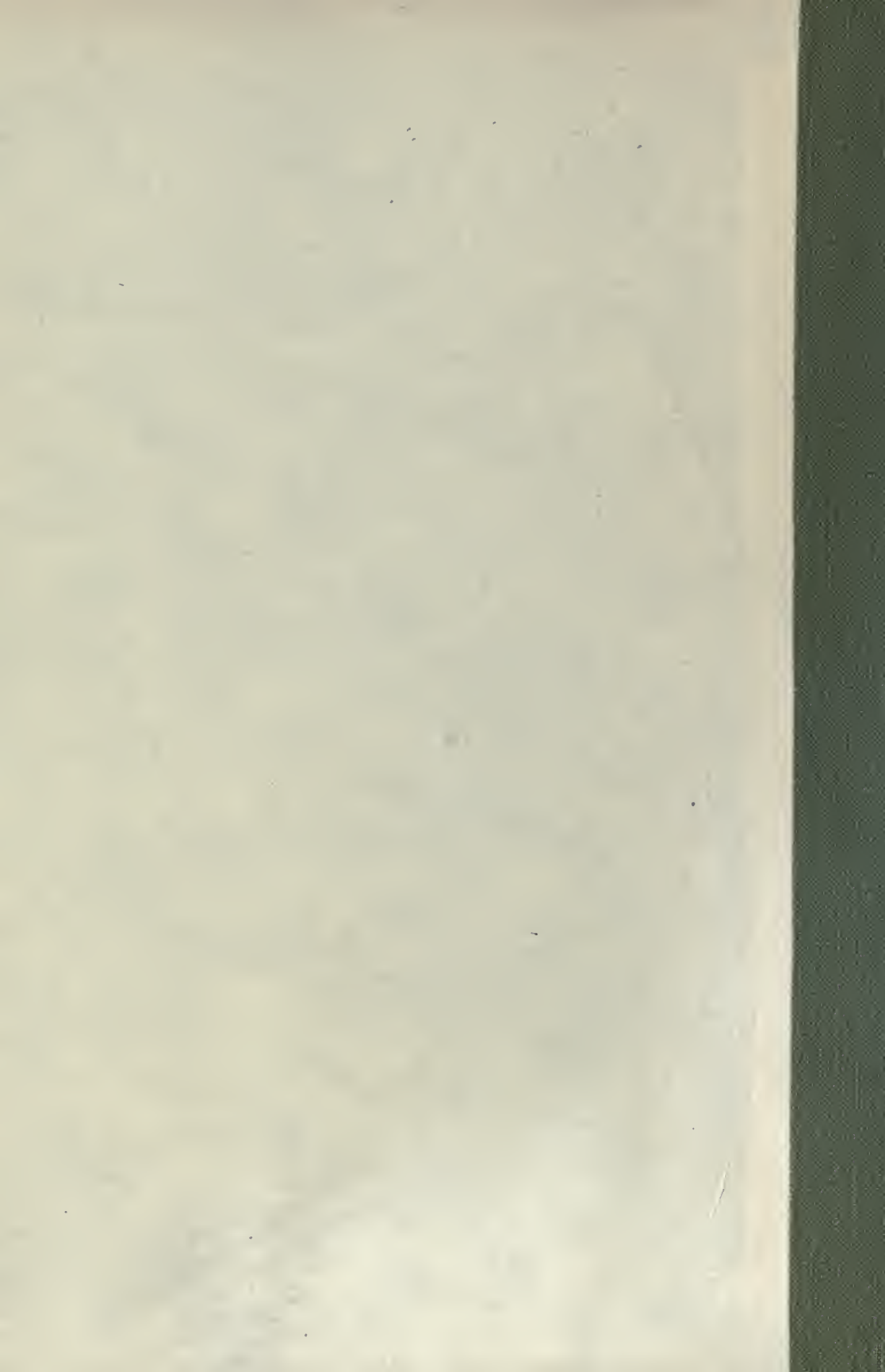


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LEAGUE OF NATIONS

BRUSSELS FINANCIAL CONFERENCE 1920

THE RECOMMENDATIONS

AND THEIR

APPLICATION

A Review after Two Years

VOLUME I

New and Enlarged Edition

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ECONOMIC AND FINANCE SECTION

December 1922

111

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Introduction.

BRUSSELS FINANCIAL CONFERENCE 1920. — SUMMARY OF RESULTS ACHIEVED.

I

The Second Assembly of the League of Nations, in September 1921, "in view of the continuing gravity of the exchange crisis and its dangerous effects upon the economic position and the conditions of labour of the working classes", requested the publication of information showing how far the States which took part in the Brussels Financial Conference in September 1920 had succeeded in putting its recommendations into practice.¹

Three publications issued by the League in the spring of 1922 on currency, public finance and central banks supply a large part of the information so requested²; and the *Monthly Bulletin of Statistics*³, giving as it does month by month the note circulation, metallic reserves, rates of discount, wholesale prices, etc. of the majority of countries publishing such information, acts as a sort of running commentary on these publications.

In addition, however, measures were taken to obtain special reports concerning all the States represented at the Conference. The first replies received were presented to the Assembly in September 1922 and have already been published. Since that date other replies have been received and are now published in two volumes.

Volume I contains a summary of results achieved and replies from :

Argentine.	Netherlands.
Australia.	New Zealand.
Austria.	Norway.
Belgium.	Spain.
Czechoslovakia.	Sweden.
Denmark.	Switzerland.
Finland.	Union of South Africa.
Hungary.	United Kingdom.
India.	United States of America.
Japan.	Uruguay.
Luxemburg.	

¹ For text of Brussels resolutions, see Annex I, page 221.

² "Memorandum on Currency, 1913-1921." 7/6

"Memorandum on Public Finance, 1921." 10/-

"Memorandum on Central Banks of Issue, 1913-1921." 3/6

For list of agents see page III of cover.

³ "Monthly Bulletin of Statistics". 1/6 net. Published about the 15th of each month.

For the special case of Austria, see:

"Provisional Economic and Financial Committee. Report and papers relative to the Financial Reconstitution of Austria". 5/-.

"The Restoration of Austria — Agreements arranged by the League of Nations and signed at Geneva on October 4th, 1922, with the relevant documents and public statements." 2/6

Volume II contains the Italian reply, which is of somewhat greater length than the others.

These replies are official in all cases with the exception of those from the Argentine and the United States of America, which have been prepared on behalf of the League of Nations by the representatives of those countries who were present at the Brussels Conference.

It has been thought desirable, however, to preface these statements by the present summary, giving, in an objective form, data from which it may be possible in some measure to judge the success which both those Governments which have and those which have not replied have met in their endeavours to restore the economic and financial stability of their countries.

The tables in this summary have been drawn up in such a manner as to constitute as far as possible a series of replies to the series of questions which the various resolutions of the Brussels Conference pose.

The Resolutions of the Public Finance Commission of the Brussels Conference laid the greatest possible stress upon the necessity of *balancing the budget and limiting fresh borrowing*:

II. PUBLIC FINANCE COMMISSION.

“The country which accepts the policy of budget deficits is treading the slippery path which leads to general ruin; to escape from that path no sacrifice is too great. It is, therefore, imperative that every Government should, as the first social and financial reform on which all others depend:

“(a) Restrict its ordinary recurrent expenditure, including the service of the debt, to such an amount as can be covered by its ordinary revenue;

“(c) Abandon all unproductive extraordinary expenditure;

“(d) Restrict even productive extraordinary expenditure to the lowest possible amount.

“If the above principles are accepted and applied, loans will not be required for recurrent ordinary expenditure; borrowing for that purpose must cease. In a number of countries, however, although the ordinary charges can be met from revenue, heavy extraordinary expenditure must at the present time be undertaken on capital account. This applies more especially in the case of those countries devastated during the war, whose reconstruction charges cannot possibly be met from ordinary receipts. The restoration of the devastated areas is of capital importance for the re-establishment of normal economic conditions, and loans for this purpose are not only unavoidable but justifiable. But in view of the shortage of capital it will be difficult to secure the sums required even for this purpose, and only the most urgent schemes should be pressed forward immediately.”

These resolutions make a distinction between “ordinary recurrent”, “extraordinary unproductive” and “extraordinary productive” expenditure and also between “ordinary” and “extraordinary” revenue. It should be noted in this connection that there is a great diversity of practice in various countries concerning the principles according to which any given item of expenditure or revenue is allotted to the ordinary or extraordinary budget. In Sweden, for example, the distinction between the extraordinary and ordinary revenue is based on constitutional considerations of historical rather than financial import; other States include in extraordinary expenditure only outgoings for capital purposes (Germany); others include exceptional expenditure but not investments (Czechoslovakia, which has a special investment budget); while others, again, include both capital expenditure and other more or less non-recurrent expenditure. Some countries, as for instance, the United Kingdom, do not distinguish in any way between ordinary and extraordinary revenue and expenditure. In view of this diversity, it has not been possible to arrange comparative tables setting out the expenditure and revenue classified according to the above-mentioned categories. It has been deemed advisable to submit instead:

(a) A table (A) showing, for a number of countries, the total net revenue and expenditure, with the resulting surplus or deficit for the two financial years 1920-21 and 1921-22;

(b) A series of tables (B) showing the changes in the public debt of various countries, both as regards their domestic debt—funded and floating—and foreign debt;

(c) Notes on each separate country briefly summarising the information available on the points under discussion.

Table A
TOTAL NET REVENUE AND EXPENDITURE
(000,000's omitted)

Country (1)	Unit of Currency (2)	Net Revenue			Net Expenditure for financial year given in		Surplus (+) or deficit (-) for financial year given in		
		Financial Year* (3)	Amount (4)	Financial Year* (5)	Amount (6)	Col (3)	Col (5)	Col (3)	Col (5)
						(7)	(8)	(9)	(10)
BELGIUM	Franc	E. 1921	2,274.7 (a)	E. 1922	4,812.1 (a)	+	5,954.2 (f)	+	1,142.1
FRANCE	Franc	Cl. 1921	22,638.9 (b)	E. 1922	22,887.6 (b)	+	44,582.2	-	21,694.4
ITALY	Lira	E. 1921-22	14,630.5 (a)	E. 1922-23	14,323.5 (a)	+	18,142.2	-	4,716.4
LUXEMBURG	Franc	E. 1921	49.5	E. 1922	35.1	+	77.1	-	41.9
UNITED KINGDOM	£	Cl. 1920-21	1,376.5	Cl. 1921-22	1,068.5	+	999.3 (h)	+	251.8
SOUTH AFRICA	£	Cl. 1920-21	27.9	E. 1921-22	28.2	+	38.1	-	13.1
NETHERLANDS	Florin	Pr.R. 1921	692.8 (c)	E. 1922	607.1 (c)	+	992.3 (c)(f)	-	289.5
SWITZERLAND	Franc	Cl. 1921	199.1 (d)	E. 1922	211.3 (d)	+	307.7 (d)	-	117.6 (h)
SWEDEN	Krone	Cl. 1920	891.7	Cl. 1921	960.9	+	906.2	-	14.5
NORWAY	Krone	E. 1920-21	509.9	E. 1921-22	457.6	+	578.4	-	68.5
DENMARK	Krone	Cl. 1920-21	557.6	Cl. 1921-22	512.5	+	761.1	-	203.5
FINLAND	Markka	E. 1921	2,433.6 (e)	E. 1922	2,176.7 (e)	+	2,671.1	-	237.5
ESTHONIA	E. Mark	Cl. 1921	+	E. 1922	3,867.2	+	4,118.2	+	185.6
LATVIA	L. Rouble	Cl. 1920-21	1,384.6	E. 1921-22	5,461.2	+	2,461.2	-	1,076.4
LITHUANIA	Ost. Mark	+	+	E. 1921	672.6 (e)	+	6,077.5	-	445.2
POLAND	Marka p.	+	+	E. 1921	65,496.5	+	902.2 (e)	-	616.5
CZECHOSLOVAKIA	Koruna	E. 1921	8,383.4	E. 1922	11,726.1	+	144,919.3	-	229.0
ALBANIA	Gold Fr.	+	+	E. 1921	18.2	+	15,918.3	-	79,422.8
GREECE	Drachma	Cl. 1919-20	535.6	E. 1920-21	530.6	+	1,287.7	-	1.2
GERMANY	Mark	E. 1921-22	72,726.1	E. 1922-23	118,971.2	+	244,778.8 (b)	-	172,952.7
AUSTRIA	Krone	+	+	E. 1922	209,763.2 (e)	+	347,533.4 (e)(f)	+	137,770.4
HUNGARY	Korona	Pr.R. 1920-21	8,521.9	E. 1921-22	20,296.2	+	16,261.8 (b)	-	7,739.9
BULGARIA	Lev	Cl. 1920-21	2,005.5 (e)	E. 1921-22	2,590.6 (e)	+	4,178.3 (e)(f)	-	1,587.7
UNITED STATES	\$	Cl. 1921-22	4,109.1	E. 1922-23	3,429.9	+	3,372.6	+	736.5

* E = Estimates. Cl. = Closed accounts, Pr. R. = Provisional results,
+ Details not available.
(a) Including receipts under the terms of the Peace Treaties.
(b) Excluding " " " " " "
(c) Not including the Loan Fund.
(d) Administration account only; there are, besides, many independent accounts (see note (f)).
(e) Gross budget.
(f) Including amortisation of public debt.
(g) Including reparations payments. The estimates were made in February 1922.

(h) The expenditure as shown in the table does not include the temporary advances (about \$14.5 million) under the Unemployment Insurance Acts on the issues to meet capital expenditure under the Telegraph Acts, the Post Office (London) Railway Act and the Housing Act, 1914 (£8 million).
(i) Administration Account only. If all accounts were included (except the mobilisation account and the Federal Railways) the deficit for 1921 would be \$60.8 million Fr., and for 1922, \$29.4 million Fr.
(j) As the expenditure as shown in the table includes provision for amortisation (about 22 million marka for 1922), there is actually a surplus available for redemption.
(k) Supplementary estimates, increasing the deficit, have been voted.

Attention is drawn to the fact that Table A contains *net* figures, *i.e.*, (a) as regards Public Undertakings (postal, telegraph and telephone services, railways, etc.), only the differences between gross receipts and working expenses have been taken into account; (b) proceeds of loans have been excluded from the revenue; (c) sums allocated to amortisation have been excluded from the expenditure¹. Owing to this recalculation, the figures in the table in many cases differ from those in the separate statements for the several countries. It should be noted especially that, owing to the exclusion of proceeds of loan operations from the revenue side of the table, and of funds for amortisation from the expenditure side, the deficit or surplus figures here given do not in all cases agree with those in the following chapters. The method indicated has been adopted in order to arrive at grand totals of net revenue and expenditure and thus to ascertain the deficit to be met by fresh borrowing or the surplus available for amortisation. It should, however, be observed that even then the connection between the development of the public debt and the budgets is not fully shown. Disturbing factors, such as borrowing for needs outside the budget, amortisation at, above or below par, conversion increasing the nominal amount of the debt, and repayment from other sources than revenue funds, often obscure the results. Nevertheless, the significance of the budget figures may be appreciated by comparing them with the changes in the public debt.

With regard to the tables of the public debt (Table B) it should be noted that the distinction between funded (consolidated) and unfunded (non-consolidated or floating) debt is not drawn in the same way in all countries. Some countries regard as floating debt only typical short-term obligations, Treasury bills, bank advances and State notes issued, which are either due on demand or mature within, say, a year. In that case, Treasury bonds of 2 or 3 years' currency are shown as longterm debt (France, United Kingdom). Other countries include in the funded debt only real State loans and permanent debt, while obligations maturing after 3, 4 or 5 years are regarded as unfunded debt (Switzerland, U.S.A.). These differences, although they render the floating debt figures for the various countries incomparable *inter se*, do not render inaccurate the changes in the debt from one year to another for a given country.

It is also important to draw attention to the varying methods of calculating foreign debt. The general rule is to regard as foreign debt all loans issued in foreign countries and advances from foreign Governments. No consideration is given either to the repurchase of bonds by residents in the home country or to the export of bonds originally issued in the home market. Such transactions may lead to great changes in the situation. It is a well-known fact that a number of European bonds passed into non-European hands during the war and that some of the neutral States repurchased and are continuing to repurchase a considerable portion of their foreign obligations. Few countries, however, are in a position to furnish information regarding such movements.

There is another important point to be considered with regard to foreign debt. This debt is generally repayable in foreign currencies. Most countries adopt a par rate of exchange for conversion into domestic currency; others make use of the current rate of exchange, while others calculate the foreign debt according to the rate prevailing when the borrowed funds were drawn upon. As far as sufficient data have been available, the foreign debt in the tables has been converted at par rate of exchange, while a calculation of the same debt at current rates of exchange has been given in the footnotes to the tables.

¹ For more detailed explanation of the method of recalculation, see "Memorandum on Public Finance, 1921," pages iv and v.

Table B.

CHANGES IN THE PUBLIC DEBT OF VARIOUS COUNTRIES:
DOMESTIC DEBT—FUNDED AND FLOATING—AND FOREIGN DEBT.

Table B.

BELGIUM

Francs (000,000's omitted)

Date	Period	Domestic Debt (a)						Foreign Debt (b)		Total Debt	
		Funded		Floating		Total		Amount (c)	Movem ^t (+ or —)	Amount	Movem ^t (+ or —)
		Amount	Movem ^t (+ or —)	Amount	Movem ^t (+ or —)	Amount	Movem ^t (+ or —)				
End of 1918		3,838.1	—	5,792.5	—	9,630.6	—	319.9	—	9,950.5	—
Dec. 31, 1920	24 months	8,554.5	+4,716.4	14,224.5	+8,432.-	22,779.-	+13,148.4	2,457.9	+2,138.-	25,236.9	+15,286
Dec. 31, 1921	12 »	10,970.-	+2,415.5	16,770.-	+2,545.5	27,740.-	+4,961.-	2,879.7	+421.8	30,619.7	+5,382

- (a) The Domestic Debt includes (1) the so-called "inter-provincial" debt (which consists of the charges imposed on Belgium during the German occupation (2) bonds representing compensation for war damage, (3) capitalisation of annuities still to be paid to the "Crédit communal" for damages the municipalities and (4) debt incurred on account of the withdrawal of marks (about 7,500 million francs).
- (b) Advances granted by the Allies during the war are, according to Article 232 (3) of the Treaty of Versailles, to be paid by Germany and are, therefore not included in the Foreign Debt.
- (c) The Foreign Debt has been converted at par rate of exchange. At current rates of exchange the amounts would be:

	Francs (000,000's omitted).	
	Foreign Debt	Total Debt
December 31, 1920	6,498.8	29,277.8
December 31, 1921	6,494.4	34,234.4

FRANCE

Francs (000,000's omitted)

Date	Period	Domestic Debt (a)						Foreign Debt (d)		Total Debt	
		Funded (b)		Floating (c)		Total		Amount	Movement (+ or —)	Amount	Movement (+ or —)
		Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)				
Jan. 1, 1919	—	67,779	—	56,015	—	123,794	—	29,320	—	153,114	—
Jan. 1, 1920	12 months	98,636	+30,857	79,236	+23,221	177,872	+54,078	33,600	+4,280	211,472	+58,358
May 31, 1921	17 »	136,971	+37,435	86,132	+6,896	222,203	+44,331	35,535	+1,935	257,738	+46,266
March 31, 1922	10 »	155,058	+18,987	87,050	+918	242,108	+19,905	35,724	+189	277,832	+20,094

- (a) The Domestic Debt includes the loans issued by the Crédit National for purposes of reconstruction.
- (b) The Funded Debt includes the capital value of annuities issued to war victims in the devastated districts (*sinistrés*), to railway companies and to various other institutions. Two-year Treasury bonds are also included in the Funded Debt.
- (c) Details of the two main items of the Floating Debt are as follows:

	Francs (000,000's omitted).			
	Jan. 1st, 1919	Jan. 1st, 1920	May 31st, 1921	March 31st, 1922
<i>Bons de la Défense nationale</i>	35,385	46,140	51,812	60,839
Advances by the Bank of France	18,000	25,600	26,200	21,500
	<u>53,385</u>	<u>71,740</u>	<u>78,012</u>	<u>82,339</u>

- By an agreement daten April, 1921, the State has undertaken to repay to the Bank of France not less than 2 milliard francs annually from January 1st, 1921.
- (d) Foreign Debt has been converted at par rate of exchange. If it were converted at the rates current on the dates to which the respective statements of the debt would amount to:

Date	Milliards of francs		
	Domestic Debt	Foreign Debt	Total Debt
January 1st, 1919	123.8	27.3	151.1
January 1st, 1920	177.9	62.4	240.3
May 31st, 1921	222.2	75.2	297.4
March 31st, 1922	242.1	74.9	317.-

The Foreign Debt, as stated in the table above, does not include interest accrued and remaining unpaid.

BELGIUM. — The estimated budget deficits for the years 1919 to 1922 have been as follows:

	Fr.
1919	6,105,687,000
1920	7,071,531,000
1921	4,005,451,000
1922	1,142,151,000 (estimate of Feb. 1922).

For the three years 1919, 1920 and 1921, the deficits together amount to 17,182.7 million francs. During the same period the public debt increased by 20,669.2 million francs, foreign debt being calculated at par rate of exchange, and by at least two million francs more if account were taken of the exchange rates at the time when the borrowed funds were drawn upon. The difference between the aggregate deficit and the increase in the public debt is mainly accounted for by the inclusion in the debt of the liabilities incurred in connection with the withdrawal of German marks.

The reduction in the estimated deficit for the year 1922 results mainly from the higher estimate of the amount to be paid by Germany as reparation proper. The deficit for 1922 would actually have amounted to about 3½ milliard francs if the reparation receipts had been estimated at the same amount as last year — namely 600 millions — instead of at 3 milliard francs.

When submitting the budget in February 1922, the Finance Minister announced that the following economies had been effected in the budget for 1922 compared with that of the preceding year: The administrative expenditure had been reduced by from 20 to 30 million francs, the extraordinary expenditure had been reduced by 90 million francs, and the reparation charges by 175 million francs.

Parliament slightly reduced the saving in administrative expenditure, but a further saving of some 30 million francs was effected in the extraordinary expenditure.

FRANCE. — The French financial system adopted since the Armistice differentiates between: (a) the General Budget, (b) the Special Budget of Recoverable Expenditure (reparation and pension charges and the cost of the army of occupation), and (c) Special Accounts of the Treasury.

The General Budget has shown the following figures:

	Francs (000,000's omitted)		
	Expenditure (excluding amortisation)	Revenue (excluding proceeds of loans)	Deficit
1919	33,905	11,586	22,319
1920	29,136	19,821	9,315
1921	27,086	21,217	5,869
1922	23,636	23,381	255

The Budgets of Recoverable Expenditure (shown below) are balanced by proceeds from credit operations, except for the portion covered by funds received from the Reparation Commission. The net debit balances of the Special Accounts of the Treasury are also shown below:

	Francs (000,000's omitted)	
	Total Expenditure in the Budget of Recoverable Expenditure	Debit Balances of the Special Accounts of the Treasury
1919	15,481	3,387
1920	22,279	5,092
1921	21,423	2,714
1922	23,084	500

The Special Treasury Accounts are in process of liquidation.

