.0	7.3	−2.7	8.7	8.0	−0.7
Syria, Liberia.....	January 30, 1937	1.0	5.6	+4.6	1.7	5.8	+4.1
Total under agreements entered before 1938		757.0	1,210.9	+453.7	740.3	956.3	+216.0
Percentage of total trade		14.1	20.9		13.5	18.2	
South Africa......	September 19, 1938				76.6	81.9	+5.3
Manchukuo......	September 14, 1938				76.9	27.2	−49.7
Total under agreements to end of 1938					893.8	1,065.4	
Percentage of total trade					16.3	20.2	

1 Wirtschaft und Statistik 1939, Vol. 19, No. 5, p. 177.
2 Without Austrian trade but including Sudetenland after October 1, 1938.

A DECADE OF GERMAN IMPORTS OF WOOL
Quantity and Value by Countries[1]
A. Quantity in metric tons

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Belgium	9,543	9,870	8,715	11,198	8,884	9,177	7,276	5,830	3,580	3,840
France	10,182	9,887	8,490	10,632	12,336	13,385	8,430	6,639	3,790	8,360
U. K.	15,104	14,073	10,073	9,725	10,670	13,771	10,434	29,169	6,860	5,960
U. S. S. R.	1,412	1,154	2,878	5,823	5,173	3,966	4,975	2,289	....	....
C. S. R.	3,185	3,566	2,606	2,642	1,635	1,773	3,152	780	....	....
British South Africa	30,058	30,601	27,079	24,256	29,747	25,253	20,576	33,516	19,820	22,880
Argentina	40,111	40,187	30,960	23,821	18,564	20,786	21,379	28,129	16,620	9,900
Australia	65,410	63,139	66,718	54,605	60,988	63,103	45,148	16,698	17,090	21,450
New Zealand	6,159	6,534	6,032	9,649	11,702	21,301	19,924	2,473	3,450	4,020
Uruguay	5,861	6,087	9,375	16,257	10,620	11,710	10,470	7,893	5,510	4,370
Chile	1,183	1,054	441	1,389	1,240	1,098	3,300	7,869	7,260	9,450
Peru	314	112	....	....	....	....	414	1,761	2,740	2,880
Brazil	1,443	1,891	2,659	2,511	1,075	1,726	1,679	5,250	6,940	3,820
Spain	792	471	387	....	....	....	344	983	1,090	5,510
Turkey	....	....	....	....	....	260	6,070	3,981	11,710	4,680
China	693	626	475	....	....	429	1,283	2,282	4,980	4,880
Total	207,581	204,632	186,816	181,678	180,050	197,852	180,143	156,284	125,410	128,170

[1] Statistisches Jahrbuch für das Deutsche Reich.

A DECADE OF GERMAN IMPORTS OF WOOL

Quantity and Value by Countries[1] — (*Continued*)

B. Value in million Reichsmarks

	1928	1929	1930	1931	1932	1933	1934	1935	1936	1937
Belgium......	49.54	56.16	36.83	33.74	22.05	23.33	23.89	17.90	12.7	15.3
France.......	55.25	49.74	33.40	31.22	28.08	32.03	21.46	17.53	12.1	30.2
U. K.........	65.68	60.80	31.62	22.16	19.69	22.50	21.84	47.25	17.5	16.3
U. S. S. R. ...	2.39	2.51	4.53	7.21	4.25	3.07	4.48	3.38	....	....
C. S. R.......	9.81	9.45	6.15	4.39	1.69	1.64	4.76	1.37	....	....
British South Africa......	112.14	109.61	61.52	38.34	30.62	26.55	34.79	39.25	28.6	41.5
Argentina.....	126.85	121.94	62.49	30.77	18.07	19.52	29.51	31.71	24.3	17.6
Australia.....	249.34	237.23	162.85	96.23	77.39	89.34	92.65	28.46	32.7	46.5
New Zealand .	16.75	21.03	13.52	16.30	12.01	22.53	32.82	3.10	4.9	8.4
Uruguay.....	21.20	21.38	18.82	22.28	11.17	12.90	17.83	10.72	9.7	10.1
Chile........	4.76	3.42	0.85	1.97	1.33	1.32	5.43	12.00	15.7	24.6
Peru.........	1.18	0.41	....	....	....	....	0.59	3.19	6.5	8.6
Brazil........	5.49	6.58	4.91	3.20	1.18	1.50	2.43	7.73	13.1	9.4
Spain........	2.80	1.50	0.84	....	....	....	0.74	1.74	2.2	9.2
Turkey	....	....	....	....	....	0.25	8.69	6.27	18.2	8.8
China........	1.92	1.76	1.34	....	....	0.53	1.56	2.92	9.5	9.9
Total......	764.17	739.45	459.50	321.82	236.38	266.19	322.63	248.06	229.4	285.2