The General Budget estimates for 1923 submitted by the Finance Minister give the following comparison between the expenditure and revenue in 1922 and 1923:

	Francs (000,000's omitted)	
	1922	1923
Ordinary expenditure ¹	23,334	21,903
Extraordinary expenditure	1,354	1,277
	<u>24,688</u>	<u>23,180</u>
Normal revenue	19,831	18,060
Exceptional revenue	3,550	1,225
Proceeds of loans	1,320	3,900
	<u>24,701</u>	<u>23,185</u>

The Chamber of Deputies, when submitting the budget to the Senate in December, 1922, estimated that loans would be required to the amount of 3,700 million francs instead of 3,900 millions as in the Government proposal.

¹ Including amortisation.

Table B (continued).

ITALY

Lire (000,000's omitted)

Date	Period	Domestic Debt						Foreign Debt (c)		Total Debt	
		Funded (a)		Floating (b)		Total		Amount	Movem ^t (+ or —)	Amount	Move (+ or —)
		Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)				
Dec. 31, 1919	—	*	—	*	—	63,928.-	—	20,202.-	—	84,130.-	—
June 30, 1920	6 months	52,302.6	—	21,361.-	—	73,663.6	+ 9,735.6	20,265.-	+ 63.-	93,928.6	+ 9.7
June 30, 1921	12 »	54,972.-	+ 2,669.4	30,597.-	+ 9,236.-	85,569.-	+ 11,905.4	20,857.9	+ 592.9	106,426.9	+ 12.4
Jan. 1, 1922	6 »	55,062.-	+ 90.-	35,718.4	+ 5,121.4	90,780.4	+ 5,211.4	21,245.3	+ 387.4	112,025.7	+ 5.5

* Details not available.

(a) The Funded Debt in the table above includes Treasury bonds current for 7, 5 and 3 years.

(b) The Floating Debt includes Treasury bonds current for one year or less, State notes in circulation, bank-notes issued on Treasury account and the debt of the Deposit and Loan Bank.

(c) The Foreign Debt is calculated at par rate of exchange.

UNITED KINGDOM

£'s (000,000's omitted)

Date	Domestic Debt						Foreign Debt (d)		Total Debt		
	Funded (a)		Floating (b)		Other Capital Liabilities (c)	Total Dom. Debt		Amount	Movem ^t (+ or —)	Amount	Movem (+ or —)
	Amount	Movement ^t (+ or —)	Amount	Movement ^t (+ or —)		Amount	Movement ^t (+ or —)				
March 31, 1919	4,750.8	—	1,319.3	—	46.1	6,116.2	—	1,364.9	—	7,481.1	—
March 31, 1920	5,286.5	+ 535.7	1,263.5	— 55.8	46.9	6,596.9	+ 480.7	1,278.7	— 86.2	7,875.6	+ 394.5
March 31, 1921	5,169.5	— 117.-	1,243.2	— 20.4	48.7	6,461.4	— 135.5	1,161.6	— 117.1	7,623.-	— 252.6
March 31, 1922	5,543.2	+ 373.7 (e)	1,020.9	— 222.3	66.2	6,630.3	+ 168.9	1,090.2	— 71.4	7,720.5	+ 97.5 (f)

(a) Excluding Funding Loan and Victory Bonds tendered for death duties under 9 and 10 Geo. V, c. 37, and held by the National Debt Commissioners until withdrawn or paid off. The amounts of such bonds were £3.0 million, £44.1 million and £22.0 million on March 31st, 1920, 1921 and 1922 respectively. Compare the table on p. 198.

(b) The domestic Floating Debt comprises Ways and Means Advances and Treasury Bills except those issued as collateral for loans payable abroad. The latter are included in the Floating Debt as stated on p. 187, hence the difference between the figures.

(c) Other Capital Liabilities comprise loans taken up under special Acts, for investments, etc. See table on p. 199.

(d) Converted at par rate of exchange. The amounts in the table do not include liability for accrued interest remaining unpaid. On March 31st, 1922 liability on that account amounted to U.S.A. \$ 509.1 million.

(e) In April, 1921, National War Bonds to the amount of £164.1 million were converted into a 3½% Conversion Loan amounting, nominally, £266.1 million. The increase in the face value of the funded domestic debt is accounted for by this conversion and by the substitution of funded for Floating and of Internal for External debt.

(f) The increase is due to the conversion described in note (e); apart from that there would have been a slight decrease in the total debt.

ITALY. — The deficits in the budget since 1919 have amounted to:

	Lire (000,000's omitted)
1919/1920 (Closed accounts)	7,885.9
1920/1921 (Preliminary closed accounts)	10,712.5
1921/1922 (Budget estimates)	4,105.6
1922/1923 (Budget estimates)	2,761.7

It should, however, be observed that the revenue side contains various receipts from loan operations (to cover capital expenditure). This explains the main difference between the deficit for the financial year 1920/1921, which was 10,712.5 million lire, and the increase in the public debt, nearly 12,500 million lire. If the proceeds of loans were excluded from the revenue side of the budget, and funds appropriated for amortisation from the expenditure side, the deficit for 1921/1922 would amount to 4,716.4 million lire and for 1922/23 to 3,818.7 million lire.

Later estimates have, to a certain extent, given greater deficits than those quoted above. This is reflected in the increase in the public debt.

In the estimates for both 1921/1922 and 1922/1923, 1,000 million lire have been anticipated as payments on account of reparation.

The charges for reconstruction in war-damaged areas and new provinces were estimated at 1,320 million lire in the budget of 1921/1922 and at 1,520 million lire in the budget for 1922/1923.

UNITED KINGDOM. — The position of the public accounts since 1920 has been as follows:

£'s (000,000's omitted)

Year	Accounts	Revenue	Expenditure	Difference	Statutory Sinking Fund included in the expenditure	Total surplus (+) or deficit (—)
1920/1921	Closed Accounts	1,426.—	1,195.4	+ 230.6	21.3	+ 251.9
1921/1922	Closed Accounts	1,124.9	1,079.2	+ 45.7	23.5	+ 69.2
1922/1923	Estimates	910.7	910.1	+ .6	—	+ .6

In the budget of 1922/1923 the statutory payments to sinking fund have been suspended, and maturing debt is to be met by fresh borrowing. On the other hand, provision has been made in that year's budget for the payment of interest on the debt to the United States.

In addition to the budget accounts, certain capital expenditure is authorised by special Acts of Parliament and is met by creation of debt. This expenditure amounted to £10.1 million for the financial year 1922/1923.

The accounts for the first nine months of the financial year 1922/1923 (April 1st - December 31st, 1922) show the following figures for actual revenue and expenditure:

	Revenue	£'s (000,000's omitted) Expenditure	Difference
Budget	585.6	572.6	+ 13.—
Capital Expenditure, Loans	—	7.8	—

Attention must be drawn to the fact that, owing to the issue of Conversion Loans in 1921 and 1922 in the form of funding operations, the nominal amount of the debt has been increased, while savings in interest have been effected. No debt has, in fact, been incurred since 1920 by reason of borrowing to meet fresh expenditure.

Table B (continued).

AUSTRALIA

£'s (000,000's omitted)

Date	Commonwealth						States		Commonwealth and States			
	Domestic Debt		Foreign Debt (a)		Value of Property transferred (b)	Total Debt of the Commonwealth		Total Debt (c)		Deduction for Debt counted twice (d)	Total Debt of Commonwealth and States	
	Amount	Movement (+ or -)	Amount	Movement (+ or -)		Amount	Movement (+ or -)	Amount	Movement (+ or -)		Amount	Movement (+ or -)
June 30, 1919	208.5	—	106.1	—	11.2	325.8	—	396.4	—	28.—	694.2	—
June 30, 1920	258.2	+49.7	111.7	+ 5.6	11.4	381.3	+55.5	417.3	+20.9	28.2	770.4	+76.2
June 30, 1921	*	—	*	—	11.5	401.7	+20.4	474.8	+57.5	48.6	827.9	+57.5
June 30, 1922	*	—	*	—	11.2	416.1	+14.4	*	—	*	*	—

* Details not available.

(a) The Foreign Debt, which is all payable in London, includes indebtedness to the Government of the United Kingdom for moneys lent, payment made, services rendered and goods supplied during the war; this debt amounted to £91.5 million on June 30, 1922.

(b) The Commonwealth, at its establishment, took over the Customs House, Post Office, etc. Later on, it was mutually agreed that the Commonwealth should be held liable to the States for the value of the property thus transferred.

(c) The debt of the States consisted of:

	£'s (000,000's omitted).		
	June 30, 1919	June 30, 1920	June 30, 1921
Debt floated in London	258.2	263.4	271.8
" " " Australia	138.2	153.9	202.9
	<u>396.4</u>	<u>417.3</u>	<u>474.7</u>

(d) During the war an agreement was concluded in accordance with which borrowing by the States was to be effected through the Commonwealth. This procedure has been followed even since the war.

CANADA

C. \$ (000,000's omitted)

Date	Domestic Debt						Foreign Debt (b)		Total Gross Debt		Deduct Assets (d)	Total Net Debt	
	Funded		Floating (a)		Total		Amount	Movement (+ or -)	Amount	Movement (+ or -)		Amount	Movement (+ or -)
	Amount	Movement (+ or -)	Amount	Movement (+ or -)	Amount	Movement (+ or -)					Amount		
March 31, 1919	1,475.9	—	545.7	—	2,021.6	—	438.6	—	2,460.2(c)	—	647.6(c)	1,812.6(c)	—
March 31, 1920	2,066.9	+591.—	502.7	-43.—	2,569.6	+548.—	471.9	+33.3	3,041.5	+581.3	792.7	2,248.9	+436
March 31, 1921	1,989.8	-77.1	440.8	-61.9	2,430.6	-139.—	471.9	—	2,902.5	-139.—	561.6	2,340.9	+ 92

(a) The Floating Debt includes, in addition to temporary loans and Savings Bank balances, outstanding Dominion and provincial notes, trust funds and various other items.

(b) The Foreign Debt consisted of:

	C. \$ (000,000's omitted).		
	March 31, 1919	March 31, 1920	March 31, 1921
Loans payable in London	362.7	336.—	336.—
Loans payable in New York	75.9	135.9	135.9
	<u>438.6</u>	<u>471.9</u>	<u>471.9</u>

(c) These figures are quoted from the *Canada Year Book 1920*, published September 15, 1921. In the *Public Accounts for the fiscal year ended March 31, 1920*, published at Ottawa in 1920, the following figures are given:

	Total Gross Debt	Total Assets	Net Debt
March 31, 1919	2,676.6	1,102.1	1,574.5

For the year ended March 31, 1920, the figures as published in the *Year Book* and in the *Public Accounts* are in agreement.

(d) The assets deducted from the Gross Debt consist of cash in hand and in banks, special reserve, advances to banks, provinces etc., security advances to imperial and foreign Governments, advances to Soldiers' Settlement Board, sinking funds and miscellaneous current accounts.

AUSTRALIA. — According to the Australian budget system, revenue and expenditure are accounted for on the Consolidated Revenue Fund and the Loan Fund, the latter of which is divided into the War Services Account and the Works Account. The Consolidated Revenue Fund has shown the following figures:

£'s (000,000's omitted)

Year	Accounts	Revenue	Expenditure			Difference between (c) and (f)
			Total	Amortisation	Total less amortisation (d) — (e)	
(a)	(b)	(c)	(d)	(e)	(f)	(g)
1920/1921	Closed Accounts	65.5	64.6	3.2	61.4	+ 4.1
1921/1922	Closed Accounts	64.9	65.1	3.—	62.1	+ 2.8
1922/1923	Estimates	59.6	62.3	2.4	59.9	— .3

The following expenditure has been charged to the Loan Fund:

£'s (000,000's omitted)

Year	Accounts	War Services Account	Public Works Account	Total
1920/1921	Closed Accounts	24.1	4.1	28.2
1921/1922	Closed Accounts	7.6	5.2	12.8
1922/1923	Estimates	10.3	6.9	17.2

The War Service expenditure charged to the Loan Fund consists mainly of advances to States for the purpose of settling returned soldiers on the land (£6 million in 1922/1923), and payment for house construction to the War Service Houses Account (£4 million in 1922/1923). Pension charges and interest on war debt are included in the expenditure from the Consolidated Revenue Fund.

The expenditure on the Public Works Account is all for capital purposes (construction etc.).

CANADA. — The position of the Public Accounts of Canada since 1919/1920 has been as follows:

EXPENDITURE. C. \$ (000,000's omitted)

Year	Accounts	Expenditure chargeable to Consolidated Fund	Expenditure chargeable to capital	Railway Subsidies	War and Demobilisation	Other Charges	Total Expenditure
1919/1920	Closed Accounts	303.8	69.3	.3	346.6	20.—	740.—
1920/1921	Closed Accounts	361.1	40.—	—	17.—	.5	418.6
1921/1922	Estimates	568.7	28.2	—	8.5	—	605.4
1922/1923	Estimates	440.8	17.8	—	8.4	—	467.—

REVENUE. C. \$ (000,000's omitted)

Year	Accounts	Consolidated Fund Receipts	Other Receipts	Total Revenue	Difference between Revenue and Expenditure
1919/1920	Closed Accounts	349.7	—	349.7	— 390.3
1920/1921	Closed Accounts	434.4	1.9	436.3	+ 17.7

It should be observed that there are several separate accounts which affect the financial position, as for instance, the Account of Advances to Provinces, Banks, etc., and the Account of Advances to Imperial and Foreign Governments. There were net receipts on these two accounts during the financial year 1920/1921 amounting to \$18.7 and \$23.8 million respectively.

Table B (continued).

BRITISH INDIA

Rupees (000,000's omitted)

Date	Domestic Debt						Foreign Debt (b)		Total Debt (c)	
	Permanent		Temporary (a)		Total		Amount	Movement (+ or —)	Amount	Movement (+ or —)
	Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)				
March 31, 1919	1,990.7	—	1,086.8	—	3,077.5	—	2,025.3	—	5,102.8	—
March 31, 1920	2,194.3	+203.6	1,104.2	+17.4	3,298.5	+221.-	1,926.3	-99.-	5,224.8	+122.-
March 31, 1921	2,477.5	+283.2	1,344.3	+240.1	3,821.8	+523.3	1,913.3	-13.-	5,735.1	+510.3

- (a) The Temporary Debt consists of Treasury bills (amounting to 1,049.3 million rupees on March 31, 1921) and issues of war bonds with a few years' currency (295.1 million rupees on March 31, 1921). Of the Treasury bills 612.6 million rupees were held in the Paper Currency Reserve against currency notes issued.
- (b) The Foreign Debt is repayable in £'s sterling, converted above according to the official ratio between the silver rupee and the £; i.e. £1 = 10 rupees.
- (c) In addition to the Permanent and Temporary Debt there are various obligations such as savings bank balances, departmental and judicial deposits. On March 31, 1920, these obligations amounted to 798.4 million rupees, making the total liabilities of India on that date 6,533.2 million rupees.

NEW ZEALAND

£'s (000,000's omitted)

	Domestic Debt						Foreign Debt (b)		Total Debt		
	Inscribed Stock		Debentures (a)		Total		Amount	Movement (+ or —)	Gross Debt (c) Amount	Net Debt (c) Amount	Movement of Net Debt (+ or —)
	Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)					
March 31, 1919	19.2	—	57.8	—	77.-	—	99.1	—	176.1	170.1	—
March 31, 1920	26.9	+7.7	75.2	+17.4	102.1	+25.1	99.1	—	201.2	193.9	+23.8
March 31, 1921	33.1	+6.2	74.1	-1.1	107.2	+5.1	99.1	—	206.3	197.6	+3.7
March 31, 1922	*	—	*	—	110.9	+3.7	108.2	+9.1	219.1	208.4	+11.2

* Details not available.

(a) Debentures consist of securities at 5 to 10 years' currency and are not, therefore, to be regarded as floating debt.

(b) On March 31st, 1921, the Foreign Debt consisted of:

	£ (000,000's omitted)	
Inscribed stock raised in London	68.2	
Debentures " " "	27.5	
" " " Australia	3.4	
	Total	99.1

(c) A compulsory sinking fund was constituted by Act of Parliament in 1910.

BRITISH INDIA. — The year 1921/1922 witnessed a new distribution of functions between the Central and Provincial Governments in India and a consequent change in the budget system. The budget figures for the year 1921/1922 cannot, therefore, be directly compared with the figures for the preceding years. In the budget estimates introduced in the Indian Legislative Assembly on March 1st, 1922, the revenue and expenditure from the closed accounts for the financial year 1920/1921 were recast in accordance with the new division of functions between the Central and Provincial Governments.

Rupees (000,000's omitted)

	1920/21	1921/22	1922/23
	Closed Accounts	Revised Estimates	Estimates
Ordinary Revenue	1,168.—	1,147.3	1,337.9
Ordinary Expenditure	1,490.8	1,435.1	1,429.5
Deficit	— 322.8	— 287.8	— 91.6

The capital expenditure to be met by borrowings has been:

Rupees (000,000's omitted).

Year	Account	Railway construction	Other outlay	Total
1920/1921	Closed Accounts	258.9	25.—	283.9
1921/1922	Revised Estimates	236.8	27.9	264.7
1922/1923	Estimates	300.—	70.8	370.8

NEW ZEALAND. — According to the budget system of New Zealand, revenue and expenditure are accounted for in one of the following:

- (a) The Consolidated Fund,
- (b) The Public Works Fund,
- (c) Separate accounts or funds especially created.

The Consolidated Fund Account records the ordinary revenue and expenditure. The Public Works Fund Account contains receipts from loans or transfers from the Consolidated Fund and expenditure on public works, immigration and special services legally chargeable to that account. Among the other accounts, particular mention should be made of the War Expenses Account and the Discharged Soldiers Settlement Account.

The Consolidated Fund:

£ (000,000's omitted)

Year	Accounts	Revenue	Expenditure including Sinking Fund	Difference	Public Works Fund Expenditure
1920/1921	Closed Accounts	34.3	28.1	+ 6.2	3.1
1921/1922	Closed Accounts	28.1	28.5	— .4	5.5
1922/1923	Estimates	26.3	28.1	— 1.8	5.1

On the War Expenses Account, the expenditure in 1920/1921 amounted to £3.2 million, and on the Discharged Soldiers Settlement Account to £8.1 million in the same year.

The total borrowings for the "Separate accounts and funds specially created" amounted to £17.1 million in 1920/1921.

Table B (continued).

UNION OF SOUTH AFRICA

£'s (000,000's omitted)

Date	Domestic Debt						Foreign Debt(a)		Total Gross Debt (b)		Deduct Sinking Fund	Total Net Debt	
	Funded		Floating		Total		Amount	Movement (+ or —)	Amount	Movement (+ or —)		Amount	Movement (+ or —)
	Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)							
March 31, 1919	35.2	—	6.1	—	41.3	—	125.1	—	166.4	—	9.2	157.2	—
March 31, 1920	42.5	+ 7.3	8.—	+ 1.9	50.5	+ 9.2	123.4	— 1.7	173.9	+ 7.5	9.9	164.—	+ 6.8
March 31, 1921	43.3	+ .8	12.2	+ 4.2	55.5	+ 5.0	123.1	— .3	178.6	+ 4.7	11.1	167.5	+ 3.2
March 31, 1922	*		*		*		*		*		*	180.2	+ 12.7

* Details not available.

(a) The Foreign Debt, which is all payable in London, includes advances from the Imperial Government amounting to £ 5 million on June 30, 1921. At the same date, Treasury bills to the value of £ 3 million were issued in London. The rest of the foreign debt consisted of funded loans.

(b) The responsibility for the whole of the Public Debt, even that of the provinces and municipalities, is vested in the Union Government.

THE NETHERLANDS

Florins (000,000's omitted)

Date	Domestic Debt (a)					
	Funded		Floating (b)		Total	
	Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)
January 1, 1919	1,850.6	—	686.8 (c)	—	2,537.4	—
January 1, 1920	2,189.2	+ 338.6	574.9	— 111.9	2,764.1	+ 226.7
January 1, 1921	2,569.1	+ 379.9	513.8	— 61.1	3,082.9	+ 318.8
January 1, 1922	2,502.1	— 67.0	834.4 (d)	+ 320.6	3,336.5	+ 253.6
January 1, 1923	2,745.2	+ 243.1	814.7 (e)	— 19.7	3,559.9	+ 223.4

(a) The first foreign loan was raised by the Netherlands in February, 1922, and amounted to 125 million florins.

(b) On December 27th, 1922, the Floating Debt consisted of:

Florins (000,000's omitted)	
Treasury bills	207.2
Treasury promissory notes	475.—
Advances from the Bank of the Netherlands	14.8
Balance on Postal Deposit Account	85.8
Silver bonds	31.9
Total	814.7

(c) January 25th, 1919.

(d) December 27th, 1921.

(e) December 27th, 1922.

UNION OF SOUTH AFRICA. — All revenue and expenditure, except those of the Railway and Harbour Administration, are accounted for on the Consolidated Revenue Fund, which is divided into Revenue Account and Loan Account. The position of the various accounts since 1920/1921 has been as follows:

£'s (000,000's omitted)

Year	Accounts	Revenue	Expenditure	Difference
REVENUE ACCOUNT.				
1920/1921	Closed Accounts	29.7	30.1	— .4
1921/1922	Estimates	29.3	30.2	— .9
1922/1923	Estimates	27.9	28.7	— .8
LOAN ACCOUNT.				
1921/1922	Estimates	— .7	11.5	— 10.8
1922/1923	Estimates	— .8	11.1	— 10.3
RAILWAYS AND HARBOURS.				
1920/1921	Closed Accounts	—	—	— .9
1921/1922	Estimates	25.9	26.7	— .8
1922/1923	Estimates	24.—	24.1	— .1

The expenditure shown in the Revenue Account includes amortisation, amounting to £.5 million for each of the financial years 1920/1921, 1921/1922 and 1922/1923. The expenditure in the Loan Account is almost exclusively for capital purposes. The deficit on the Railways and Harbours Account (which also includes the steamship service) is calculated after providing full interest on capital invested and contributions made to pension and betterment funds.

THE NETHERLANDS. — The prevailing budget system differentiates between (a) the General Budget and (b) the Loan Fund of 1914, which is charged with interest and amortisation of so-called "crisis loans", which constitute the greater part of the borrowings during the war. The General Budget has shown the following figures:

Fl. (000,000's omitted)

Year	Accounts	Revenue	Expenditure including amortisation	Deficit
1920	Prelim. Closed Accounts.	801.7	910.9	109.2
1921	" " "	692.8	992.3	299.5
1922	Estimates	607.1	887.2	280.1
1923	"	581.9	808.2	226.3

The sum set off for amortisation amounts to 19.5 million florins in the budget estimates for the financial year 1922.

The Loan Fund shows the following figures for 1921 and 1922 (budget estimates):

	Fl. (000,000's omitted)	
	1921	1922
Total revenue	106.—	(about) 100.—
Total expenditure	102.—	83.6

According to a later estimate, the surplus for 1922 will amount to 34-35 instead of about 15½ million florins. This surplus will be carried to the revenue side of the General Budget to diminish the deficit of that budget.

Table B (continued).

SWITZERLAND

Swiss francs (000,000's omitted)

Date	Federation										
	Domestic Debt						Foreign Debt (b)		Deduct Amortis. Fund	Total Debt	
	Funded		Floating (a)		Total		Amount	Movement (+ or -)		Amount	Movement (+ or -)
	Amount	Movement (+ or -)	Amount	Movement (+ or -)	Amount	Movement (+ or -)					
Dec. 31, 1918	1,078.3	—	428.7	—	1,507.—	—	—	26.1	1,480.9	—	
Dec. 31, 1919	1,215.1	+136.8	435.—	+ 6.3	1,650.1	+143.1	166.5	22.5	1,794.1	+ 313.2	
Dec. 31, 1920	1,296.9	+ 81.8	311.6	-123.4	1,608.5	- 41.6	309.—	18.2	1,899.3	+ 105.2	
Dec. 31, 1921	1,449.2	+152.3	372.6	+ 61.—	1,821.8	+213.3	309.—	14.2	2,116.6	+ 217.3	

(a) The floating debt includes 3- and 4-year Treasury bonds.

(b) The foreign debt consists of:

A loan from U.S.A. in August, 1919, amounting to \$ 25 million, converted at the rate of 5.50 frs = \$ 1 }
 " " July, 1920, " \$ 30 " " " " 5.70 " \$ 1 } (par : 5.182 frs = \$ 1).

Date	Federal Railways (c)						Federation and Federal Railways	
	Funded		Floating		Total		Total Debt	
	Amount	Movement (+ or -)	Amount	Movement (+ or -)	Amount	Movement (+ or -)	Amount	Movement (+ or -)
Dec. 31, 1918	1,637.4	—	175.7	—	1,813.1	—	3,294.—	—
Dec 31, 1919	1,742.4	+ 105.—	216.2	+ 40.5	1,958.6	+ 145.5	3,752.7	+ 458.7
Dec. 31, 1920	1,790.1	+ 47.7	352.1	+ 135.9	2,142.2	+ 183.6	4,041.5	+ 288.8
Dec. 31, 1921	2,009.—	+ 218.9	274.6	- 77.5	2,283.6	+ 141.4	4,400.2	+ 358.7

(c) The debt service of the Federal Railway Debt is charged to the independent budget of the Federal Railway Administration.

SWEDEN

Kronor (000,000's omitted)

Date	Domestic Debt (a)						Foreign Debt (a)(c)		Total Debt	
	Funded		Floating (b)		Total		Amount	Movement (+ or -)	Amount	Movement (+ or -)
	Amount	Movement (+ or -)	Amount	Movement (+ or -)	Amount	Movement (+ or -)				
Dec. 31, 1919	754.4	—	285.5	—	1,039.9	—	527.1	—	1,567.—	—
Dec. 31, 1920	862.9	+108.5	215.9	- 69.6	1,078.8	+38.9	417.7	-109.4	1,496.5	- 70.5
Dec. 31, 1921	1,093.4	+230.5	77.6	-138.3	1,171.—	+92.2	340.—	- 77.7	1,511.—	+ 14.5
Nov. 30, 1922	*	—	97.8	+ 20.2	*	—	*	—	1,555.7	+ 44.7

* Details not available.

(a) The foreign debt comprises bonds in the hands of residents in foreign countries, the amount outstanding being calculated by the National Debt Board. The decrease in the foreign debt is only due in part to repayment of the debt and mainly to repurchases of bonds by Swedish residents. It is understood that the figures representing foreign debt are too high rather than too low.

(b) The Floating Debt consists of Treasury bills, advances from banks and from various public institutions. On November 30th, 1922, there were no advances from the Central Bank or other banks.

(c) The Foreign Debt is calculated at par rate of exchange.

SWITZERLAND (the Federation only). — The Swiss Federal Revenue and Expenditure are not accounted for in one comprehensive budget but divided up into several different accounts: (1) Administration, (2) Extraordinary Expenditure, (3) Expenditure for Construction, (4) Expenditure from Funds, (5) Cost of Mobilisation and (6) Federal Railways.

The Administration Account and the Account of Extraordinary Expenditure show the following figures :

Frs. (000,000's omitted)

Year	Accounts	Administration Account			Extraordinary Expenditure Account	Total Deficit
		Revenue	Expenditure	Deficit		
1920	Closed Accounts	—	—	103.4	182.3	285.7
1921	Closed Accounts	—	—	104.1	146.7	250.8
1922	Estimates	422.2	521.6	99.4	130.—	229.4
1923	Estimates	425.7	509.6	83.9	100.—	183.9

The Extraordinary Expenditure is for social purposes, and is estimated at 100 million francs for 1923, of which 82.5 million francs is for unemployment relief (excluding charges on the Unemployment Fund).

The expenditure for construction amounts to 4 million francs and the charges on the Unemployment Fund to 11 million francs.

There is no longer any expenditure on the Cost of Mobilisation Account. The negative balance on that account (opened in 1915) amounted on October 31st, 1922, to about 800 million francs. The amount still outstanding of the Duty on War Profits, estimated at 5 million francs for 1923, and the yield of the New War Tax are not shown among the receipts on the Administration Account, but specially assigned to the redemption of the Mobilisation debt. If the amount of the taxes referred to — 25 million francs — were deducted from the estimated deficit for 1923 as shown in the table above, the net deficit for that year would amount to 158.9 million francs.

The Profit and Loss Account of the Federal Railways showed a deficit of 72.5 million francs for 1921 and of 30.3 million francs for 1922.

During 1920, capital expenditure on the railways amounted to about 120 million francs, the greater part of which was for electrification.

SWEDEN. — The position of the Public Accounts since 1920 has been as follows :

Kronor (000,000's omitted).

Year	Accounts	Revenue excluding proceeds of loans	Expenditure excluding amortisation	Deficit
1920	Closed Accounts	891.7	906.2	14.5
1921	Closed Accounts	960.9	1,146.—	185.1
1922	Estimates	838.3	937.9	99.6

While the sum of the deficits for 1920 and 1921 amounts to 199.6 million kr., the public debt decreased by 56 million kr. during the same period. The difference is explained by the fact that various war organisations for the supply of foodstuffs, fuel, etc., sold off their stocks and were accordingly in a position to restore, to a considerable extent, capital which they had previously required. The funds thus restored have not been accounted for as revenue in the annual budget, but were directly assigned to the repayment of debt. No debt has been incurred during the last three years for purposes other than that of meeting capital expenditure. It should also be observed that a part of the capital expenditure has been met by taxation.

Table B (continued).

NORWAY
Kroner (000,000's omitted)

Date	Domestic Debt						Foreign Debt (b)		Total Debt	
	Funded		Floating (a)		Total		Amount	Movement (+ or —)	Amount	Movement (+ or —)
	Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)				
June 30, 1919	256.-	—	420.2	—	676.2	—	331.8	—	1,008.-	—
June 30, 1920	395.1	+ 139.1	397.2	— 23.-	792.3	+ 116.1	337.3	+ 5.5	1,129.6	+ 121.6
June 30, 1921	445.8	+ 50.7	336.4	— 60.8	782.2	— 10.1	433.7	+ 96.4	1,215.9	+ 86.3
June 30, 1922	*		145.7	— 190.7	*		*		1,307.4	+ 91.5

* Details not available.

(a) On June 30, 1921, more than 95 % of the floating debt consisted of advances from private banks.

(b) The foreign debt is calculated at par rate of exchange except as regards one U.S.A. loan of \$20 million which has been converted at the rate of 5 Kr. = \$1 (par: 3.73 Kr. = \$1).

DENMARK
Kroner (000,000's omitted)

Date	Domestic Debt (a)		Foreign Debt (b)		Total Debt	
	Funded (a)		Amount	Movement (+ or —)	Amount	Movement (+ or —)
	Amount	Movement (+ or —)				
March 31, 1919	523.2	—	257.3	—	780.5	—
March 31, 1920	671.9	+ 148.7	254.4	— 2.9	926.3	+ 145.8
March 31, 1921	669.9	— 2.-	404.8	+ 150.4 (c)	1,074.7	+ 148.4
March 31, 1922	667.8	— 2.1	534.6	+ 129.8	1,202.4	+ 127.7

(a) All the domestic debt consists at present of long-term bonded loans. In 1919 and 1920 the Ministry of Finance overdraw on its current account with the Central Bank (the National Banken). These overdrafts, according to Danish practice, were not included in the statement of the national debt, and this practice has been followed in compiling the table above. The overdrafts amounted:

On March 31, 1919, to 84.2 million kr., and, on March 31, 1920, to 72.4 million kr.

On March 31, 1921, there were no longer any overdrafts of the kind.

(b) The foreign debt has been converted at par rate of exchange except as regards a U.S.A. loan of \$25 million, which has been converted at 6 kr. = \$1 (par: 3.73 kr. = \$1).

(c) With regard to the increase in the foreign debt, see p. xxxviii.

FINLAND
Markka (000,000's omitted)

Date	Domestic Debt						Foreign Debt (b)				Total Debt	
	Funded		Floating (a)		Total		Funded	Floating	Total		Amount	Movement (+ or —)
	Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)			Amount	Movement (+ or —)		
Dec. 31, 1919	*	—	*	—	*	—	*	*	*	—	1,836.-	—
Dec. 31, 1920	906.6	—	589.-	—	1,495.6	—	304.1	136.4	440.5	—	1,936.1	+ 100.1
Dec. 31, 1921	955.9	+ 49.3	286.3	— 302.7	1,242.2	— 253.4	535.5	156.1	691.6	+ 251.1	1,933.8	— 2.3
Oct. 31, 1922	956.-	+ .1	195.1	— 95.2	1,151.1	— 91.1	659.8	67.1	726.9	+ 35.3	1,878.-	— 55.8

* Details not available.

(a) The proceeds of the internal and external loans raised since December 31st, 1920, have been used mainly for the purpose of reducing the floating debt by repaying in full the advances from private banks and the greater part of the advances from the Bank of Finland.

(b) Foreign loans are quoted in domestic currency converted at the rates prevailing at the dates of raising the loans; those of earlier date than 1914 have accordingly been converted at par.

NORWAY. — The position of the Public Accounts for the financial years 1919/1920 and 1920/1921 has been as follows:

Kroner (000,000's omitted)

Year	Accounts	Expenditure			Revenue			Difference between (e) & (h)
		Total	Amortisation	Total less amortisation	Total	Loans	Total less Loans	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1919/1920	Closed Accounts	958.1	6.—	952.1	850.5	56.2	794.3	— 157.8
1920/1921	Closed Accounts	903.4	4.5	898.9	820.2	64.6	755.6	— 143.3

These figures, quoted from the "Annuaire Statistique de la Norvège", 1921, include all expenditure in the ordinary and the extraordinary budget and also votes distinct from the budget. The ordinary budget showed a surplus of 47.6 million kroner for the year 1919/1920, and a deficit of 75 million for the year 1920/1921. For the financial year 1921/1922 there was a deficit amounting to 53.2 million kroner in the ordinary budget, partly covered by surplus balances from previous years.

DENMARK. — The position of the Public Accounts has been as follows:

Kroner (000,000's omitted)

Year	Accounts	Revenue excluding proceeds of loans	Expenditure excluding amortisation	Difference
1919/1920	Closed Accounts	599.5	598.4	+ 1.1
1920/1921	Closed Accounts	504.2	756.2	— 252.—
1921/1922	Closed Accounts	443.—	630.7	— 187.7

The borrowings during the year 1919/1920, causing an increase of 145.8 million kroner in the public debt, were devoted to augmenting the Treasury balances. By the following year these balances were considerably decreased by heavy new expenditure, of which not less than 150 million kroner were in connection with the reversion of the new provinces in South Jutland.

Capital expenditure has amounted to 70.—, 205.2 and 135.4 million kroner for the financial years 1919/1920, 1920/1921 and 1921/1922 respectively.

FINLAND. — The position of the Public Accounts since 1920 has been as follows:

Markka (000,000's omitted)

Year	Accounts	Revenue excluding proceeds of loans	Expenditure			Difference between Revenue and Expenditure, to be covered by loans
			Ordinary	Extraordinary	Total	
1920	Closed Accounts	1,971.1	1,471.4	618.1	2,089.5	— 118.4
1921	Estimates	2,433.6	1,898.5	772.6	2,671.1	— 237.5
1922	Estimates	2,176.7	1,931.3	245.4	2,176.7	balance
1923	Estimates	2,680.5	2,248.2	436.3	2,680.5	"

The estimated expenditure for 1923 includes about 75 million markka for amortisation.

The loans raised in 1920, which amounted to 118.4 million markka, were used chiefly for extraordinary expenditure, viz., about 100 million markka as compensation to private individuals for losses incurred during the revolution and 4.5 million markka for purchase of an industrial concern.

The whole amount of loans in 1921, 237.5 million markka, was contained in the additional budget for that year and was used solely for writing off depreciated assets, especially Russian. No loans were used in 1921 for actual State expenditure.

Table B (continued).

CZECHOSLOVAKIA

Kč. (000,000's omitted)

Date	Domestic Debt						Foreign Debt (c)		Total Debt (d)	
	Funded		Floating (b)		Total		Amount	Move- ment (+ or —)	Amount	Movement (+ or —)
	Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)				
Dec. 31, 1920	3,388.9	—	10,431.8	—	13,820.7	—	8,863.1	—	22,683.8	—
Dec. 31, 1921	6,083.6	+2,694.7(a)	12,315.7	+1,883.9	18,399.3	+4,578.6	8,452.5	-410.6	26,851.8	+4,168.-

- (a) During 1921 Czechoslovakia took over the responsibility for Austrian War bonds to the amount of 1,100 million Kč. If this sum were deducted, the increase in the funded domestic debt would amount to 1,594.7 million Kč.
- (b) The greater part of the floating debt consists of notes and certificates issued in connection with exchange of Austro-Hungarian Bank notes (6,934.9 million Kč. on December 31st, 1921).
- (c) The foreign debt has been calculated at current rates of exchange. It should be noted that the Czechoslovak crown improved greatly during 1921.
- (d) The total debt as here shown does not cover the whole of the liabilities of the Czechoslovak State, as neither the liabilities under the Peace Treaty nor those of the Liberation Treaty are included. See pages 44 and 45.

GERMANY

Marks (000,000's omitted)

Date	Period	Domestic Debt					
		Funded		Floating (a)		Total (b)	
		Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)
March 31, 1919	—	92,396.4	—	63,696.-	—	156,092.4	—
March 31, 1920	12 months	91,084.-	-1,312.4	108,493.-	+44,797.-	199,577.-	+43,484.6
Sept. 30, 1921	18 months	73,495.2	-17,588.8	228,708.5	+120,215.5	302,203.7	+102,626.7
Sept. 30, 1922	12 months	*	—	528,370.4	+229,661.9	*	—
Dec. 31, 1922	3 months	—	—	1,495,900.-	+967,529.6	—	—

* Details not available.

(a) On September 30, 1922, the Floating Debt consisted of:

	Marks (000,000's omitted)
Treasury bills discounted	450,898.2
Other liabilities arising from bills issued.	45,745.5
Treasury bills as security	31,720.7
Total	<u>528,370.4</u>

(b) A small part of the total debt is due to foreign countries. On March 31, 1920, the amount thus due was 3,149 million marks.

CZECHOSLOVAKIA. — The expenditure of Czechoslovakia is accounted for in the General Budget divided into ordinary and extraordinary budgets, and (since 1921) an Investment Budget which records the expenditure on works of public utility.

The General Budgets have shown the following figures:

Kč (000,000's omitted).

Year	Revenue			Expenditure			Deficit
	Ordin.	Extraord.	Total	Ordin.	Extraord.	Total	
1919	2,614	1,096	3,710	2,610	6,005	8,615	4,905
1920	7,950	2,477	10,427	7,175	8,103	15,278	4,851
1921	15,923	1,376	17,299	10,672	7,354	18,026	727
1922	17,291	1,593	18,884	13,289	6,524	19,813	929

The expenditure in the Investment Budget has been estimated as follows:

1921	3,052.5 million Kč.
1922	3,263.4 " "

The liabilities incurred in taking over the responsibility for Austrian War Bonds are not shown in the budget accounts.

GERMANY. — The following budget estimates for the financial year 1922/1923 were approved by the Reichstag on June 9th, 1922:

Marks (000,000's omitted).

Receipts		Expenditure	
(a) Ordinary revenue	115,522	(a) Government administration	105,902
(b) Extraordinary revenue	3,449	(b) Public undertakings	19,921
(c) Loan operations	233,321	(c) Peace Treaty obligations	226,469
Total	<u>352,292</u>	Total	<u>352,292</u>

The following statement shows the actual receipts and expenditure for the first nine months of the financial year 1922/1923 (the period April to December):

Marks (000,000's omitted).

Receipts		Expenditure	
Revenue (taxes, customs, etc.)	344,914	General administration and Peace	
Forced loan	3,748	Treaty liabilities in mark currency	1,011,421
Floating debt operations	1,223,010	Peace Treaty liabilities in foreign	
		currencies	233,622
		Funded debt	3,881
		Interest on funded debt	2,055
		Interest on other debt	46,983
		Postal and railway deficit	273,738
Total	<u>1,571,672</u>	Total	<u>1,571,700</u>

Table B (concluded).

JAPAN

Yen (000,000's omitted)

Date	Domestic Debt (a)		Foreign Debt (b)		Total Debt	
	Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)
March 31, 1919	1,750.6	—	1,311.1	—	3,061.7	—
March 31, 1920	1,966.7	+ 216.1	1,311.1	—	3,277.8	+ 216.1
March 31, 1921	2,352.9	+ 386.2	1,424.4	+ 113.3	3,777.3	+ 499.5
March 31, 1922	2,718.1	+ 365.2	1,359.—	— 65.4	4,077.1	+ 299.8

(a) In addition to the consolidated debt as given in the table above, which includes special Treasury notes amounting to 533 million yen on March 31, 1922, there are various kinds of floating debt, Treasury bills, overdrafts on bank accounts, etc. Detailed information regarding the floating debt is only available for March 31, 1921:

	Yen
Advances from Central Bank	22,000,000
" " other banks	26,748,077
Other floating debt	888,040,568
	<u>936,788,645</u>

The State has also issued State notes of small denomination (less than one yen), which amounted to 213.6 million yen on March 31, 1921.

(b) The foreign debt consisted on March 31, 1921, of:

Loans in England	£124.2 million.
French francs	548.- million.

In the table above both English and French loans have been converted at par rate of exchange.

UNITED STATES OF AMERICA

\$ (000,000's omitted)

Date	Domestic Debt					
	Funded (a)		Floating (b)		Total	
	Amount	Movement (+ or —)	Amount	Movement (+ or —)	Amount	Movement (+ or —)
June 30, 1919	17,102.8	—	8,379.2	—	25,482.—	—
June 30, 1920	16,218.3	— 884.5	8,079.6	— 299.6	24,297.9	— 1,184.1
June 30, 1921	16,118.9	— 99.4	7,857.3	— 222.3	23,976.2	— 321.7
June 30, 1922	15,965.4	— 153.5	6,998.7	— 858.6	22,964.1	— 1,012.1

(a) The funded debt comprises the pre-war debt (about \$ 883 million) and the four Liberty Loans.

(b) The floating debt includes, in addition to notes (=bills) and certificates, matured debt on which interest has ceased and debt bearing no interest, payable on presentation, of which the largest item is United States notes (\$ 346.7 million less gold reserve -- \$ 153 million -- on June 30, 1922).

JAPAN. — The revenue and expenditure of Japan are accounted for in the so-called General Budget and a great number of separate accounts. The position of the General Budget accounts since 1919/1920 has been as follows:

Yen (000,000's omitted)

	1919/20 Closed Accounts	1920/21 Estimates	1921/22 Estimates
<i>Revenue.</i>			
Ordinary	1,063.1	1,012.6	1,238.5
Extraordinary:			
Surplus of preceding year transferred	462.1	214.—	214.1
Other receipts	283.4	169.7	132.1
Total Revenue	1,808.6	1,396.3	1,584.7
<i>Expenditure.</i>			
Ordinary	502.8	744.7	905.4
Extraordinary	669.5	651.6	678.8
Total Expenditure	1,172.3	1,396.3	1,584.2
Surplus	636.3	—	—

In order to cover the expenditure charged to the General Budget, no recourse has been had to loan operations. The fresh borrowings during the years in question have been needed to meet expenditure outside the General Budget, as, for instance, expenditure on the Capital Account of the Railways.

UNITED STATES OF AMERICA. — The position of the Budget Accounts since 1920 has been as follows:

\$ (000,000's omitted)

Year	Accounts	Revenue	Expenditure	Amortisation included in (d)	Expenditure less amortisa- tion	Difference between (c) and (f)
(a)	(b)	(c)	(d)	(e)	(f)	(g)
1920/1921	Closed accounts	5,624.9	5,538.2	422.3	5,115.9	+ 509.—
1921/1922	Closed accounts	4,109.1	3,795.3	422.7	3,372.6	+ 736.5
1922/1923	Estimates	3,429.9	3,703.8	330.1	3,373.7	+ 56.2
1923/1924	Estimates	3,361.8	3,180.8	345.1	2,835.7	+ 526.1

The figures in the table are taken from the budget transmitted to Congress on December 4th, 1922.

The President, in his message transmitting the budget to Congress, estimated that about two-thirds of the expenditure for the financial year 1923/1924 consisted of fixed charges not generally subject to Government control, such as pensions, payments to or on behalf of 'World War veterans', interest on the public debt, and the reduction of the public debt required by law to be made from the ordinary receipts of the Government (the last item shown in Col. (c) in the table above). The normal operating expenditure of the Government thus amounts only to about \$ 1,000 million.

The following table gives the public debt of a number of States other than those already reviewed.

Table C.

(000,000's omitted.)

Country	Unit of Currency	Date	Domestic Debt			Foreign Debt	Total Debt
			Funded	Floating	Total		
Bulgaria	Lev	Sept. 30, 1922	83.1	4,193.3	4,276.4	993.8 (a) (c)	5,270.2
Estonia	E. Mark	Dec. 31, 1921	38.—	2,664.2	2,702.2	6,039.5 (b)	8,741.7
Greece	Drachma	March 31, 1921	1,671.6	1,150.1	2,821.7	1,631.2 (a)	4,452.9
Hungary	Korona	Dec. 31, 1921	17,852.9	43,193.5	61,046.4	5,569.2 (b) (c)	66,615.6
Latvia	L. rouble	March 31, 1921	16.3	1,425.4	1,441.7	2,942.1 (b)	4,383.8
Lithuania	Ost. Mark	Jan. 1, 1922	—	—	69.—	1,340.7 (b)	1,409.7
Poland	Marka	Dec. 31, 1921	15,121.1	236,108.2	251,229.3	854,877.3 (b)	1,106,106.5
Roumania	Leu	March 31, 1922	4,684.3	12,993.3	17,677.6	4,628.8 (a)	22,306.4
Serb-Croat-Slov. Kingd.	Dinar	Dec. 31, 1921	980.6	4,950.—	5,930.6	3,474.4 (b)	9,405.—

There is no doubt that in most countries serious steps have been taken to diminish expenditure by reduction of staffs and economies in all directions and also that taxation has been increased and a more efficient organisation for tax collection developed.

The possibilities of reducing expenditure are, however, limited to a great extent by the existence of heavy fixed charges, such as debt service, which encumber the budgets. It is obvious, too, that there are great difficulties in collecting additional revenue in a period of acute depression in trade and industry.