[1] Statistisches Jahrbuch für das Deutsche Reich.

BLOCKED MARK QUOTATIONS
As Percentages of Gold Parity[1]

	Registered Marks	Travel Marks	Credit Marks	Security Marks
1934				
I	81.4		82.0	64.3
II	75.7		75.0	59.5
III	72.5		72.0	58.0
IV	66.4		56.0	47.0
V	65.7		49.8	44.5
VI	58.3		45.0	30.8
VII	63.8		49.0	38.5
VIII	58.5		39.5	34.3
IX	58.7		42.8	34.3
X	52.0		43.5	32.0
XI	53.5	61.7	43.6	33.5
XII	60.6	67.9	48.4	39.2
1935				
I	62.2	69.5	51.6	40.5
II	65.1	71.3	48.6	39.4
III	60.7	69.8	44.8	33.9
IV	57.7	68.1	40.0	32.4
V	53.8	62.9	33.4	28.7
VI	55.7	64.8	33.6	24.9
VII	57.5	64.8	34.3	26.3
VIII	57.4	66.8	32.3	24.6
IX	52.1	65.5	29.0	21.9
X	49.2	62.6	31.0	20.5
XI	51.1	59.0	33.2	21.8
XII	53.0	61.9	36.1	24.0
1936				
I	52.7	62.4	37.4	24.8
II	55.3	62.4	38.1	25.6
III	53.4	62.4	33.9	24.9
IV	53.3	61.0	30.2	26.3
V	53.5	62.4	30.1	24.3
VI	52.6	62.4	28.9	23.7
VII	53.6	62.7	28.1	24.5
VIII	54.1	64.5	25.6	24.6
IX	54.3	62.8	23.2	22.7
X	57.6	58.2	20.1	18.0
XI	51.7	57.0	21.2	17.4
XII	49.3	55.3	22.2	20.3

1. League of Nations, Statistical Yearbooks, 1935–1939 (Geneva, 1935–1939). The quotations on registered Marks are taken from the London market, others from Zurich. Quotations are monthly averages except for the first ten months of 1934, for which mid-month values are given.

BLOCKED MARK QUOTATIONS — (*Continued*)

	Registered Marks	Travel Marks	Credit Marks	Security Marks
1937				
I	46.0	51.9	25.4	22.9
II	47.9	53.3	24.6	23.5
III	48.5	59.7	25.8	25.2
IV	48.1	59.4	25.7	24.6
V	48.6	59.7	23.8	22.4
VI	51.5	62.2	22.5	22.1
VII	55.9	66.1	21.7	20.9
VIII	56.9	67.6	21.5	20.5
IX	54.9	65.4	21.0	20.9
X	51.6	63.5	19.2	19.1
XI	51.5	62.1	19.3	19.2
XII	53.0	63.1	18.1	18.0
1938				
I	53.3	62.5	15.0	14.5
II	51.2	62.1	13.3	11.4
III	49.6	60.6	17.9	12.6
IV	48.8	60.4	16.9	14.6
V	48.5	60.0	13.9	13.5
VI	46.7	58.3	12.1	11.6
VII	45.9	56.7	11.8	10.5
VIII	44.5	56.7	12.1	9.3
IX	37.8	55.0	10.9	8.8
X	42.5	54.2	12.3	11.6
XI	45.0	56.0	12.7	11.4
XII	44.1	58.9	12.3	11.4
			Commercial Marks	
1939				
I	41.2	58.3	10.4	
II	37.5	53.9	9.7	
III	40.5	55.9	10.8	
IV	36.9	54.7	10.1	