The tables show that very few countries are able to avoid borrowing, although several of them have recourse to loans for capital purposes only. The United States and the United Kingdom alone show any considerable surplus for the reduction of public debt. In the cases of Finland, Sweden and Canada, the debt has been almost constant during the last three years and any funds raised by means of borrowing have been devoted exclusively to new construction. The increase in the public debt of Australia, New Zealand, South Africa and Japan is almost entirely due to capital expenditure only, and in the case of Czechoslovakia the loans raised during the last financial year have been floated mainly for the purpose of meeting expenditure in the investment budget. The current expenditure of Norway, Holland, Switzerland and India has not yet been balanced by ordinary revenue, but in all these countries the latest estimates show an improvement in the situation. As regards France, Belgium and Italy, the expenditure for reconstruction in areas devastated during the war has played an important rôle. About half of the total expenditure of France is charged to the budget of expenditure recoverable under the terms of the Peace Treaty. For the three last-named countries the question of raising loans is still of primary importance.

- (a) Calculated at par rate of exchange.
- (b) Calculated at current rate of exchange.
- (c) Excluding the reparation debt.

Austria, by the aid of credits granted under the Geneva agreement of October 1922, has been enabled to abstain from printing new paper money to meet the needs of the treasury. The expenditure is being gradually cut down by the dismissal of officials and by other means and the revenue shows signs of increasing.

In Germany the difference between actual expenditure and revenue has increased from month to month during 1922, and the floating debt, mainly consisting of treasury bills discounted by the Reichsbank, was more than four times greater at the end of the year than at the beginning.

III

With regard to specific reductions in expenditure, the Conference passed the following resolution:

“It is, therefore, imperative that every Government should, as the first social and financial reform on which all others depend:

“

“(b) Rigidly reduce all expenditure on armaments in so far as such reduction is compatible with the preservation of national security.”

Statistics regarding expenditure on armaments were submitted to the Third Assembly of the League of Nations by the Temporary Mixed Commission on Armaments, in the form of a memorandum entitled “Budget Expenditure on National Defence, 1913 and 1920-1922,” published in September 1922. The figures in the following table have been taken from that memorandum, revised, in a few instances, in accordance with recent information. The changes in defence expenditure have been expressed as an index number (1913 = 100) in order to admit of comparison with the changes in prices. The price index is that of wholesale prices, except in the case of Finland, which is that of the cost of living.

As was pointed out in the introduction to the memorandum of the Temporary Mixed Commission, important differences exist between the accounting systems of various countries with regard to the army and navy budgets, and, therefore, the figures for defence expenditure as presented in the memorandum do not admit of comparison as between one country and others¹. The Commission goes on to say that it has been its intention, in presenting this memorandum, “to furnish material indicating the development and tendency in each individual country. In view of the importance attached to this matter by both the First and the Second Assembly from the point of view of disarmament, as well as by the International Financial Conference of Brussels from the point of view of the financial situation of the world, a study of the variations to be observed in defence expenditure during the past three years as compared with pre-war figures would appear to present special interest.

After a detailed study of the material collected in the short time at its disposal, the Commission wishes to draw the attention of the Assembly to the following points:

(a) That, on the whole, the estimated defence expenditure for the financial year 1922 (or 1922-23) seems to show a reduction as compared with the actual expenditure incurred in the two previous financial years.

(b) That, in appreciating the significance of this reduction, however, due consideration must be given to the fact that, since the year 1920, in many of the countries concerned, there has been a falling-off in war charges owing to the operations connected with demobilisation and also to the fact that in many countries there has been a considerable decrease in prices.”

¹ For more detailed information, see the memorandum.

Table D.
DEFENCE EXPENDITURE

Country	1913 or 1913-14	1920 or 1920-21	1921 or 1921-22	1922 or 1922-23	
Australia	Amount (a) f's	7,261,000	6,599,000	5,358,000	(a) Including belated expenditure in connection with the war.
	Index of:				
	Defence expenditure . . .	180	164	133	
Wholesale prices (average)	100	224	164	165	(Apr. to Oct.)
Belgium	Amount (b) Francs	87,891,000	615,527,000	557,062,000	(b) Including charges for the army of occupation.
	Index of:				
	Defence expenditure . . .	100	700	634	
Wholesale prices (average)	100	(c)	366	363	(c) Not calculated.
Brazil	Amount Paper milreis (d)	140,540,000	189,170,000	(e)	(d) Gold milreis converted to paper milreis at average of exchange rates current in the respective years.
	Index of:				
	Defence expenditure . . .	100	124	135	(e) Not available.
British India	Amount (f) Rupees	318,990,000	715,471,000	677,214,000	(f) Gross appropriations including war charges.
	Index of:				
	Defence expenditure . . .	100	277	224	212
Wholesale prices (average)	100	196	182	181	(Apr. to Oct.)
Canada	Amount (g) \$	11,916,000	24,173,000	21,284,000	(g) Including demobilisation expenditure and also some expenditure for civil aviation.
	Index of:				
	Defence expenditure . . .	100	249	203	179
Wholesale prices (average)	100	233	174	165	(Apr. to Nov.)
Czechoslovakia	Amount Kč	—	3,246,796,000(h)	3,153,082,000	(h) Cost of mobilisation included.
	Index of:				
	Defence expenditure . . .	—	100	91	88
Denmark	Amount Kroner	29,645,000	65,878,000	68,114,000	
	Index of:				
	Defence expenditure . . .	100	222	230	230
Wholesale prices (average)	100	352	211	179	(Apr. to Dec.)
		(June 1920 to Mar. 1921)			

Table D (continued).

DEFENCE EXPENDITURE

Country		1913 or 1913-14	1920 or 1920-21	1921 or 1921-22	1922 or 1922-23	
Finland	Amount Markka	(14,184,000) (i)	359,734,000	367,809,800	366,719,900	(i) The greater part of this expenditure consisted of the Finnish contribution towards Russian military expenditure in lieu of personal service. (j) Including costs of the army of occupation.
	Index of: Defence expenditure. . . .	—	100	102	85	
	Cost of living (average) . . .	100	931	1,171	1,138 (Jan. to Nov.)	
France	Amount (l) Francs	1,807,000,000	7,336,000,000	6,817,000,000	5,236,000,000	(e) Not available.
	Index of: Defence expenditure. . . .	100	406	377	290	
	Wholesale prices (average)	100	510	345	324 (Jan. to Nov.)	
Italy	Amount Lire	927,985,000	(e)	3,180,115,000	2,686,981,000	(e) Not available.
	Index of: Defence expenditure. . . .	100	(e)	343	290	
	Wholesale prices (average)	100	—	538	581 (July to Dec.)	
Japan	Amount Yen	191,886,000	649,759,000	765,388,000	651,072,000	(k) Including all military and naval expenditure of the colonies.
	Index of: Defence expenditure. . . .	100	339	399	339	
	Wholesale prices (average)	100	231	202	196 (Apr. to Oct.)	
Netherlands	Amount (fl) Florins	111,833,000	277,114,000	276,467,000	286,034,000	(l) Excluding military and naval charges, insignificant in amount, in the budget of the Ministry of the Colonies.
	Index of: Defence expenditure. . . .	100	248	247	256	
	Wholesale prices (average)	100	281	181	160 (Jan. to Oct.)	
Norway	Amount Kroner	27,616,000	76,408,000	56,847,000	54,908,000	(l) Excluding military and naval charges, insignificant in amount, in the budget of the Ministry of the Colonies.
	Index of: Defence expenditure. . . .	100	277	206	199	
	Wholesale prices (average)	100	359	264	224 (July to Dec.)	
Portugal	Amount (l) Milreis	13,681,000	(e)	148,841,000	146,652,000	(l) Excluding military and naval charges, insignificant in amount, in the budget of the Ministry of the Colonies.
	Index of: Defence expenditure. . . .	100	(e)	1,088	1,072	
	Defence expenditure. . . .	100	(e)	1,088	1,072	

Table D (concluded).

DEFENCE EXPENDITURE.

Country		1913 OR 1913-14	1920 OR 1920-1921	1921 OR 1921-22	1922 OR 1922-23	
Roumania	Amount Lei	81,893,477	2,307,155,000	1,596,567,000	1,746,218,000	
	Index of:	100	2,817	1,950	2,132	
	Defence expenditure. . . .					
South Africa	Amount (m) £'s	1,280,000	1,902,710	1,417,000	1,222,000	
	Index of:	100	149	111	95	
	Defence expenditure. . . .	100	217	146	128	(m) Including capital outlay for purchase of defence works in South Africa from the Imperial Government.
	Wholesale prices (average)					(Aver. of Apr., July and Oct.)
Spain	Amount (n) Pesetas	390,440,000	740,690,000	1,196,440,000	931,730,000	
	Index of:	100	190	306	239	
	Defence expenditure . . .	100	221	183	175	(n) Including expenditure in Morocco.
	Wholesale prices (average)					(Ap. to Nov.)
Sweden	Amount Kronor	82,290,000	219,271,000	230,665,000	164,068,000	
	Index of:	100	266	280	199	
	Defence expenditure. . . .	100	347	211	162	
	Wholesale prices (average)					(Jan. to Dec.)
Switzerland	Amount (o) Francs	55,474,000	60,503,000	75,327,000	80,930,000	
	Index of:	100	109	136	146	
	Defence expenditure. . . .	100	(c)	190	165	(o) Military expenditure of the Federation only. The military expenditure of the Cantons is insignificant.
	Wholesale prices (average)					(c) Not calculated.
United Kingdom	Amount (p) £'s	86,028,000	353,568,000	250,169,000	167,127,000	
	Index of:	100	411	290	194	
	Defence expenditure. . . .	100	287	182	157	(c) Gross appropriations.
	Wholesale prices (average)					(Ap. to Dec.)

IV

“While recognising the practical difficulties in the way of immediate action in all cases, the Conference considers that every Government should abandon at the earliest practicable date all uneconomical and artificial measures which conceal from the people the true economic situation; such measures include:

“(a) The artificial cheapening of bread and other foodstuffs and of coal and other materials by selling them below cost price to the public, and the provision of unemployment doles of such a character as to demoralise instead of encouraging industry.”

A study of the position of the various countries reviewed reveals the fact that the policy of granting subsidies for the purpose of lowering prices was abandoned by most countries in the course of the two years following the Brussels Conference and that in those countries where subsidies are still being granted there has been a substantial reduction in the amounts expended for the purpose.

In France, South Africa and the United Kingdom subsidies were abolished in 1921, and in Denmark, the Netherlands, Sweden and Switzerland in 1922. The Belgian Government's loss on the food supply organisation amounted only to 4.3 million frs. in 1922. In Czechoslovakia the subsidies, which amounted to 673.6 million Kč. in 1920, were reduced to 310.7 millions in 1922. The general fall in price level has undoubtedly enabled States to hasten the abolition of subsidies for reducing prices.

As regards expenditure on account of unemployment, the position is reversed. When the Brussels Conference met in the autumn of 1920, the upward movement in trade and industry which characterised the end of 1919 and the greater part of 1920 was just showing the first signs of a setback. It was in 1921 and 1922 that the unemployment question became a serious problem and that most States had to incur heavy expenditure for the relief of the unemployed. The relief granted took many forms. There has, however, been a general tendency, reflected in instructions to unemployment commissioners, to avoid the granting of direct doles. Various systems of insurance have been attempted, under which contributions are made in varying proportions by the State, the employers and employees, or by one of the two last-mentioned parties. Relief works, such as roadmaking and afforestation, have been extensively introduced. Subsidies granted in many cases to industries to enable them to carry on work have served essentially the same purpose as unemployment relief. Again, loans have frequently been granted on easy conditions to help communities or individuals to start works (house-building, for instance). Owing to this diversity of form in which unemployment relief has been granted, it is very difficult to obtain figures on a uniform basis for different countries.

The following table summarises the facts regarding unemployment relief as set forth in the reviews of the various countries, but it must be emphasised that the figures are far from comparable:

Table E.

Country	Unit of Currency	1920 or 1920-1921	1921 or 1921-1922	1922 or 1922-1923
Argentina	Peso.	None	None	None
Australia	£	"	"	(a)
Belgium	Franc.	*	130,000,000 (b)	50,000,000 (b)
Czechoslovakia	Koruna.	267,000,000	100,000,000	75,000,000
Denmark	Krone	4,750,000	35,000,000 (c)	*
Finland	F. Mark.	None	None	None
Hungary	Korona	None	None	*
British India	Rupee	None	None	*
Italy	Lira	(d)	(d)	(d)
Japan	Yen	*	222,000	296,753
Luxemburg	Franc.	*	6,200,000 (e)	500,000 (f)
Netherlands	Florin	26,000,000	24,000,000	14,000,000
New Zealand	£	(g)	(g)	(g)
Sweden	Krona	*	44,500,000 (h)	93,000,000 (h)
Switzerland	Franc	(i)	(i)	*
South Africa	£	153,000	417,000	*
U.S.A.	\$	None (j)	None (j)	None (j)

V.

The Conference further considered that every Government should abandon at the earliest practicable date such measures as:

"(b) The maintenance of railway fares, postal rates and charges for other government services on a basis which is insufficient to cover the cost of the services given, including annual charges on capital account."

It should be observed in this connection that many countries do not include in the expenditure of their Government undertakings the interest on the capital sunk therein. If the interest were thus included, it would be possible to state that scarcely any Government undertakings are at present paying their way. Many of them are able to cover working expenses with actual receipts, but the surplus is generally insufficient to meet the interest

* Details not available.

(a) Repatriation allowances granted, serving a purpose similar to that of unemployment relief.

(b) Contributions and loans.

(c) Including loans free of interest, amounting to 7,250,000 Kr.;

(d) Total amount granted from April, 1917, to February, 1922 : 399,079,000 lire.

(e) Relief works : 5 million francs; doles : 1.2 million francs.

(f) Relief works.

(g) No direct charges, but expenditure on public works out of loans to obviate unemployment.

(h) The greater portion has been granted for emergency relief work.

(i) At the end of 1921 the sums granted by the Federation had amounted to :

For works	116.- million francs.
» doles	106.5 " "
» funded loans on land	12.- " "

The cantons and municipalities have also voted at least an equal amount.

(j) States and municipalities have voted expenditure for relief of unemployment.

charges. Nevertheless, as the following reports show, there has been an improvement in the position since the date of the Brussels Conference.

VI.

"The Conference considers that the relative advantages of the various possible means of increasing the national revenue, whether by direct or indirect taxation or by a capital levy (to be devoted to the repayment of debt), depend upon the special economic conditions obtaining in each country, and that in consequence each country must decide for itself on the methods which are best suited to its own internal economy."

The following table shows the percentage which various items of revenue are of total net revenue. The figures utilised are those compiled for the Memorandum on Public Finance, 1921 (p. XII), published by the League of Nations in April, 1922, and, although later estimates may have changed the data slightly, it is probable that the table fairly represents the position of the several countries represented.

Table F.

Country	Accounts	Direct Taxation	Indirect Taxation and taxes on transactions	Surplus from State Fiscal Monopolies	Other Revenue	Total
Belgium	Estimates 1922 (a)	35.6	55.1	—	9.3	100
France	» 1921 (a)	31.7	49.8	5.2	13.3	100
Italy	» 1922-23 (a)	25.1	37.1	18.4	19.4	100
Luxemburg	» 1922	52.9	43.8	—	3.3	100
United Kingdom	» 1921-22	52.8	30.5	—	16.7	100
South Africa	» 1921-22	30.2	34.5	—	35.3	100
Netherlands	» 1922	33.6	39.—	—	27.4	100
Switzerland	» 1922	1.7	75.2	—	23.1	100
Sweden	» 1921	37.1	51.9	—	11.—	100
Norway	» 1921-22	67.3	23.—	—	9.7	100
Denmark	» 1921-22	56.1	40.9	—	3.—	100
Finland	» 1921	22.2	58.9	.9	18.—	100
Estonia	» 1922	25.3	25.3	18.9	30.5	100
Latvia	» 1921-22	7.8	31.8	23.3	37.1	100
Lithuania	» 1921	13.3	65.4	2.—	19.3	100
Poland	» 1921	18.9	17.7	20.8	42.6	100
Czechoslovakia	» 1922	13.6	51.4	6.9	28.1	100
Serb-Croat-Slovene Kingdom	» 1922	33.3	45.1	10.3	11.3	100
Albania	» 1921	49.8	36.7	7.4	6.1	100
Greece	» 1920-21	23.—	48.7	1.7	26.6	100
Germany	» 1922-23	38.3	52.6	1.8	7.3	100
Hungary	» 1921-22	16.2	32.7	7.5	43.6	100
Bulgaria	» 1921-22	13.5	31.4	10.8	44.3	100
United States of America	» 1922-23	58.2	30.—	—	11.8	100

(a) Excluding receipts under the terms of the Peace Treaties.

It should be noted that in many instances the figures would have been greatly changed had local taxation also been taken into consideration. In Switzerland, for instance, the direct taxation is a source of revenue for the cantons rather than for the Federal Government.

Different forms of capital levy have been introduced in Germany (1919), Austria (1920), Czechoslovakia (1919), Hungary (1921) and Italy (1922). In Austria and Czechoslovakia it was stipulated in the laws authorising the levy that the yield should be used to facilitate the reform of the currency.

VII.

“The means by which loans are raised are no less important than the purposes for which they are destined. In future the loans which are required for urgent capital purposes must be met out of the real savings of the people. But those savings have, as it were, been pledged for many years ahead by the credits created during the war, and the first step to raising fresh money must be to fund the undigested floating obligations with which the markets are burdened. These principles apply both to internal and to external borrowing, and in regard to the latter we suggest that it would be in the general interest for the creditor countries to give such facilities as may be possible to the debtor countries to fund their floating obligations at the earliest possible date.”

The following table shows the percentage changes in the various categories and the totals of the public debt of a number of countries, since 1919. In reading this table, account should be taken of the notes appended to the debt tables on pages x to xxvii. It will be seen that only the United States of America have at present a debt lower than in 1919. In the United Kingdom, a part of the debt has actually been repaid, but the resulting reduction has been counter-balanced by an increase in the total debt owing to conversion of short-term bonds into funded debt of higher nominal value. In Sweden and Finland the debt is about the same as in 1919. In all the other countries for which information is available for 1922, except South Africa, the increase in the total debt amounts to more than 20%.

In the United Kingdom, Canada, Switzerland, Sweden, Norway and Finland, the floating domestic debt is less than it was in 1919. The United Kingdom, British India, South Africa and Sweden have been able to diminish their foreign debt since 1919.

Table G.

CHANGES IN PUBLIC DEBT, 1920, 1921 and 1922.

(1919 = 100)

Country	Class of Debt	1919	1920	1921	1922
		%	%	%	%
Belgium	Domestic: Funded . . .	100	222.9	285.8	}
	» Floating . . .	100	245.6	289.5	
	» Total . . .	100	236.5	288.—	
	Foreign	100	768.3	900.2	
	Total	100	253.6	307.7	
			End of 1918		*
France	Domestic: Funded . . .	100	145.5	200.8	228.8
	» Floating . . .	100	141.5	153.8	155.4
	» Total . . .	100	143.7	179.5	195.6
	Foreign	100	114.6	121.2	121.8
	Total	100	138.1	168.3	181.5
Italy	Domestic: Funded . . .	*	100	105.1	105.3
	» Floating . . .	*	100	143.2	167.2
	» Total . . .	100	115.2	133.9	142.—
	Foreign	100	100.3	103.2	105.2
	Total	100	111.6	126.5	133.2
United Kingdom	Domestic: Funded . . .	100	111.3	108.8	116.7
	» Floating . . .	100	95.8	94.2	77.4
	» Other Capital Liabilities . . .	100	101.7	105.6	143.6
	» Total . . .	100	107.9	105.6	108.4
	Foreign	100	93.7	85.1	79.9
	Total	100	105.3	101.9	103.2
Australia : Common- wealth	Domestic	100	123.8	*	*
	Foreign	100	105.3	*	*
	Total	100	117.—	123.3	127.7
	» States Common- wealth and States	100	105.3	119.8	*
	Total	100	111.—	119.3	*
Canada	Domestic: Funded . . .	100	140.—	134.8	}
	» Floating . . .	100	92.1	80.8	
	» Total . . .	100	127.1	120.2	
	Foreign	100	107.6	107.6	
	Total: Gross	100	123.6	118.—	
	» Net	100	124.1	129.1	
British India	Domestic: Permanent . .	100	110.2	124.5	}
	» Temporary . . .	100	101.6	123.7	
	» Total . . .	100	107.2	124.2	
	Foreign	100	95.1	94.5	
	Total	100	102.4	112.4	

* Details not available.

Table G (continued).

CHANGES IN PUBLIC DEBT, 1920, 1921 and 1922,
(1919 = 100)

Country	Class of Debt	1919	1920	1921	1922
		%	%	%	%
New Zealand	Domestic: Incribed				
	Stock	100	140.1	172.4	}
	» Debentures	100	130.1	128.2	
	» Total	100	132.6	139.2	
	Foreign	100	100.—	100.—	
	Total: Gross	100	114.3	117.1	124.4
» Net	100	114.—	115.9	122.5	
South Africa	Domestic: Funded	100	120.7	123.—	}
	» Floating	100	131.1	200.—	
	» Total	100	122.3	134.4	
	Foreign	100	98.6	98.4	
	Total: Gross	100	104.5	107.3	
	» Net	100	104.3	106.6	114.6
Netherlands	Domestic: Funded	100	118.3	138.8	135.2
	» Floating	100	83.7	74.8	121.5
	» Total	100	108.9	121.5	131.5
Switzerland: Federation	Domestic: Funded	100	112.7	120.3	134.4
	» Floating	100	101.5	72.7	86.9
	» Total	100	109.5	106.7	120.9
	Foreign	<i>nil</i>	100	185.6	185.6
	Net Total	100	121.1	128.3	142.9
	» Federal Railways				
	Funded	100	106.4	109.3	122.7
	Floating	100	123.1	200.4	156.3
	Total	100	108.—	118.2	126.—
	» Federation and Railways				
Total	100	113.9	122.7	133.6	
Sweden	Domestic: Funded	100	114.4	144.9	*
	» Floating	100	75.6	27.2	34.3
	» Total	100	103.7	112.6	*
	Foreign	100	79.2	64.5	*
	Total	100	95.5	96.4	99.3
Norway	Domestic: Funded	100	154.3	174.1	*
	» Floating	100	94.5	80.1	34.7
	» Total	100	117.2	115.7	*
	Foreign	100	101.7	130.7	*
	Total	100	112.1	120.6	129.7
Denmark	Domestic: Funded	100	128.4	128.—	127.6
	Foreign	100	98.9	157.3	207.8
	Total	100	118.7	137.7	154.1

* Details not available.

Table G (concluded).

CHANGES IN PUBLIC DEBT, 1920, 1921 and 1922.

(1919 = 100)

Country	Class of Debt	1919	1920	1921	1922	
		%	%	%	%	
Finland	Domestic: Funded . .	}	100	105.4	105.4	
	» Floating . .		100	48.6	33.1	
	» Total . . .		100	83.1	77.-	
	Foreign: Funded . . .		*	100	176.1	217.-
	» Floating . . .			100	114.4	49.2
	» Total			100	157.-	165.-
	Total		100	105.5	105.3	102.3
Czechoslovakia	Domestic: Funded . .	}	100	179.5	}	
	» Floating . .		100	118.1		
	» Total . . .		100	133.1		
	Foreign		100	95.4		
	Total		100	118.4		
Germany	Domestic: Funded . .	100	98.6	79.5	*	
	» Floating . .	100	170.3	359.1	2,348.5	
	» Total . . .	100	127.9	193.6	*	
Japan	Domestic: Funded . . .	100	112.3	134.4	155.3	
	Foreign	100	100.-	108.6	103.7	
	Total	100	107.1	123.4	133.2	
U. S. A.	Domestic: Funded . .	100	94.8	94.2	93.3	
	» Floating . .	100	96.4	93.8	83.5	
	» Total . . .	100	95.4	94.1	90.1	

* Details not available.

VIII. CURRENCY COMMISSION.

"It is of the utmost importance that the growth of inflation should be stopped, and this, although no doubt very difficult to do immediately in some countries, could quickly be accomplished by (1) abstaining from increasing the currency (in its broadest sense as defined above), and (2) by increasing the real wealth upon which such currency is based.

"The cessation of increase in the currency should not be achieved merely by restricting the issue of legal tender. Such a step, if unaccompanied by other measures, would be apt to aggravate the situation by causing a monetary crisis. It is necessary to attack the causes which lead to the necessity for the additional currency.

"The chief cause in most countries is that the Governments, finding themselves unable to meet their expenditures out of revenue, have been tempted to resort to the artificial creation of fresh purchasing powers, either by the direct issue of additional tender money or more frequently by obtaining — especially from the Banks of Issue, which in some cases are unable and in others unwilling to refuse them — credits which must themselves be satisfied in legal tender money.

"We say, therefore, that Governments must limit their expenditure to their revenue. (We are not considering here the finance of reconstructing devastated areas.)

"Banks, and especially Banks of Issue, should be freed from political pressure and should be conducted solely on the lines of prudent finance.

"But the Governments are not the only offenders in this respect; other parties, and especially in some countries, the municipalities and other local authorities, have raised excessive credits which in the same way multiply the titles to purchasing power.

"Nor will it be sufficient, for the purpose of checking further inflation, that additional issues of legal tender or the granting of additional credits should cease, since the floating debts of Government and other authorities constitute in themselves a form of potential currency, in that in so far as they are constantly renewed, their amount will come to swell the total currency in existence."

The extent to which Governments have been able to cover their expenditure by their revenue has already been demonstrated for a number of countries in Table A above. It may be useful to show the quarterly movements in the quantities of paper money outstanding before attempting to compare these movements with the figures of prices and deposits.

Table H.
Notes in Circulation (000,000's omitted)

Country and Issue	Unit of Currency	1920			1921			1922					
		March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	
Argentina Government (Conversion Office)	Peso papel	1,278	1,363	1,363	1,363	1,363	1,363	1,363	1,363	1,363	1,363	1,363	
Australia Govt Notes, Commonwealth Bank and other Banks (old issues) ¹	£	53.4	55.0	49.9	57.3	58.0	50.4	51.5	53.0	52.2	45.7	—	
Austria Austro-Hung. Bank, Austrian Section	Krone	—	15,458	16,971	22,272	30,646	41,067	49,685	70,171	174,115	304,064	549,916	2,277,678
Hungary Austro-Hung. Bank, Hungarian Section ²	Korona	—	—	—	14,368	15,650	18,096	20,845	25,175	29,327	33,600	58,458	
Belgium National Bank of Belgium	Franc	4,786	5,056	5,284	5,736	6,260	6,105	6,110	6,212	6,415	6,313	6,228	6,518
Brazil Conversion Office and Treasury	Milreis	1,748	1,748	1,758	1,778	1,848	1,880	1,932	2,080	2,086	1,959	2,056	—
Bulgaria National Bank	Lev	2,858	3,139	3,407	3,456	3,354	3,217	3,159	3,415	3,615	3,734	3,801	3,941
Canada ³ (A) Dominion Notes (B) Small Dom. Notes and Chartered Bank Notes	\$	319	312	292	303	312	278	269	260	281	241	233	235
Chile Treasury, Fiscal and Guaranteed Notes	\$ papel	247	—	—	—	249	222	213	198	197	181	177	188
Czechoslovakia Banking Office, Ministry of Finance	Korun.	251	246	290	272	303	305	329	329	325	300	296	266
Denmark National Bank	Krone	4,723	7,216	8,729	10,310	11,289	10,922	11,168	11,571	12,150	10,323	9,838	10,197
Egypt National Bank	£ E.	489	524	529	559	557	517	496	481	471	446	442	467
		62.8	55.9	46.4	42.9	37.3	34.2	31.2	34.7	35.3	32.1	28.3	27.6

^{1, 2} and ³, see footnotes on page XLIII.

Table H (continued).
Notes in Circulation (000,000's omitted).

Country and Issue	Unit of Currency	1919			1920			1921			1922		
		Dec. 31	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30
Finland													
Bank of Finland.	Mark	1,124	1,254	1,206	1,302	1,341	1,476	1,399	1,416	1,356	1,441	1,373	1,397
France													
Bank of France.	Franc	37,275	37,334	37,763	39,208	37,902	38,435	37,422	37,129	36,487	35,528	36,039	36,603
Germany ⁴													
Reichsbank.	Mark	35,698	45,170	53,975	61,735	68,805	69,417	75,322	86,384	113,639	130,671	169,212	316,870
Loan Bureau and Treas. Notes		14,109	14,054	13,935	13,662	12,349	10,472	8,997	7,838	8,523	8,944	10,605	14,216
Other Banks of Issue.		257	250	244	238	233	229	239	312	335	343	352	790
Total.		50,064	59,474	68,154	75,635	81,387	80,118	84,558	94,534	122,497	139,958	180,169	331,576
Greece													
National Bank	Drach.	1,382	1,399	1,395	1,489	1,508	1,603	1,758	2,051	2,161	1,198 ⁶	1,708	2,327
British India													
Currency Notes ⁴	Rupee	1,829	1,745	1,643	1,576	1,614	1,662	1,718	1,784	1,725	1,748	1,760	1,808
Italy													
Banks of Italy, Naples, Sicily		16,281	15,932	17,817	18,912	19,731	18,764	18,159	18,156	19,209	18,113	17,823	17,990
State Notes.	Lira	2,271	2,269	2,269	2,269	2,269	2,269	2,267	2,267	2,267	2,267	2,267	2,267
Total.		18,552	18,201	20,086	21,181	22,000	21,033	20,426	20,423	21,476	20,380	20,090	20,257
Japan													
Bank of Japan		1,555	1,297	1,258	1,143	1,439	1,106	1,173	1,230	1,547	1,255	1,332	1,237
Government	Yen	145	159	185	194	200	214	214	217	217	205	203	192
Total.		1,700	1,456	1,443	1,337	1,639	1,320	1,387	1,447	1,764	1,460	1,535	1,429
Netherlands													
Netherlands Bank.	Guilder	1,033	1,052	1,005	1,030	1,072	1,037	992	996	1,013	1,002	1,011	1,000
New Zealand ⁶													
Banks of Issue	£	7.3	7.8	7.9	7.6	8.3	7.8	7.9	7.1	7.5	7.5	7.3	6.5
Norway ⁷													
Bank of Norway.	Krone	454	450	441	478	492	433	427	425	419	394	394	393
Poland													
National Loan Bureau	Marka	—	10,691	21,730	33,203	49,362	74,087	102,697	152,792	229,538	250,665	300,101	463,706
Portugal													
National Bank	Mil-reis	371	400	447	533	611	635	650	670	723	758	815	914
Roumania													
National Bank	Leu	4,215	4,498	4,803	7,867	9,486	10,962	11,073	12,350	13,722	13,864	14,147	15,157
Kingdom of the Serbs, Croats and Slovenes													
National Bank	Dinar	—	—	—	2,814	3,344	3,500	3,746	4,476	4,688	4,785	4,809	5,222

⁴, ⁵, ⁶ and ⁷, see footnotes on page XLIII.

Table H (continued).
Notes in Circulation (000,000's omitted).

Country and Issue	Unit of Currency	1920			1921			1922				
		March 31	June 30	Sept. 30	Dec. 31	March 31	June 30	Sept. 30	Dec. 31			
South Africa												
Joint Stock Banks ¹	£	—	—	—	9.1	8.9	8.5	8.7	8.8	8.3	7.9	8.1
Spain												
Bank of Spain.	Peseta	3,872	3,908	4,114	4,326	4,255	4,185	4,246	4,244	4,178	4,145	4,140
Sweden												
Bank of Sweden	Krona	742	736	780	760	717	679	672	628	626	585	605
Switzerland												
Swiss National Bank.	Franc	1,936	974	954	1,024	985	941	971	1,009	831	789	811
United Kingdom												
Bank of England	£	87.3	99.4	106.7	108.8	110.5	109.6	105.5	107.1	103.3	103.4	101.3
Currency Notes		356.2	335.4	357.4	353.7	343.8	323.9	314.4	325.6	300.4	295.4	289.1
Total		443.5	434.8	464.1	462.5	454.3	433.5	419.9	432.7	403.7	398.8	390.4
United States												
Federal Reserve Notes	\$	2,990	3,044	3,122	3,278	2,934	2,681	2,519	2,444	2,216	2,553	2,667
» Bank Notes		209	198	199	230	187	148	119	115	96	79	63
National Bank Notes.		685	685	696	710	716	730	728	732	733	742	743
U.S. Notes		327	331	337	337	343	343	342	341	341	342	344
Treasury Notes of 1890.		2	2	2	2	2	2	2	2	2	2	2
Total.		4,213	4,260	4,356	4,557	4,182	3,904	3,710	3,634	3,388	3,718	3,819
Silver Certificates.		150	119	118	123	164	201	227	279	290	304	322
Gold		424	389	391	387	418	452	514	438	373	695	686
Grand total.		4,787	4,768	4,865	5,067	4,764	4,557	4,451	4,351	4,051	4,717	4,827
Uruguay												
Bank of the Republic	Peso	74	74	68	65	65	67	65	66	66	63	61

¹ Total of Australian notes issued less notes held back by Commonwealth Bank + notes of other banks.
² The right of issuing Australian notes was transferred from Treasury to Commonwealth Bank on November 30th, 1920.
³ Since September 5th, 1921: Hungarian Institute of Issue.
⁴ A: Total issue of Dominion notes, most of which held by Chartered Banks against their own issues.
⁵ B: Total of Dominion notes actually in circulation (i.e. notes issued less notes held by Chartered Bank) plus notes of Chartered Banks.
⁶ Gross circulation.
⁷ Decrease due to the forced loan, according to law of March 25th, 1922
⁸ Quarterly averages.
⁹ Since 1917, including Treasury notes of 1 kr. and 2 kr., which at the end of June 1922 amounted to 8.9 million kr.
¹⁰ Circulation in the Union only.

It will be noted that the increase in the note circulation has continued (though with very varying degrees of rapidity) in Austria, Bulgaria, Germany, Hungary, Poland, Portugal, Roumania and the Kingdom of the Serbs, Croats and Slovenes. Though these eight States thus portray a common characteristic, they do not by any means form a homogeneous group. The differences in the rapidity with which new issues of paper money have been put into circulation may be seen readily from the following table, which gives the percentage increase of the total circulation during the year ending June 30th, 1922, and during the quarter ending September 30th last:

PERCENTAGE INCREASE DURING

	Year ending 30/6/22.	Quarter ending 30/9/22.
Austria	1,007	314
Germany	113	84
Poland	192	55
Hungary	86	74
Portugal	25	12
S. H. S.	28	9
Roumania.	28	7
Bulgaria	20	4

It is noticeable that in every case except Bulgaria and Roumania the increase during the last quarter has been greater than the average quarterly increase during the year ending June 30th, 1922, while at the same time the first four countries on the list have tended to separate themselves still more definitely from the last four.

The acceleration in the rate of inflation in Germany during the same months, though no doubt the most important fact which the table illustrates, was, it will be observed, not so violent as in Hungary.

These eight States, however, constitute an exception to the general rule. In the majority of countries there has either been an absolute reduction in the total quantity of notes outstanding on the last as compared with the first date given in Table I, or there has been a reduction during the current year or past year from a maximum reached in 1920. An absolute reduction since 1919 has taken place in the United States of America (excluding gold certificates), Canada, Egypt, France, Holland, Japan, Norway, Sweden, Switzerland, the United Kingdom, and Uruguay, and, after a marked increase in 1920, in Australia, Denmark and New Zealand. In Italy, although the notes outstanding at the end of September 1922 still exceed the quantity in circulation at the end of 1919, there has been a marked contraction since 1920¹. The position of Belgium, which country shows an increase in its circulation at the end of the third quarter of 1922 compared with the end of 1919, is exceptional. The Belgian Government converted the notes which the Germans had put into circulation, at the rate of 1 mark to 1.25 francs. This conversion was effected in part by the issue of Treasury bills, and to the extent of 5.8 milliard francs through the National Bank. A considerable proportion of the value of the German marks converted remained, however, during 1920 and 1921 on current account, and only as these current accounts were gradually drawn upon were franc notes issued in their stead. For this reason the purchasing power available in the country, as represented by notes, continued to increase without any increase in the total purchasing power. Further, in the case of India

¹ See Vol. II, pages 60 and 61.

the figures of note circulation do not give a true picture of the movements of currency in the hands of the public, the most important cause of the fluctuations in the quantity of notes outstanding being the return of silver rupees from circulation. The return of these rupees did not, in fact, alter the total currency in the hands of the public, but merely affected its composition¹.

In Chile the circulation increased steadily up to the third quarter of 1921, and has since contracted, although at the end of September last the notes outstanding were still in excess of the quantity in circulation at the end of 1919. Similarly, in Czechoslovakia, where notes can only be issued against commercial assets, there has been an appreciable contraction during the present year, after an uncertain movement during 1921. Both in France and Spain there has been a reduction since the end of 1920. In the former country, the circulation has remained practically stationary during the last twelve months, while in the latter there would appear to be a slight, though somewhat indecisive, tendency towards contraction. In Brazil and Finland the movement has not been sufficiently definite for any general trend to be traceable since the beginning of last year. In the Argentine there has been no change since the end of 1920.

The remarkable fall which is shown in the note circulation of Greece at the end of the first quarter of 1922 was due to the application of the Forced Currency Loan Law. According to this law, those in possession of notes of the Bank of Greece were obliged to contribute towards the raising of this loan one-half of the notes in their possession. Before this division of the notes took place, the circulation was increased by 550 milliard drachmai. The Government at the same time obtained a credit of 1.6 milliard drachmai, which was equal to the total quantity of notes which it was originally contemplated it would be possible to retire. As will be seen from the later figures of the note circulation in Greece, an appreciable proportion of this credit has now been drawn upon. Thus, out of the 33 States quoted there has been a reduction in note circulation since the end of 1919 in 14; there has been an actual increase, which is still continuing, in eight; a period of further expansion is now being followed by a steady reduction in five; in five countries the movement is irregular, and in one country there has been no movement at all for the last two years.

IX.

The interdependence between the Government and the banks of issue, to which reference was made in the resolutions quoted above, may be illustrated by the following table (see next page, Table I) which shows the Government securities held by the central banks and the loans and advances to the State made by those institutions at the end of 1920 and at the end of 1921, and also the percentage which those amounts represent of the banks' total assets, exclusive of metallic and other reserve items.

¹ See page 105.

Table I.

Banks	Unit of Currency	Government securities, loans and advances			
		Total amount (000,000's omitted)		As % of total assets excl. metallic and other reserve items	
		End of 1920	End of 1921	1920	1921
GERMAN REICHSBANK.	mark	—	132,330.9	—	99.1
NATIONAL BANK OF BELGIUM.	franc	6,274.7	6,301.0	87.6	92.5
NATIONAL BANK OF ROUMANIA.	leu	11,160.2	16,677.8	88.2	86.3
BANK OF FRANCE	franc	30,780.0	28,942.0	83.0	83.8
BANK OF AUSTRIA	krone	—	151,773.1	—	83.5
NATIONAL BANK OF S. H. S.	dinar	3,119.8	4,418.2	83.9	83.0
NATIONAL BANK OF EGYPT.	£ E.	50.4	40.4	85.4	80.9
POLISH NAT. LOAN BUREAU	mark	62,766.9	228,924.4	91.4	80.7
BANK OF PORTUGAL	milreis	510.2	657.5	73.6	78.8
HUNGARIAN INSTITUTE OF ISSUE	korona	—	18,672.7	—	75.5
NATIONAL BANK OF BULGARIA	lev	2,944.1	3,725.7	59.3	68.7
BANKING OFFICE OF FINANCIAL DEPARTMENT AT PRAGUE.	koruna	9,522.2	10,096.6	66.5	67.9
NATIONAL BANK OF GREECE	drachma	1,527.0	2,755.0	45.4	60.6
BANK OF FINLAND.	markka	897.1	829.4	57.3	47.5
BANK OF ITALY	lira	8,496.2	6,893.1	52.9	41.0
BANK OF ENGLAND.	£	118.9	48.0	56.0	34.6
SWISS NATIONAL BANK.	franc	—	123.8	—	24.6
BANK OF JAPAN	yen	270.5	278.1	22.9	20.4
IMPERIAL BANK OF INDIA.	rupee	151.7	111.8	22.9	16.8
NETHERLANDS BANK	guilder	140.3	72.7	26.5	14.3
BANK OF SPAIN	peseta	957.0	—	22.9	—
U.S. FEDERAL RESERVE BANKS.	\$	287.0	178.9	8.9	11.6
CHARTERED BANKS OF CANADA	C.\$	133.0	222.4	5.5	10.4
NATIONAL BANK OF DENMARK.	krone	36.4	24.9	10.9	8.4
BANK OF SWEDEN	krona	2.4	3.7	0.4	0.5
BANK OF NORWAY.	krone	2.0	2.0	0.4	0.4

The countries have been placed in the order of the magnitude of the percentage figures in the last column. Although the figures for various countries are not completely comparable, the table affords a useful guide to the comparative extent of the interdependence of the Governments and banks of issue. It should be remarked that the figures for many of the older institutions are naturally inflated by the existence of Government obligations which have now assumed a more or less historical character.

It will be observed that there has been a reduction in the absolute amounts of the State's indebtedness in seven cases and, further, that in Norway and Sweden, where there has been no actual reduction, the figures are quite insignificant. In 10 out of the 21 countries quoted, the Government securities, loans and advances represent over 66 % of the total bank assets, exclusive of metallic and reserve items. Seven out of these ten countries are amongst those in which the note circulation continues to increase as indicated above. In all the Austrian Succession States,

however, the debts of the State to the bank include appreciable sums on account of the conversion of the old Austrian or other note issues; thus it will be observed that Czechoslovakia appears amongst the ten countries showing a percentage in the last column of the above table of over 66 %, although, according to the Banking Law, the Banking Department of the Ministry of Finance is prohibited from making direct advances to the State.

Of the 123.8 million francs of Government holdings in the Swiss National Bank at the end of 1921, 117.3 million francs consisted of a loan granted to the Federal Government by the Bank without interest to cover the loss incurred by the bank from writing-down its holdings of 5-franc silver pieces to the value of their silver content, which loss is ultimately borne by the Government. If this special arrangement be left out of consideration, the position of the Swiss National Bank in regard to its relations with the Federal Government would appear to be about the same as that of the Scandinavian central banks.

Further, as regards the National Bank of Egypt, it should be noted that the greater part of the total amount of Government securities, etc., as given in the table consists of British Treasury bills and National War Bonds (£ E 36.7 million at the end of 1920, and £ E 33.2 million at the end of 1921) held by the Bank as cover for its note issue. If only Egyptian Government securities and loans and advances to the Egyptian Government be taken into consideration, the figures would be £ E 13.7 million and £ E 7.2 million, and 23.4 % and 14.4 % respectively.

Unfortunately it is not possible to bring the table up to a more recent date, as the details from which it is compiled are in many cases only obtainable from the annual statements of the banks. Moreover, the seasonal fluctuations in the banks' holdings of Government securities, and in their temporary accommodation to their Governments, make it difficult — especially in the case of the Bank of England, the Bank of Japan, the United States Federal Reserve Banks, and also in certain other cases — to draw any reliable conclusions from the figures referring, for instance, to the end of September 1922. An inspection of the whole series of weekly and monthly reports, however, indicates that on balance there has been, with certain exceptions mentioned below, a slight improvement in the position. In the case of Belgium, France and Italy, the decrease in the Governments' indebtedness to the central banks has been relatively slight, and, in the case of the two last-mentioned countries, insufficient to outweigh the simultaneous contraction of commercial assets. In the Netherlands, India and Canada, the reduction of the State's indebtedness has been greater, and, in Finland and Denmark, particularly striking. In Norway and Sweden the position is unchanged, and the same would appear to be the case in Switzerland and Spain, for which countries, however, completely comparable figures are not available.

The German Reichsbank, the National Bank of Roumania, the Bank of Austria, the National Bank of the Kingdom of the Serbs, Croats and Slovenes, the Polish Loan Bureau, the Bank of Portugal, the Hungarian Office for Note Issue, the National Bank of Bulgaria and the National Bank of Greece all show a more or less marked increase in their Government securities and advances during the nine months under review. This increase has been greater in Germany, Austria, Poland and Hungary, but also in Bulgaria and the Kingdom of the Serbs, Croats and Slovenes it would appear to have been considerable. The National Bank in the Kingdom of the Serbs, Croats and Slovenes, and the Hungarian Note Office do not show the discounts of Treasury bills separately in their weekly balance sheets. It would appear, however, that these discounts mainly account for the remarkable increase in the aggregate discount figures of these banks.

In Austria a new bank of issue is being established.

X.

IV. — "The creation of additional credit should cease and Governments and municipalities should not only not increase their floating debts but should begin to repay or fund them by degrees.

"In normal times the natural and most effective regulator of the volume and distribution of credits is the rate of interest which the central banks of issue are compelled, in self-preservation and in duty

to the community, to raise when credit is unduly expanding. It is true that high money-rates would be expensive to Governments which have large floating debts, but we see no reason why the community in its collective capacity (*i.e.* the Government) should be less subject to the normal measure for restricting credit than the individual members of the community. In some countries, however, the financial machinery has become so abnormal that it may be difficult for such corrective measure to be immediately applied."

The movement in the floating debt has already been shown in Tables B and C above. The changes in the rates of discount are set out below.

Table J.
RATES OF DISCOUNT.
RATE RULING ON LAST DAY OF EACH QUARTER.
(Maxima are in heavy type)

Countries	1920				1921				1922		
	March. 31	June 30	Sept. 30	Dec. 31	March. 31	June 30	Sept. 30	Dec. 31	March. 31	June 30	Sept. 30
ARGENTINE	7	7	7	7	7	7	7	7	6 ½	6 ½	6 ½
AUSTRALIA	6	6	6	5-6	5-6	5-6	5-6	6-7	6-7	6-7	6-7
AUSTRIA	5	5	5	5	5	6	6	7	7	7	9
BELGIUM	3 ½	5 ½	5 ½	5 ½	5 ½	5	5	5	5	4 ½	4 ½
BULGARIA ¹	6 ½	6 ½	7	7	7	7	7	7	7	7	7
CZECHOSLOVAKIA	5	6	6	6	6	6	5 ½	5 ½	5 ½	5	5
DENMARK	6	7	7	7	7	6 ½	6	5 ½	5 ½	5	5
FINLAND	8	8	8	9	9	9	9	9	9	9	9
FRANCE	5	6	6	6	6	6	5 ½	5 ½	5	5	5
GERMANY	5	5	5	5	5	5	5	5	5	5	8
GREECE	6	6 ½	6 ½	6 ½	6 ½	6 ½	6 ½	6 ½	6 ½	6 ½	6 ½
BRITISH INDIA	5	6	5	7	6	5	5	7	8	5	4
ITALY	5	6	6	6	6	6	6	6	6	6	5 ½
JAPAN	8.03	8.03	8.03	8.03	8.03	8.03	8.03	8.03	8.03	8.03	8.03
NETHERLANDS	4 ½	4 ½	4 ½	4 ½	4 ½	4 ½	4 ½	4 ½	4 ½	4 ½	4
NORWAY	6	7	7	7	7	7	6 ½	6 ½	6	5 ½	5
POLAND	—	6	6	6	6	6	7	7	7	7	7
PORTUGAL	5 ½	5 ½	7	7	7	7	7	7	7	7	7
ROUMANIA	5	5	6	6	6	6	6	6	6	6	6
SPAIN	5	5	5	6	6	6	6	6	6	5 ½	5 ½
SWEDEN	7	7	7 ½	7 ½	7 ½	6 ½	6	5 ½	5	5	4 ½
SWITZERLAND	5	5	5	5	5	4 ½	4	4	3 ½	3 ½	3
UNITED KINGDOM	6	7	7	7	7	6	5 ½	5	4 ½	3 ½	3
UNITED STATES (A) ²	6	7	7	7	7	6	5	4 ½	4 ½	4	4
» » (B)	5	5 ½	5 ½	5 ½	6	6	5	4 ½	4 ½	4	4

It will be noted that all the countries in which the note circulation has not ceased to increase, for which rates are given in the above table, have raised their rate of interest at one time or another during the period under review without subsequently lowering it. In Germany

¹ Loan rate.

² (A) Federal Reserve rate for 90-day bills secured otherwise than by Government war obligations.

(B) Federal Reserve rate for 90-day bills secured by Government war obligations.

no change whatever was made from 1915 until July 28th, 1922, when the rate was raised from 5 to 6 per cent. Since that date the rate was again further raised from 6 % to 7 % on August 23rd to 8 % on September 21st and to 10 % on November 10th.

In this connection should be noted the enormous increase in the rediscounts of commercial paper by the Reichsbank during the current year. The figures at the end of each quarter were as follows:

	Marks (000's omitted)
March 31st	2,151,677
June 30th	4,751,700
September 30th	50,234,400

It is important to consider, in the case of those countries in which a contraction of currency and credit has taken place, both the maxima to which discount rates have been raised and the length of time during which these maximum rates were enforced. Once deflation has set in, high discount rates become doubly effective. Holders of stocks are induced to liquidate those stocks, not only on account of the high rates which must be paid for borrowed money but also because prices are falling.

Owing to the particular international importance of the policy of the Federal Reserve Banks, it is perhaps desirable to give the movements of the various rates in force during 1920 and 1921 in somewhat greater detail. Set out below, therefore, are the average monthly rate of discount on paper actually discounted by the Federal Reserve Banks, the interest rates on commercial double-name paper of 60 to 90 days' currency, and the revised Labor Bureau index number.

Table K.

Date	Average discount rate on paper actually discounted by the F. R. Banks	Interest rates, commercial double-name paper 60-90 days	Labor Bureau index number
1920			
I	4.90	5.98	233
II	5.52	6.41	232
III	5.64	6.69	234
IV	5.67	6.78	245
V	5.74	7.16	247
VI	6.20	7.72	243
VII	6.21	7.83	241
VIII	6.19	8.00	231
IX	6.39	7.97	226
X	6.40	80.0	211
XI	6.45	7.94	196
XII	6.48	7.88	179
1921			
I	6.36	7.81	170
II	6.41	7.75	160
III	6.43	7.63	155
IV	6.32	7.58	148
V	6.22	6.94	145
VI	6.13	6.75	142
VII	6.02	6.40	141
VIII	5.76	5.94	142
IX	5.75	5.90	141
X	5.62	5.63	142

It will be seen that practically the maximum rates were thus maintained from May 1920 (when prices reached their culminating point) until March 1921, since which date the price movements have been relatively unimportant.

In the United Kingdom the rate was raised from 6 to 7 % in April 1920, at the end of which month prices, according to the *Statist* index number, reached their highest point. In April 1921, prices had fallen by over 33 %, and the rate was reduced to 6½ %. In June it was lowered again to 6 %, and from that date the decline in prices perceptibly slackened. In July the rate was again lowered to 5½ %, in November to 5 %, in February to 4½ %, in March to 4 %, in June to 3½ % and in July to 3 %. Since November 1921 the movement in prices has been relatively slight.

The changes in Sweden, where an active discount rate policy was likewise pursued, were, on the whole, similar to those in the United Kingdom. The rate was raised to 7 % in March 1920, and again to 7½ % in September. During the interval prices had moved irregularly, showing a slight rise on balance, although the figure for September was below that for August. By April in the following year, prices, which in September had stood at 365, had collapsed to 229. The discount rate was then lowered to 6½ %; two months later to 6 %, and in September 1921 to 5½ %. During 1922 the rates have been further diminished — in March to 5 %, and in July to 4½ %. In Denmark the banks, policy followed closely on that of Sweden, excepting that resort was never made to the 7½ % rate.

The rapidity with which currency and credit have actually contracted in those countries in which inflation has ceased may with advantage be considered in connection with the tenth Resolution of the Brussels Currency Committee.

XI.

X. "Deflation, if and when undertaken, must be carried out gradually and with great caution, otherwise the disturbance to trade and credit might prove disastrous."

The Currency Commission of the Brussels Conference did not give any exact interpretation of what was understood by the word "deflation", and even if an exact definition were available, it would be almost impossible to indicate the extent to which the policy of any State in which inflation has ceased has, for any given definition, been in accordance with the principles suggested by the Brussels Commission, without writing an elaborate thesis on that country's whole currency policy during the last two and a-half years. The following table, therefore, cannot claim to do more than to indicate roughly the extent to which there has been, in point of fact, a reduction or increase in prices and a reduction or increase in purchasing power in so far as that purchasing power is measured by note circulation and deposits.

NOTES TO TABLE L.

¹ Monthly averages. ² Total issue of Dominion Notes. ³ Excluding Government deposits. ⁴ 15th of month. ⁵ Including Loan Bureau Notes. ⁶ *Neue Zürcher Zeitung*; the 1st of the following month. ⁷ Excluding savings deposits. ⁸ *Svensk Handelstidning*; 15th of month. ⁹ Including National Bank. ¹⁰ Net circulation of Australian notes + old issues of banks. ¹¹ Including Commonwealth Bank; quarterly averages. ¹² Including small Government notes which, since December 1920, have amounted to about 9 millions. ¹³ Current accounts and deposits, excluding accounts of foreign banks. ¹⁴ *Ökonomisk Revue*. ¹⁵ Excluding gold and silver certificates. ¹⁶ Deposits in member banks of Federal Reserve System; excluding Government deposits. ¹⁷ Bank of England + Currency notes. ¹⁸ Nine Clearing Banks. ¹⁹ *Statist*. ²⁰ Bank of Japan + Government. ²¹ Fourteen Clearing Banks. ²² *Finanstidende*; the 1st of the following month. ²³ Gross circulation. ²⁴ End of January 1920 = 100.

Table L.

Notes in Circulation, Wholesale Prices and Commercial Deposits.
Percentage Movements since 1919.

Country		1919	1920				1921				1922	
		Dec.31	Mar.31	June30	Sept30	Dec.31	Mar.31	Jun.30	Sept30	Dec.31	Mar.31	Jun.30
EGYPT	Notes	100	89.0	73.9	68.3	59.4	54.5	49.7	55.3	56.2	51.1	45.1
	Prices ¹	100	106.3	91.8	94.0	74.8	57.2	52.2	55.3	53.5	48.1	43.7
CANADA	Notes ²	100	97.9	91.6	95.1	97.8	87.2	84.3	81.6	88.1	75.5	73.0
	Deposits ³	100	101.0	103.5	107.0	105.4	102.2	101.6	98.1	96.7	93.4	91.5
	Prices ⁴	100	108.1	108.2	101.2	90.0	81.5	75.1	72.1	71.5	69.9	69.4
SWITZERLAND	Notes ⁵	100	93.8	91.7	94.9	99.3	95.9	91.4	93.8	97.0	79.7	75.6
	Notes ⁶					(100)	(96.6)	(92.0)	(94.5)	(97.7)	(80.3)	(76.1)
	Prices ⁶					(100)	(87.6)	(75.1)	(77.2)	(73.8)	(68.4)	(67.8)
SWEDEN	Notes	100	99.2	98.4	104.3	101.6	95.9	90.8	89.8	84.0	83.7	78.2
	Deposits ⁷	100	100.8	102.2	102.5	101.9	104.6	103.5	102.7	97.2	97.5	94.3
	Prices ⁸	100	111.7	115.5	114.2	94.3	74.8	68.8	57.4	54.3	51.7	51.7
URUGUAY	Notes	100	100.0	91.9	87.8	87.8	87.8	90.5	87.8	89.2	89.2	85.1
	Deposits ⁹	100	105.9	126.3	109.3	109.3	116.1	116.9	122.0	117.8	113.6	108.5
AUSTRALIA	Notes ¹⁰	100	99.4	102.4	92.9	106.7	108.0	93.8	95.9	98.7	97.2	85.1
	Deposits ¹¹	100	104.4	107.4	106.3	107.7	113.5	114.2	113.3	110.6	111.7	115.5
	Prices ¹	100	105.9	118.1	116.3	99.8	91.9	82.0	81.2	74.9	74.2	78.9
NORWAY	Notes ¹²	100	99.1	97.1	105.3	108.4	95.4	94.1	93.6	92.3	86.8	86.8
	Deposits ¹³	100	100.9	104.3	102.4	104.7	102.4	99.8	99.3	99.9	95.9	94.6
	Prices ¹⁴	100	109.0	118.6	132.0	117.1	96.9	91.3	89.1	83.5	74.5	71.4
UNITED STATES	Notes ¹⁵	100	101.1	103.4	108.2	110.1	99.3	92.7	88.1	86.3	80.4	88.3
	Deposits ¹⁶	100	105.3	105.3	104.1	102.4	97.9	96.3	94.9	97.7	99.7	107.6
	Prices ¹	100	104.9	109.0	101.3	80.3	69.5	63.7	63.2	62.8	63.7	67.3
UNITED KINGDOM	Notes ¹⁷	100	98.0	104.6	104.3	108.4	102.4	97.7	94.7	97.6	91.0	89.9
	Deposits ¹⁸	100		103.3		106.0	100.7	103.8	104.0	106.8	102.6	103.1
	Prices ¹⁹	100	111.3	108.7	105.7	88.1	75.4	66.2	63.5	56.8	56.7	57.6
JAPAN	Notes ²⁰	100	85.6	84.9	78.6	96.4	77.6	81.6	85.1	103.8	85.9	90.3
	Deposits ²¹	100	101.3	97.8	93.1	96.7	97.8	102.6	102.0	102.6	99.4	99.7
	Prices	100	111.4	85.9	79.9	71.3	66.2	66.6	71.7	72.6	69.6	68.4
DENMARK	Notes	100	107.2	108.2	114.3	113.9	105.7	101.4	98.4	96.3	91.2	90.4
	Prices ²²	100	—	112.6	117.1	100.3	79.4	74.4	59.4	52.4	52.4	52.9
BRITISH INDIA	Notes ²³	100	95.4	89.8	86.2	88.2	90.9	93.9	97.5	94.3	95.6	96.2
	Prices ²⁴	100	90.8	94.5	95.4	82.6	80.3	81.7	85.8	82.6	83.5	83.9
FRANCE	Notes	100	100.2	101.3	105.2	101.7	103.1	100.4	99.6	97.9	95.3	96.7
	Deposits ²⁵	100				110.4				107.2		
	Prices	100	131.2	116.6	124.4	102.9	85.1	76.9	81.4	77.1	72.7	76.9

For the footnotes, see pages L and LIII.

Table L (continued).
Notes in Circulation, Wholesale Prices and Commercial Deposits.
Percentage Movements since 1912.

Country		1919	1920				1921				1922	
		Dec.31	Mar.31	June30	Sept30	Dec.31	Mar.31	Jun 30	Sept30	Dec.31	Mar.31	Jun.30
NETHERLANDS. . .	Notes	100	101.8	97.3	99.7	103.8	100.4	96.0	96.4	98.1	97.0	97.9
	Deposits ²⁵	100				107.1				79.8		
	Prices	100	99.4	103.1	100.9	82.1	66.0	64.2	63.3	58.0	56.5	58.7
SOUTH AFRICA. . .	Notes ²⁶	100				113.8	111.3	106.3	108.8	110.0	103.8	98.8
	Deposits ²⁷	100	101.9	100.3	96.6	96.2	92.6	87.7	86.6	86.1	81.6	
	Prices	100	103.9	108.2	104.0	87.7	77.1	69.9	64.3	61.0	59.5	58.9
NEW ZEALAND. . .	Notes ²⁸	100	106.8	108.2	104.1	113.7	106.8	108.2	97.3	102.7	102.7	100.0
	Deposits ²⁹	100	111.2	119.7	116.4	108.6	103.5	99.8	95.2	89.7	88.6	90.8
	Prices ⁴	100	110.3	112.1	117.8	116.8	111.8	107.3	105.5	101.1	96.4	93.8
SPAIN	Notes	100	100.1	101.1	106.4	111.9	110.0	108.2	109.8	109.7	108.0	107.2
	Prices ⁴	100	102.3	107.0	106.1	105.2	90.6	87.3	85.9	85.9	83.1	83.6
ITALY	Notes ³⁰	100	98.1	108.3	114.2	118.6	113.4	110.1	110.1	115.8	109.9	108.3
	Deposits ³¹	100	113.8	120.3	116.2	130.4	141.1	142.8	147.2	144.5	131.7	137.0
	Prices	100	131.6	138.1	143.3	143.3	132.0	111.3	126.8	130.0	116.6	117.5
ARGENTINE.	Notes	100	108.6	115.8	115.8	115.8	115.8	115.8	115.8	115.8	115.8	115.8
	Deposits ³²	100	101.8	118.4	121.1	120.3	118.5	119.5	119.1	117.4	115.5	113.1
BRAZIL.	Notes	100	100.0	100.6	101.7	105.7	107.6	110.5	119.0	119.3	112.1	117.6
	Deposits ³³	100	103.5	109.2	112.0	112.0	117.0	121.1	114.1	128.2		
CHILE	Notes	100	98.0	115.5	108.4	120.7	121.5	131.1	131.1	129.5	119.5	117.9
FINLAND	Notes	100	111.6	107.3	115.8	119.3	131.3	124.5	126.0	120.6	128.2	122.2
	Deposits ³⁴	100	101.0	104.2	108.6	106.8	111.4	115.6	112.9	111.9	116.4	118.5
GREECE.	Notes ³⁵	100	101.2	100.9	107.7	109.1	116.0	127.2	148.4	156.4	86.7	123.6
BELGIUM	Notes	100	105.6	110.4	119.8	130.8	127.6	127.7	129.8	134.0	131.9	130.1
	Notes Prices ³⁶					(100) (100)	(97.5) (84.0)	(97.6) (78.8)	(99.2) (74.6)	(102.5) (76.7)	(100.8)	(99.5)
BULGARIA.	Notes	100	109.8	119.2	120.9	117.4	112.6	110.5	119.5	126.5	130.7	133.0
	Prices ¹	100	158.0	156.8	177.7	205.1	209.0	144.1	150.8	184.8	196.1	208.9
PORTUGAL.	Notes	100	107.8	120.5	143.7	164.7	171.2	175.2	180.6	194.9	204.3	219.7
GERMANY.	Notes ³⁷	100	118.8	136.1	151.1	162.6	160.0	168.9	188.8	244.7	179.6	359.9
	Deposits ³⁸	100				158.4				286.2		
	Prices ¹	100	213.0	172.2	186.7	179.4	166.7	170.2	257.6	434.5	677.0	876.0

POLAND, — Percentage movement in wholesale prices since September 1921: September 30th, 1921 = 100; December 31st, 1921 = 94.8; March 31st, 1922 = 122.5; June 30th, 1922 = 145.7.

For the footnotes, see page LIII.

The countries have been placed in the order of the contraction in note circulation. As the deposit figures for the end of the third quarter of 1922 are not for the majority of countries yet available, it is not possible to carry the above table beyond June 30th last. As has already been stated, there has been a reduction in note circulation since the end of 1919 in 14 of the countries given, and a contraction, after a further period of expansion, in five. There has been a fall in prices in 17 out of the 21 countries for which index numbers are quoted, and a rise in three, namely, Bulgaria, Germany and Poland. In Italy, the movement has been and continues irregular. Amongst the 17 in which there has been a fall in prices are included New Zealand and Spain. In the first of these countries the note issue has remained relatively stable with a slightly downward tendency, while in the second, a somewhat belated contraction has now set in. In New Zealand, however, the cheque system is widely developed, and the deposit figures have, therefore, a special significance. It will be observed that New Zealand is one of the very few countries in which the reduction in deposits has exceeded that in the note circulation, and the only country in which it has exceeded the fall in prices.

The rate of the fall of prices has varied considerably from country to country, but in the nine States in which the fall has on balance been most severe, there is a striking similarity in the length of time required for a reduction of 40 %. In Egypt, Japan and the Netherlands, this reduction took almost exactly a year; in the United States and Sweden 11 and 12 months; in France 12-13 months; in the United Kingdom (the *Economist*) 13 months; in Denmark 10-11 months, and in South Africa 14-15 months. On the other hand, in certain cases for shorter periods the collapse in prices was almost catastrophic. Thus in Japan, prices fell 23 % between March and June 1920; in the United States 24 % between November and February 1920; in Egypt 32 % between November 1920 and February 1921; in the Netherlands, 34 % between October 1920 and March 1921; in Sweden 25 % between November 1920 and February 1921. With the existing conditions of economic interdependence it was, of course, extraordinarily difficult for any one country, without resorting to actual inflation, to resist by its own efforts the backflow of the tide of prices — for smaller countries it was practically impossible. Since the last quarter of 1921, however, the fall in prices has in the majority of countries perceptibly slackened, and in certain cases has been succeeded by an opposite movement. But in the United Kingdom and Sweden, in which, as also in Egypt, prices have already fallen to less than half their maxima, the downward movement has apparently not yet ceased.

The reduction in the note circulation has in practically all cases been appreciably less rapid and less violent than that of prices — only in Egypt does it exceed 50 %. The contraction in deposits, as was to have been expected, has again been less severe than that in currency. Finland, South Africa and New Zealand are exceptions to the general rule.

As will have been seen from the foregoing tables, the countries therein considered have tended to constitute themselves into fairly clearly defined groups, according to the extent of their recovery from the effects of the war. The character of this grouping is perhaps most clearly brought out by the exchange rates of the various currencies. In the following table, therefore, the cost of a dollar in terms of the currencies of those countries which have been considered heretofore, at the end of 1919, 1920, 1921 and September 1922, is shown as a percentage of its cost at par.

²⁵ Six commercial banks. ²⁶ Circulation in the Union only. ²⁷ Excluding Government and savings deposits.

²⁸ Quarterly averages. ²⁹ Six banks; excluding Government deposits. ³⁰ Three banks of issue and Treasury.

³¹ Three commercial banks, including correspondents.

³² Deposits in gold and paper; excluding National Bank of Argentine.

³³ Excluding Bank of Brazil. ³⁴ Including savings deposits in commercial banks. ³⁵ See page XLV.

³⁶ Old official index number. ³⁷ Reichsbank, private banks of issue, loan and Treasury notes.

³⁸ Seven banks at Berlin.

Table M.

Cost of the Dollar as a Percentage of its Cost at Par.

Country	1919 Dec. 31st	1920 Dec. 31st	1921 Dec. 31st	1922 June 30th	1922 Sept. 30th
CANADA	108.5	116.5	107.5	101.1	100.1
SWEDEN	124.6	136.5	109.0	103.8	101.3
SWITZERLAND. . .	108.2	125.4	99.7	101.3	102.5
JAPAN	99.0	98.6	103.0	103.7	103.0
NETHERLANDS. . .	107.2	130.0	110.9	103.8	103.5
UNITED KINGDOM	129.3	139.3	117.5	109.4	109.7
ARGENTINE. . . .	98.1	119.6	124.9	114.0	115.3
PERU	99.9 ¹	124.9	137.1	121.8	120.5
SPAIN	99.7	148.0	131.4	123.0	125.9
DENMARK	138.9	181.1	137.9	123.7	126.9
CHILE	103.1	148.5	192.5	165.2	147.0
NORWAY.	131.4	181.0	175.2	157.0	159.4
BRITISH INDIA ² .	105.2	183.4	169.8	164.7	166.7
FRANCE	209.5	325.6	248.5	219.6	251.7
BRAZIL.	114.8	215.1	249.5	232.2	252.7
BELGIUM.	209.0	308.4	258.9	234.3	266.4
ITALY	255.9	551.9	438.6	387.4	450.5
CZECHOSLOVAKIA	1,013.0	1,749.7	1,638.1	1,053.4	566.1
GREECE	126.3	255.4	467.5	502.8	620.8
FINLAND.	593.7	786.9	1,010.8	879.9	884.3
S. H. S.	402.1	653.2	1,267.8	1,396.6	1,525.4
ROUMANIA	603.0	1,484.3	2,440.4	2,925.7	2,879.5
BULGARIA	771.8	1,707.9	2,692.5	2,629.6	3,022.6
GERMANY.	1,156.8	1,734.1	4,654.9	7,257.2	34,856.6
HUNGARY	3,972.2 ³	10,060.6	13,617.3	18,587.2	45,655.7
POLAND	1,985.1	13,182.6	76,837.0	97,984.0	190,263.6
AUSTRIA	3,377.0	7,449.3	53,309.8	291,120.7	1,447,285.7

The countries have been placed in the order of the value of their currencies. It should be observed, however, that, although this order presents an instructive picture, it is in certain cases misleading, for the parities which have been taken for certain of the new or expanded States of Europe (as for instance Czechoslovakia) are, in fact, purely historical and conventional. In such cases the movement in the rates from year to year is of greater importance than the final order.

¹ Average of March 1920.

² Based on the new parity fixed on February 2nd, 1920.

³ End of April 1920.

The actual progress which has been made is perhaps more definite than is sometimes acknowledged. Whereas at the end of 1920 the dollar stood at a premium of over 15 % compared with every other currency save that of Japan, by the third quarter of 1922 that premium was less than 5 % in the case of the currencies of five, and less than 10 % in the case of the currencies of six countries. Further, the value of the Czechoslovak crown since the end of 1920 increased by September 1922 by 68 %, the Spanish peseta by 15 %, and the Norwegian and Danish krone by 12 % and 30 % respectively; the French and Belgian francs by 23 % and 14 %, and the Italian lira by 18 %. When it is remembered that the internal purchasing power of a dollar has itself increased by 15 % during this period, and that it has, therefore, been incumbent on the other countries of the world to climb up, not to a fixed, but to an ascending objective, it is clear that the achievement is appreciably greater than the differences between the dollar agios at different dates indicate.

On the other hand, the value of the drachma is now about one-third of what it was in 1920, the leu just over half, and the dinar appreciably under half, while the Polish mark is about one-fifteenth of its earlier value, the German mark less than one-twentieth, and the Austrian krone about one two-hundredth part. In the case of these four last-mentioned countries, however, the most important movements are those which have taken place in the last twelve months. Thus, while the dollar, in terms of Polish marks, stood at 111,914 in October 1921, and 190,264 in September 1922, the German exchange moved from 3,470 on the former to 34,856 on the latter date, the dollar thus increasing its value by just over 70 % in the case of the Polish mark, and by just over 1,000 % in the case of the German mark.

XI.

xiv. — "In countries where there is no central bank of issue, one should be established, and if the assistance of foreign capital were required for the protection of such a bank, some form of international control might be required."

Since the date when this resolution was passed, measures have been adopted in almost every quarter of the globe for the centralisation and co-ordination of national banking systems. The Lithuanian Government founded a Central Bank in August last with the object of creating a stable currency system. This bank, which began its operations on October 1st, will have the sole right of note issue for a period of twenty years and will act as the banker of the Government.

More recently a new central bank of issue has been established in Latvia. This bank may only make advances to the State against a deposit of part of the Government's gold stock or foreign bills. The issue of notes, other than gold certificates, is limited to 150 million lats, and a reserve in gold has to be maintained which varies according to the quantity of notes in circulation. The notes are exchangeable on demand against gold, a new gold currency having been established at the same time on the basis of 1 lat to 1 gold franc. The bank began its operations on November 1st, 1922.

In Australia, where there was already a Commonwealth Bank, the right to issue Australian notes was transferred on November 30th, 1920, from the Treasury to a new Note Issue Department of that bank. All the assets and liabilities of the Note-issuing Department of the Treasury were accordingly handed over to the bank.

In the Dominion of South Africa, the Central Reserve Bank, which was established in 1920 with the object of taking over the right of note emission from the existing joint-stock banks, actually began operations as a bank of issue on July 1st, 1922.

In South America, three new central banks have been established by law during the current year, namely in Colombia, Paraguay and Peru. The new Banca de la Republica in Colombia is in part a private and in part a State institution. Half the capital is provided by the State and half by private individuals. Three of the seven members of the Board of Directors are appointed by the State. The bank has the sole right of issuing notes, which must be converted on presentation into gold.

The new institution in Peru, which came into existence as a result of an Act passed at the beginning of March last, took the form of a Federal Reserve Bank, half of the share capital of which is subscribed by the member banks. Only those shares owned by the member banks carry voting power. The bank is authorised to receive deposits from member banks and from local and Central Government institutions, to discount commercial bills endorsed by member banks, and to deal under certain restricted conditions in foreign exchange. It has, at the same time, the sole right of note issue, taking over the Junta de Vigilancia, which had been organised by the leading banks in Peru during the war for the issue and control of the cheques circularised. The Caja de Depositos y Consignaciones, likewise organised by the leading banks in Peru during the war for receiving Government deposits, and making advances to the Government, is also taken over by the Reserve Bank.

In Paraguay, a State bank of issue was established by an Act passed in May last. This new bank is to take over both the Agricultural Bank and the Exchange Office (*Oficina de Cambios*), its capital being based in part upon the assets of these two institutions. The bank has the right of issuing notes against certain specified reserves, and is to build up a conversion fund with the object of the final stabilisation of the currency. By Article 12 of the Bank Act, loans to the Government in excess of 20 % of the capital of the bank are prohibited.

In Central America the Republic of San Salvador established a new central bank of issue by a law approved at the end of June 1921. According to this law, the capital of the bank is fixed at 10,000,000 American dollars, and the bank has the right of issuing notes up to twice the amount of the capital paid up. These notes, against which a reserve of 50 % is to be maintained, in the United States, are redeemable either in United States gold or in sight drafts on San Francisco.

GENEVA, *November* 1922.

Argentine.¹

The measures adopted by the Brussels Conference are mostly of small material importance for the Argentine Republic, which remained neutral during the world-war and, therefore, only suffered in an indirect way, and comparatively slightly, from its economic consequences in their many aspects. Many factors, therefore, which became of essential importance from the point of view of the Brussels Conference were not, and are not, important from the point of view of the Argentine Republic. Nevertheless, the economic and financial consequences of the war have been clearly felt in this country and have played a part of some importance in the evolution of the country since the year 1914.

I. REVENUE AND EXPENDITURE.

As a result of our system of public finance, customs duties on imports and exports (the latter created during the war) provide about half the revenue of the State. As the yield of these duties is subject to considerable variations, varying in proportion to the volume of foreign trade—that is to say, in the relation of such trade to the world economic situation the balancing of the State Budget primarily depends on the general economic condition of the country and on its trade balance. The other half of the revenue is supplied by taxes on consumption, and their yield increases or decreases for the same reason but to a lesser degree. The immediate influence thus exercised by the general economic situation on the national finances may be seen particularly clearly in the tax returns for the year 1920, when the general economic development and international trade were of an intensity which had not been experienced since the war, and an unprecedented volume of trade was recorded, particularly in respect of imports. The total trade of that year amounted to 1,979 million gold piastres, 935 millions of which represent imports and 1,044 millions exports. In the year 1919, which was also a record year for trade, the total trade amounted to 1,687 million gold piastres—imports 656 millions and exports 1,031 millions.

This expansion of trade led to an increase of the revenue derived from import and export duties during the year 1920, and as taxes on consumption also provided a very satisfactory yield the total revenue increased from 368.4 millions in 1919 to 481.4 million paper piastres in 1920, a difference of more than 113 million paper piastres. Import duties reached 160 million paper piastres, as against 111 millions in 1919; export duties rose to 96.8 millions, as against

¹ Report submitted by Mr. C. A. Tornquist, delegate-at the Brussels Conference.

68.3 million paper piastres in 1919; and taxes on consumption amounted to 91.6 as against 80.3 million paper piastres in 1919.

Owing to this satisfactory yield from the chief sources of revenue, the actual revenue for the year 1920 exceeded the estimate by 70.4 million paper piastres, and the financial year closed with a surplus of 9 million paper piastres, in spite of large extra charges not provided for in the Budget, which were authorised by the Cabinet and by special laws (72.7 million paper piastres).

For the financial year 1921 no data have as yet been published with regard to the revenue from taxation or the total expenditure, but it may be presumed that the balance will be rather unfavourable, in view of the fact that the instability of the general economic situation has led to a diminution in the yield of certain sources of revenue, particularly of customs duties.

The charges for the organisation of national defence do not weigh heavily on the Budget of the Argentine Republic. The Army and Navy are being developed only gradually in accordance with the general development of the country. As the Republic remained neutral during the war and its geographical and political position freed it from the necessity of taking special military precautions, the defence budget has not increased during the last ten years, but remained at a level which has always been reasonable and never exceeded 20 % of the total expenditure for the year.

The slight increases recently noted in expenditure on the Army and Navy have been largely caused by the policy, pursued by the Government in recent years, of fixing a minimum rate of pay.

Unproductive Extraordinary Expenditure.

Under this heading may be grouped expenditure on public works, which, generally speaking, brings no immediate return in new countries such as the Argentine, since expenditure of this kind is rather of indirect value, as the works contribute to the progress of the country, increase in population, intensification of the life, increase in production and development of domestic and foreign trade.

The total expenditure on public works provided for in the Budget varies from year to year; it constitutes something between 20 and 25 % of the total Budget. The actual expenditure under this head generally falls short of the estimates, owing to the fact that many of the works authorised are spread over a long period and the expenditure in connection with them is shown in the accounts of several successive years, or again, as has frequently happened in recent years, because the necessary funds, which are to a large extent provided by the issue of loans, have not been forthcoming.

Productive Ordinary Expenditure.

There is really no such expenditure in the Argentine Budget, since all the productive enterprises undertaken by the State work independently and are self-supporting, *e.g.*, the National Argentine Bank, the National Mortgage Bank, the State Railways and the important exploitation of oil wells in Comodoro Rivadavia and Plaza Nuñcul; the unified administration of the last-mentioned undertaking has just been entrusted to a new general directorate which will work under the immediate control of the national Minister of Agriculture.

The social and economic policy of the Government, particularly in respect of the salaries of officials, has in recent years been continually favourable to the working class, and this policy has sometimes been pursued almost to the point of imperilling production.

The increase in salaries of the staff of the public services has been advantageous almost exclusively to the lowest grades of the staff. In this connection very sweeping measures have been taken by the introduction into the national Budget of the system of minimum salaries. This may possibly have an unfavourable effect on the national finances, since the minimum basis has recently been increased in an arbitrary manner. The consequences of this method of procedure will only be felt now when the national revenue has begun to decrease.

The same policy of the national Government may also be noted in the measures taken to combat the rise in price of the chief articles of consumption. Apart from export prohibitions in respect of certain raw materials, it is very clearly shown by the additional duty on the export of wheat and flour, which has been at the rate of 4 and 5 paper piastres respectively per quintal (Law No. 11,014). The revenue obtained from this source has been utilised by the Government, in accordance with the law, to diminish the prices of the said products intended for home consumption, and has reached a very high figure (46 million paper piastres in 1920).

Otherwise there are no subsidies on foodstuffs and nothing has been spent on unemployment.

With regard to the *financial position of the State railways* (these are the least important of the Argentine railways) it may be said that, in a general way, they are self-supporting. The same applies to the postal and telegraph service, which is administered by the State. Telephones, on the other hand, are carried on by private enterprise.

Since the beginning of the war there has been no *new taxation*, although in recent years the voting of an income tax has seemed inevitable. The great increase in revenue from existing taxation during the last few financial years has led to the postponement of the imposition of an income tax.

The *borrowing of the State* is carried out in the form of short-term loans, either by means of the discounting of Treasury bonds by private banks of the country, or through advances made by foreign banks for a period of one, two or three years. It is absolutely impossible in the Argentine to have recourse to the issue of notes, because, in accordance with the conversion law, such issue is invariably and solely effected in exchange for gold.

The question of the *effect of local or provincial finance on the State Budget* does not arise with regard to the Argentine, as the provinces are autonomous from a political and financial point of view, and their financial position has had no influence on the development of the finances of the State.

Exception must, however, be made of the measure recently decreed by the provinces subjecting to internal consumption taxes the same commodities as the Government had for some time past been taxing. These commodities are a very important source of national revenue. The result of this measure has been a very heavy over-taxation of the articles of consumption concerned, which will have to be abandoned sooner or later.

II. MONETARY SITUATION.

There have been no very important developments in the monetary situation. As already mentioned, the issue of notes takes place only and invariably in accordance with the law of conversion, which stipulates that notes may only be issued against gold. There has never been any exception to this rule. The Argentine currency situation is, therefore, as satisfactory as possible. There has been no inflation and, therefore, no deflation. The fiduciary circulation has developed since 1899 in proportion to the deliveries of gold to the Conversion Bank, and this gold acts as security for the notes in circulation. The gold reserve at present amounts to

480 million gold piastres, which represents cover for more than 80 % of the total circulation, including nickel and copper coins.

III. INTERNATIONAL TRADE.

No step has been taken in this respect by the Argentine Republic such as to change its pre-war position. Prohibition of the export of certain products, such as wheat, sugar, metals, etc., was at one time provisionally decreed with the sole object of retaining in the country the quantities necessary for internal consumption. The freedom and equality granted to all nations which have had commercial relations with the Argentine before the war continued during the war and still continue. It should perhaps be mentioned that several export duties have recently been abolished in view of the considerable decrease in the prices of the commodities concerned and the ever-increasing difficulty of placing the products or raw materials on the international market, particularly by reason of the falling-off in world-consumption.

July 18th, 1922.

Australia.

I. BUDGETARY MEASURES.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

At June 30th, 1920, the Commonwealth Treasury had in hand a sum of £ 5,724,806, representing the surplus of Commonwealth revenue or expenditure in the previous years.

	£
In the year ended June 30th, 1921, the revenue was . . .	65,517,608
and the ordinary expenditure, including the service of the debt, was	64,624,087
	<hr/>
the surplus being	£ 893,521
	<hr/>
In the year ended June 30th, 1922, the revenue was . . .	64,897,046
and the ordinary expenditure, including the service of the debt, was	65,106,949
	<hr/>
showing an apparent deficit of . .	£ 209,903
	<hr/>

It is to be noted, however, that this deficit was made good out of the surpluses brought forward from previous years.

The budget estimates for the year ending June 30th, 1923, are as follow:—

	£
Estimated revenue	59,568,250
Estimated expenditure	62,273,693
	<hr/>
Deficit on the year	£2,705,443
	<hr/>

Here again it is to be noted that the deficit will be met out of surplus revenue brought forward from previous years. Indeed, after meeting the deficit there will still remain in the Treasury surplus revenue amounting to £ 3,702,981.

It will be seen that the Commonwealth of Australia has complied with the condition laid down by the Brussels Conference. That is to say the Government has restricted its ordinary recurrent expenditure, including the service of the debt, to such an amount as can be covered by its ordinary revenue.

2. *Whether expenditure on armaments has been reduced.*

The Commonwealth always divided its expenditure on armaments in the following way:—

- (a) Expenditure of the Great War;
- (b) Ordinary expenditure for the defence of Australia.

In the year ended June 30th, 1921, belated expenditure in connection with the Great War amounted to . . .	£ 1,595,955
It is estimated that for the year ending June 30th, 1923, similar expenditure will amount to	504,396
Ordinary expenditure for the defence of Australia amounted, in the year ended June 30th, 1921, to . . .	5,664,216
In the following year it amounted to	6,310,717
and, for the year ending June 30th, 1923, it is estimated that the expenditure will be	4,854,141

This reduction of about £ 1,500,000 is the result of deliberate retrenchment by the Government following the principles agreed to at the Washington Conference.

It may accordingly be stated that the Commonwealth of Australia has rigidly reduced all expenditure on armaments in so far as such reduction is compatible with the preservation of national security.

3. *The extent of unproductive extraordinary expenditure.*

The Commonwealth of Australia has no unproductive extraordinary expenditure.

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

Salaries and other conditions of employment in the Public Service of Australia are settled by an Arbitration Court, which has granted increases of pay to public officials in order to compensate them for the increased cost of living. The increases hitherto granted have all been fixed amounts granted for indefinite periods, and as yet the increases have not been even partially withdrawn. No doubt when the time is considered opportune the Government will approach the Arbitration Court and ask for a withdrawal of the increases or portion thereof in order to bring the salaries down in accordance with the decreased cost of living. It will be seen that the increases of salaries and the probable decrease which will occur later are not automatically dependent upon the rise and fall of an index number as ascertained by statisticians. The effect of this policy on Budget conditions is a considerable increase in the salary bill, but extra taxation has not been required by reason thereof.

6. *The existence of subsidies on bread and other foodstuffs, coal and other materials.*

In Australia there are not any subsidies on bread and other foodstuffs or on coal and other materials.

7. *Charges for unemployment.*

In Australia there have not been any unemployment doles, though what were known as "repatriation allowances" were granted to soldiers on their discharge pending their absorption in civil employment. These repatriation allowances were paid during only a short period after discharge and have now ceased.

8. *The financial position of public undertakings.*

The most important railways of Australia are managed by the State Governments. Generally speaking, the aim of those Governments is to adjust the charges for passengers and freight at such rates as will enable the railways to earn a revenue sufficient to cover not only the expenditure on maintenance but also the interest payable on capital. No departure from this principle was made during the period of the war.

In the year 1920, the net revenues of the State railways (after deduction of the cost of working) were as follows:—

	£
New South Wales	3,512,863
Victoria	2,166,060
Queensland	636,758
South Australia	719,180
Western Australia	291,403
Tasmania	115,986
	<hr/>
Total	£7,442,250

The net revenues as set out above represent the following percentages upon the capital cost of construction, namely:—

New South Wales	4.43 %
Victoria	3.72 %
Queensland	1.59 %
South Australia	3.76 %
Western Australia	1.61 %
Tasmania	2.21 %
All States	3.38 %
As the interest payable by the State Governments on loans for the construction of railways amounted in 1920 to	£926,196
and as the net amount available for payment of interest (after payment of working expenses) amounted to	£7,442,250
it will be seen that the State railways of Australia showed a deficit	£1,826,946

This deficit may be expected to disappear in the future in consequence of the fall in prices of commodities and services, and in consequence of the occupation of lands which the railways have been designed to open up for productive settlement.

The Commonwealth Government owns the Transcontinental Railway and some unimportant other railways. These railways at present show a loss on working, the gross revenue in 1920 having been £315,757, while the working expenses amounted to £417,637. It is not expected that these railways will be in a position to meet the charges for interest on capital for some years to come, though as population increases the traffic on the Transcontinental Railway may be expected to become profitable.

The present comparatively small losses on running Commonwealth and State Railways are made good out of the proceeds of taxation, and that course may be deemed to be justified in a young country which is compelled to expend money for its development. There is no doubt that the expenditure on the railways will result in the production of great wealth to the nation in the future.

Postal, telegraph and telephone business is under the control of the Commonwealth Government, and there are no private organisations in Australia which handle any portion of the business. The following were the financial results in the year ended June 30th, 1921:—

	£
Posts profit	929,604
Telephones »	222,475
Total	£ 1,152,079
Telegraphs loss	8,312
Total net profit to the Postmaster-General's Department	£ 1,143,767

Before ascertaining the profit indicated, there was deducted from the revenue a sum representing not only the interest actually paid upon loans raised for capital purposes but also interest upon that portion of the capital expenditure which was met out of revenue.

9. *The introduction of new taxation.*

Throughout the whole war period it was the practice to impose new taxation in order to meet all annually recurring charges of the Government, including interest payable on war loans. Right through the war period there was never a deficiency of revenue to meet those charges. It will be seen that the Commonwealth of Australia at no time transgressed the principles indicated in Article 6 of the Brussels Resolutions on Public Finance.

10. *Methods of raising money by loans, whether by (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the Central Bank, leading to further new inflation.*

During the war the Government leaned to some extent upon the banks in that it induced the banks to grant overdrafts, for periods not exceeding 18 months, to enable individuals to subscribe to war loans. Even since the war this practice was resorted to in relation to loans required for repatriation of soldiers, including the building of homes and settlement on the land. The overdrafts were secured merely by the Government Bonds which were issued to the subscribers, and this, of course, caused some inflation. The Treasurer of the Commonwealth, in his recent budget speech, announced that, in future, there would be no artificial aids to the raising of loans, and the system of inflation referred to has now definitely come to an end. It may be stated too that practically all the overdrafts referred to have been cleared off by the subscribers and thus eventually the loans have been covered by real savings.

Except in respect of the comparatively unimportant sum raised by the issue of War Savings Certificates, and except for two small sums raised by Treasury Bills in London during the last

two years, Australia has never, since the outbreak of war, raised a loan having a currency of less than five years. The total issue of war savings certificates to June 30th, 1922, amounted to £6,400,000, and they have all been paid off with the exception of about £1,000,000. Treasury Bills, to which reference has been made, have all been paid off out of the proceeds of long-dated loans issued in London.

The banks made some direct subscriptions to war loans, and, even as late as 1920, lent the Government £6,000,000 in order to enable war gratuities to be paid to soldiers, but no further direct assistance of banks to the Government is likely to be sought.

In more definite reply to the questionnaire, it may be stated:

(a) The general practice of the Commonwealth of Australia is to raise loans only for long terms;

(b) Short-term loans are issued by Australia only for comparatively small sums and only when some temporary condition of the market renders it inexpedient to float a long loan. As a rule, the Commonwealth of Australia has no floating debt whatever, and has none at present;

(c) It is against the new policy of the Government of Australia to raise loans direct from the Central Bank or other banks.

II. *The influence of foreign loans and trade balances.*

Australia is not embarrassed by questions concerning the discharge of international obligations.

Great Britain advanced about £90,000,000 to Australia for war purposes, and in 1921 an agreement was entered into for the discharge of the obligations in that respect. The agreement provides for payment of an annuity to the mother-country for a period of about 35 years. The annuity covers principal as well as interest and can be paid by Australia without difficulty. Requirements for the development of the great resources of this new and sparsely populated continent necessitate the assistance of overseas capital, and this is usually obtainable on reasonable terms in the London market.

Australia is able, however, to find some money for development out of the savings of the Australian people. Under these conditions it is possible, even without shipments of gold, to adjust balances of trade for or against Australia by arrangement of loan transactions. For example, an adverse balance of trade can conveniently be corrected by Government borrowing in London. On the other hand, a trade balance in favour of Australia can be adjusted by curtailment of borrowing in London. By reason of the facilities in respect of borrowing in London and by reason of the fact that the adjustment of trade balances with all countries is usually effected by settlements in London, Australia has no serious problems in relation to exchange. The rates of exchange between London and Australia have been at or about par during many years past, including the years of the war.

12. *The effect of local and provincial finance on the budget of the State.*

Local provincial finance does not seriously affect the Budget of the Commonwealth of Australia. Though the powers of the States to impose taxation are identical with those of the Commonwealth in that regard, and though difficulties are caused by dual taxation, the resources of Australia hitherto have proved sufficient to meet all the demands of the taxation authorities, and the Commonwealth of Australia has suffered from no lack of funds to meet necessary outlay.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The note circulation of Australia has varied, as shown in the following table:—

		£
June	1920	56,949,000
July	1920	56,464,000
January	1921	58,713,000
July	1921	58,225,000
January	1922	56,045,000
July	1922	53,556,000
September	1922	52,037,000

The various causes which led to an increase in the note circulation of Australia have ceased to operate, and a shrinkage has begun.

2. *The influence of Government expenditure on currency.*

It has already been shown that the Commonwealth of Australia is meeting its current expenditure out of revenue and therefore Government expenditure has no abnormal influence upon the condition of the currency.

3. *The repayment of floating debt and the effects thereof.*

Australia has no floating debt.

4. *The connection between the Government and the Central Bank of issue.*

The banks of Australia are entirely free from political pressure and are conducted solely on lines of prudent finance. As already stated, the banks assisted the Government during the war in such a way as to cause some inflation. The association with the Government in this direction has now entirely ceased. The Commonwealth Bank of Australia, which is a Government institution placed beyond political control, has charge of the note issue. It is not a central bank in the sense that the other banks rely upon it for guidance or financial support, and the question of altering its status so as to convert it into a central bank in the full sense of the term is receiving attention by the authorities. No other bank in Australia has the right to issue notes.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

The granting of credits in Australia is no longer subject to artificial arrangements, and the banks of issue are successfully performing their normal functions.

6. *The existence of any artificial control of exchange, with a description of its character and its effects.*

In Australia there is no artificial control of exchange, and foreign holders of banknotes and credit balances are not treated differently from native holders.

7. *The causes and effects of deflation.*

Deflation in Australia since 1920 has been caused by the cessation of arrangements with banks for special assistance to war and reconstruction loans; also by the discontinuance of making loans to States by increasing the note issue.

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports and exports or of special permits; the abolition or lowering of import or export duties, etc.*

As from December 1920, the prohibition of export of goods to ex-enemy countries was removed. As from August 1st, 1922, the prohibition of imports from ex-enemy countries was also cancelled. The prohibition of imports of dyes, other than those of British origin, is still in force, except as to such dyes of foreign origin for which no effective British substitutes are available commercially.

A new Customs Tariff Act was passed, as from December 16th, 1921, providing generally for greater protection of local industries and increased preference to those of the United Kingdom and New Zealand. This Tariff Act also provides for an intermediate tariff which may be applied, as a result of negotiation, to certain goods of other countries granting reciprocal treatment to Australian goods.

2. *The existence (or abolition) of price discrimination against foreign trade.*

Price discrimination against foreign trade is covered by the operation of the Customs Tariff (Industries Preservation) Act 1921, which is reproduced in the annex to this chapter.

3. *The conclusion of (a) commercial conventions; (b) transport conventions.*

An agreement regarding tariff reciprocity was concluded with New Zealand, and became operative on September 1st, 1922.

No transport conventions have been entered into by Australia.

November 24th, 1922.

ANNEX.

CUSTOMS TARIFF (INDUSTRIES PRESERVATION) ACT.

No. 28 of 1921.

AN ACT RELATING TO CERTAIN SPECIAL DUTIES OF CUSTOMS.

(Assented to December 16th, 1921.)

Be it enacted by the King's Most Excellent Majesty, the Senate, and the House of Representatives of the Commonwealth of Australia, as follows:

- Short title. 1. This Act may be cited as the *Customs Tariff (Industries Preservation) Act 1921*.
Incorporation. 2. The *Customs Act 1901-1920* shall be incorporated and read as one with this Act.
Definitions 3. In this Act, except where otherwise clearly intended:

"Ballast rates" means special rates chargeable on any goods shipped as ballast or stiffening for any vessel, and being lower than the rates chargeable on those goods when carried as ordinary cargo;

"Subsidised ship" means any ship to the master, owners, agents or charterers of which there is paid any Government or other subsidy, bonus or bounty (not being payment for the actual carriage of mail matter at rates which the Minister considers to be fair and reasonable) which will permit of goods being carried at a rate of freight lower than would be the case if such subsidy, bonus or bounty were not paid;

"the export price" of goods exported to Australia means the price at which the goods are sold by the exporter to the importer in Australia (including the free-on-board charges in the country of export);

"the fair market value" of goods means the fair market value of the goods, or of goods of the same class or kind, sold in the country of export in relation to which the expression is used, for home consumption in the usual and ordinary course of trade plus free-on-board charges in that country, but not including any Excise duties payable in that country;

"the Tariff" means the Customs Tariff in force for the time being; and

"the Tariff Board" or "the Board" means the Tariff Board appointed under the *Tariff Board Act 1921*;

Dumping duty. 4. — (1). If the Minister is satisfied, after inquiry and report by the Tariff Board, that goods exported to Australia, which are of a class or kind produced or manufactured in Australia, have been or are being sold to an importer in Australia at an export price which is less than the fair market value of the goods at the time of shipment, and that detriment may thereby result to an Australian industry, the Minister may publish a notice in the *Gazette* specifying the goods as to which he is so satisfied.

(2) Upon the publication of the notice, there shall be charged, collected and paid to the use of the King, for the purposes of the Commonwealth, on those goods imported into Australia a special duty (in this section referred to as "the dumping duty").

(3) The amount of the dumping duty in each case shall be the sum which represents the difference between the fair market value of the goods at the time of shipment and the export price:

Provided that where the importer satisfies the Minister that he purchased the goods within six months prior to the time of shipment and that after the date of purchase and prior to the date of shipment the fair market value of the goods had increased, the fair market value to be taken for the purposes of this section shall be the fair market value at the date of purchase.

(4) The regulations may provide for the exemption of the following goods from the dumping duty:

- (a) Any goods or class of goods in respect of which the Minister is satisfied, after report by the Tariff Board that the goods or classes of goods are not made in Australia in substantial quantities and offered for sale to all purchasers on equal terms under like conditions having regard to the custom and usage of trade;
- (b) Any goods in respect of which the difference between the fair market value and the export price does not exceed five per centum of the fair market value;
- (c) Any goods in respect of which the difference between the fair market value and the export price does not exceed ten per centum of the fair market value, if the Minister is satisfied, after report by the Tariff Board, that the exemption would not be detrimental to any Australian industry; and
- (d) Goods, being articles of merchandise, for use *bonâ-fide* as samples for the sale of similar goods.

5. — (1) If the Minister is satisfied, after inquiry and report by the Tariff Board, that goods produced or manufactured outside Australia have been or are being sold to an importer in Australia at an export price which is less than a reasonable price, and that detriment may thereby result to an Australian industry, the Minister may publish a notice in the *Gazette* specifying the goods as to which he is so satisfied.

Dumping-below-cost duty.

(2) Upon the publication of the notice, there shall be charged, collected and paid to the use of the King, for the purposes of the Commonwealth, on those goods imported into Australia, a special duty (in this section referred to as "the dumping-below-cost duty").

(3) The amount of the dumping-below-cost duty in each case shall be the sum which represents the difference between a reasonable price of the goods at the time of shipment and the export price of the goods.

(4) In this section "a reasonable price" means such a price as represents the cost of production of the goods, plus five per centum, plus free-on-board charges.

(5) In the absence of satisfactory evidence as to the cost of production, the Minister may, after report by the Tariff Board, fix such amount as he thinks fit as the cost of production, and the amount so fixed shall, for the purposes of this section, be deemed to be the cost of production.

6. — (1) If the Minister is satisfied, after enquiry and report by the Tariff Board, that goods have been or are being consigned to Australia for sale, and that they may be sold at less than a reasonable selling price, and that detriment may thereby result to an Australian industry, the Minister may publish a notice in the *Gazette* specifying the goods as to which he is so satisfied.

Provisions in case of goods on consignment.

(2) Upon the publication of the notice in the *Gazette*, there shall be charged, collected, and paid to the use of the King, for the purposes of the Commonwealth, on those goods imported into Australia, a special duty (in this section referred to as "the dumping consignment duty").

(3) The amount of the dumping consignment duty in each case shall be the sum which represents the difference between the wholesale selling price in Australia and a reasonable selling price.

(4) In this section "a reasonable selling price" means the price ascertained upon the following basis, namely: To the fair market value of the goods there shall be added the freight, insurance, landing and other charges, together with the amount of duty payable under the Customs Tariff, together with five per centum on the aggregate of all the items mentioned.

(5) If the evidence of the fair market value is, in the opinion of the Minister, insufficient, the Minister may, for the purposes of the last preceding sub-section, substitute in lieu thereof the ascertained cost of production plus five per centum of such cost, or, if the cost of production is not ascertainable, the cost of production estimated from such information as is available, plus five per centum of such estimated cost.

7. — (1) If the Minister is satisfied, after inquiry and report by the Tariff Board, that any goods exported to Australia, of a class or kind produced or manufactured in Australia, have been or are being carried:

Dumping freight duty.

- (a) in subsidised ships at rates of freight lower than the rates of freight prevailing at the date of shipment; or
- (b) at ballast rates of freight, being rates lower than the rates of freight prevailing at the date of shipment; or
- (c) freight free,

or that by reason of the granting of rebates, refunds, or other allowances the net amount of freight payable on goods exported to Australia, of a class or kind produced or manufactured in Australia, is lower than the rates of freight prevailing at the date of shipment, and that in any such case detriment may thereby result to an Australian industry, the Minister may publish a notice in the *Gazette* specifying the goods as to which he is so satisfied.

(2) Upon the publication of the notice, there shall be charged, collected and paid to the use of the King, for the purposes of the Commonwealth, on those goods imported into Australia, a special duty (in this section referred to as "the dumping freight duty").

(3) The rate of the dumping freight duty shall be five per centum of the fair market value of the goods at the time of shipment.

Dumping
exchange duty.

8. — (1) If the Minister is satisfied, after inquiry and report by the Tariff Board, that the exchange value of the currency of the country of origin or export of any goods has depreciated, and that by reason of such depreciation goods have been or are being sold to an importer in Australia at prices which will be detrimental to an Australian industry, the Minister may publish a notice in the *Gazette* specifying the country as to the exchange value of the currency of which he is so satisfied, and the goods originated in or exported from that country to which in his opinion the provisions of this section should apply.

(2) Upon the publication of the notice, there shall be charged, collected and paid to the use of the King, for the purposes of the Commonwealth, on all goods specified in the notice, produced or manufactured in or exported from the country specified therein, a special duty, at a rate to be ascertained in accordance with the Schedule.

Dumping
preference duty.

9. — (1) If the Minister is satisfied, after inquiry and report by the Tariff Board, that, by reason of the depreciation in exchange value of the currency of the country of origin or export of any goods, in comparison with the currency of the United Kingdom, goods exported to Australia, which have been produced or manufactured in any country other than the United Kingdom, and are of a class or kind produced or manufactured in the United Kingdom, have been or are being sold to an importer in Australia at an export price which is less than the fair market value of goods of like character or quality made in the United Kingdom, when sold for home consumption therein in the usual and ordinary trade course, plus the ordinary free-on-board charges therein (in this section referred to as "the fair market value in the United Kingdom"), the Minister may publish a notice in the *Gazette* specifying the goods as to which he is so satisfied.

(2) Upon the publication of the notice, there shall be charged, collected and paid to the use of the King, for the purposes of the Commonwealth, on those goods imported into Australia, a special duty (in this section referred to as "the dumping preference duty").

(3) The amount of the dumping preference duty in each case shall be the sum which represents the difference between the fair market value in the United Kingdom and the export price.

Dumped
materials duty.

10. — (1) If the Minister is satisfied, after inquiry and report by the Tariff Board, that goods have been or are being sold to an importer in Australia, which were manufactured wholly or in part from material supplied from any country whose currency has depreciated by comparison with the currency of the country to which the material was supplied, and that the manufactured goods have been or are being sold to an importer in Australia at a price below the price at which the same goods could have been manufactured in the country of manufacture if made from material of such country of manufacture, and allowing for a reasonable profit, the Minister may publish a notice in the *Gazette* specifying the goods as to which he is so satisfied.

(2) Upon the publication of the notice, there shall be charged, collected and paid to the use of the King, for the purposes of the Commonwealth, on those goods imported into Australia, a special duty (in this section referred to as "the dumped materials duty").

(3) The amount of the dumped materials duty shall be the sum which represents the difference between the price at which the goods were or are being sold to Australia, and the price representing what would have been the fair market value of the same goods if the goods had been manufactured wholly in the country of export from materials of that country.

Evasion of duty
under sections 9
and 10 by
consignment.

11. — If the Minister is satisfied, after inquiry and report by the Tariff Board, that the duty imposed by either of the last two preceding sections is likely to be evaded by the consignment of goods to Australia for sale, he may direct that there shall be payable on any goods specified by him, by notice published in the *Gazette*, which have been consigned to Australia for sale, a duty in an amount which will in his opinion assure that the goods will not be sold in Australia at less than a reasonable selling price as defined in section 6, and duty in that amount shall thereupon be charged, collected, and paid to the King for the purposes of the Commonwealth on such goods.

Duties to be
collected
separately.

12. — The various duties imposed by the Act shall be separately charged, notwithstanding that more duties than one may apply to any particular goods:

Provided that the duty payable on any particular goods under sections 4 to 7 inclusive of this Act shall not either severally or collectively exceed fifteen per centum of the value for duty of the goods as ascertained in accordance with Division 2 of Part VIII of the *Customs Act 1901-1920*.

Power to
specify goods.

13. — The powers given by this Act to the Minister to publish notices specifying goods shall extend to the publication of notices specifying goods of any particular class or kind or to any particular shipment of goods or to goods exported by any particular exporter or to goods specified in such other manner as the Minister

thinks fit, and, if the notice so provides, to all or any goods entered for home consumption on or before the date of issue of the notice as well as to goods entered for home consumption after that date.

14. — (1) Any notice published in pursuance of this Act may be revoked at any time if the Minister is satisfied that the conditions which occasioned the publication of the notice no longer exist, and that it is desirable that the notice should be revoked.

Power to revoke notices.

(2) Upon the revocation of the notice, the duties charged in consequence of the publication of the notice shall no longer be collected.

15. — The special duties payable under this Act shall be in addition to such other duties (if any) as are payable under the Tariff.

Special duties to be additional to ordinary duties.

16. — Where at the time of the entry for home consumption of any goods dutiable under this Act, the duty payable under this Act was not paid, the Collector may at any time call upon the importer to pay the duty, and the importer shall pay the duty accordingly.

Special duties may be collected by post entry.

17. The Governor-General may make regulations, not inconsistent with this Act, for carrying out or giving effect to this Act.

Regulations.

THE SCHEDULE

The special duty provided by Section 8 of this Act shall be calculated as follows:

(A) As to the franc (French and Belgian currencies) and the lira (Italian currency) the mint par rate of exchange of which is 25.22 to £1 sterling:

If the bank rate of exchange between London and the country of export or origin at the date of export is greater than 25.22 (par) but is less than 30.00, no special duty shall be chargeable; and

If the said bank rate of exchange is not less than —	But is less than —	The special duty shall be chargeable <i>ad valorem</i> at the rate of —
30	35	8½ per cent.
35	40	15 " "
40	45	21 " "
45	50	26 " "
50	55	30 " "
55	60	33 " "
60	65	36 " "
65	70	38½ " "
70	75	40½ " "
75	80	42½ " "
80	85	44½ " "
85	90	46 " "
90	95	47½ " "
95	100	49 " "
100	105	50 " "
105	110	51½ " "
110	115	53 " "
115	120	54½ " "

THE SCHEDULE (continued).

(A) (continued).

If the said bank rate of exchange is not less than —	But is less than—	The special duty shall be chargeable <i>ad valorem</i> at the rate of —
120	125	55 ½ per cent.
125	130	56 ½ " "
130	135	58 " "
135	140	59 " "
140	145	60 " "
145	150	60 ½ " "
150	155	61 ½ " "
155	160	62 ½ " "
160	165	63 " "
165	170	64 " "
170	175	64 ½ " "
175	180	65 " "
180	185	66 " "
185	190	66 ½ " "
190	195	67 " "
195	200	67 ½ " "
200	205	68 " "
205	210	68 ½ " "
210	215	69 " "
215	220	69 ½ " "
220	225	70 " "
225	230	70 ½ " "
230	235	70 ½ " "
235	240	71 " "
240	245	71 ½ " "
245	250	72 " "
250	255	72 " "
255	260	72 ½ " "
260	265	73 " "
265	270	73 " "
270	275	73 ½ " "
275	280	73 ½ " "
280	285	74 " "
285	290	74 " "
290	295	74 ½ " "
295	300	74 ½ " "
300	—	75 " "

THE SCHEDULE (*continued*).

(B) As to the mark (German currency), the mint par rate of exchange of which is 20.43 to £1 sterling:

If the bank rate of exchange between London and the country of export or origin at the date of export is greater than 20.43 (par) but is less than 25, no special duty shall be chargeable; and

If the figure denoting the rate of exchange is not less than—	But is less than—	The special duty shall be chargeable <i>ad valorem</i> at the rate of—
25	30	10 per cent.
30	35	18 "
35	40	24½ "
40	45	30 "
45	50	34 "
50	55	37½ "
55	60	40 "
60	65	42½ "
65	70	45 "
70	75	47 "
75	80	48½ "
80	85	50 "
85	90	52 "
90	95	53½ "
95	100	55 "
100	105	56½ "
105	110	58 "
110	115	59½ "
115	120	60½ "
120	125	61½ "
125	130	62½ "
130	135	63½ "
135	140	64½ "
140	145	65 "
145	150	66 "
150	155	66½ "
155	160	67½ "
160	165	68 "
165	170	68½ "
170	175	69 "
175	180	69½ "
180	185	70½ "
185	190	71 "
190	195	71 "
195	200	71½ "

THE SCHEDULE (continued).

(B) (continued).

If the figure denoting the rate of exchange is not less than—	But is less than —	The special duty shall be chargeable <i>ad valorem</i> at the rate of—
200	205	72 per cent.
205	210	72½ ¹ / ₂ »
210	215	73 »
215	220	73½ »
220	225	73½ »
225	230	74 ¹ / ₂ »
230	235	74½ »
235	240	74½ »
240	—	75 »

(C) As to currencies not provided for in the preceding paragraphs of this Schedule, the special duty shall be chargeable at a rate to be proclaimed by the Governor-General. The rate to be so proclaimed shall be such a rate as, in the opinion of the Governor-General, approximates as nearly as practicable to the basis established in the foregoing tables.

Austria.

The financial policy of the Austrian Government has constituted the subject of various memoranda and reports issued by the League of Nations¹. In the following note, prepared by the Austrian Government, is given a sketch of the commercial policy since the International Financial Conference at Brussels.

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

The customs duties at present levied in Austria are substantially based upon the customs tariff for the Austro-Hungarian customs area of March 1st, 1906. Since then, modifications were made as regards various single items in so far as was necessary. The most important modifications since 1920 are included in the law of July 15th, 1921 (Civil Law Publication No. 384 of 1921) (Customs Revenue Tariff), and the Customs Revenue Tariff Supplementary Law (C. L. Pub. No. 498) of 1922.

The present customs duties are 10,000 times the amount laid down in the customs tariff, C. L. Pub. No. 761 of 1922, except in the case of duties which must be paid on the basis of the full value of the duty in gold crowns, as laid down in the tariff, in conformity with the Orders of October 20th, 1921 (C. L. Pub. No. 565), of November 20th, 1921 (C. L. Pub. No. 629), and of December 10th, 1921 (C. L. Pub. No. 694), and also of the Federal Law of July 24th, 1922, (C. L. Pub. No. 498) (Budget Customs Tariff Supplementary Law) and the Order of October 7th, 1922 (C. L. Pub. No. 739). The rate of conversion for payments in gold crowns is published weekly by the Austro-Hungarian Bank, and for the week beginning November 26th and ending December 3rd, the rate was 14,640 kronen = 1 gold krone.

The law of December 28th, 1920 (C. L. Pub. No. 28 of 1921), definitely embodies all previous regulations.

¹ "Report and Papers relative to the Financial Reconstitution of Austria." Provisional Economic and Financial Committee. 5/-.

"The Restoration of Austria. Agreements arranged by the League of Nations and signed at Geneva on October 4th, 1922, with the relevant documents and public statements." 2/6.

2. *The existence (or abolition) of price discrimination against foreign trade.*

Foreigners are treated in exactly the same manner as Austrian subjects.

3. *The conclusion of (a) commercial conventions; (b) transport conventions.*

(a) The following treaties of commerce have been concluded by Austria:

German Empire: Agreement of September 1st, 1920 (C. L. Pub. No. 135 of 1921).

Czechoslovakia: Commercial agreement of May 4th, 1921 (C. L. Pub. No. 853 of 1922).

Poland: Commercial agreement of September 25th, 1922 (not yet ratified).

Kingdom of the Serbs, Croats and Slovenes: Commercial agreement of June 27th, 1920 (C. L. Pub. No. 14 of 1921) (This agreement will be extended for an indefinite period until the conclusion of a new agreement.)

Switzerland: It was agreed, in an exchange of notes, that the general stipulations of the commercial treaty concluded between Switzerland and Austria-Hungary on May 9th, 1906, should be applicable as between Switzerland and Austria until further notice.

Lichtenstein: Agreement of April 22nd, 1920 (C. L. Pub. No. 36 of 1920), and exchange of notes of September 30th, 1921 (C. L. Pub. No. 17 of 1922.)

Russia: Agreement of December 7th, 1921 (C. L. Pub. No. 147 of 1922).

Roumania: Commercial agreement of August 14th, 1920 (C. L. Pub. No. 40 of 1920). (As the Roumanian Government, for constitutional reasons, refused to recognise the validity of this commercial treaty, fresh negotiations were opened, which have not, however, yet resulted in a new treaty.)

Hungary: Commercial agreement of February 8th, 1922 (not yet ratified).

Bulgaria: Most-favoured-nation agreement of March 9th, 1922 (C. L. Pub. No. 227 of 1922).

(b) Transport agreements:

Agreement, dated June 8th, 1921, between the Czechoslovak and Austrian Governments regarding through conveyance of traffic from either State to third States in "sealed" trains, and regarding the railway wagon service.

Agreement, dated June 9th, 1922, between the Polish Railway Administration at Warsaw and the Austrian Federal Ministry of Transport at Vienna regarding the conveyance of through train traffic from either State to third States in "sealed" trains or groups of wagons, and regarding the railway wagon service.

December 28th, 1922.

Belgium.

I. BUDGETARY MEASURES.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue (Art. III, P. F.).*

The estimates for ordinary revenue for the financial year 1922 amount to 2,568,428,913 francs, which is 466,985,841 francs more than in 1921, and 967,540,489 francs more than in 1920.

The total ordinary expenditure, including the service of the debt, reaches the figure of 2,593,463,253 francs. This is an increase of 242,000,000 francs on the previous year.

The increase is accounted for to the extent of 268,998,940 francs by the increase in the debt and the resulting charges.

With the exception of 25,034,340 francs, the ordinary expenditure is covered by the ordinary revenue.

It should, however, be observed that the ordinary revenue derived from taxes amounts to only 1,555,464,650 francs.

The difference of 1,013 millions is made up by the following items of revenue:—

Tolls (2,950,000 francs), various receipts (89,398,639) and payments (243,975,624), and especially the sums to be paid by Germany either on account of occupation expenses (112,240,000) or on account of reparations (433,000,000), to cover the service of that part of the debt which was contracted on account of Germany, or ultimately, in anticipation of an agreement in regard to the handing over of the marks held by the Belgian Government (97,000,000).

It should be noted that this budget of ordinary expenditure only includes administrative expenditure properly so called; public undertakings are included in a special separate budget.

2. *Whether expenditure on armaments has been reduced (Art. III, P. F.).*

The total expenditure on armaments has decreased from 754,903,216 francs in 1920 to 592,753,630 in 1921 and to 577,937,248 in 1922. This year shows, therefore, a reduction of 176,965,968 francs on 1920.

The Budget for 1922 is made up as follows:—

National Defence	483,859,146 francs
Extraordinary Expenditure	43,071,017 »
Gendarmerie	51,007,085 »
Total	<hr/> 577,937,248 francs

As this table shows, the expenditure on the Gendarmerie is included in the figure given for credits appropriated to armaments. In reality this expenditure is in no way military, as the

Gendarmerie is only an ordinary civil police force. The figures for the ordinary and extraordinary expenditure on armaments for 1922 may, therefore, be reduced to 526,930,163 francs.

3. *The extent of unproductive extraordinary expenditure (Art. III, P. F.).*

The budget of extraordinary expenditure, which reaches the figure of 852,806,657 francs, is divided into two distinct chapters. The first includes expenditure on plant and establishment charges; this, which amounts to 428,466,500 francs, or more than half the total, is productive expenditure. The second chapter includes expenditure arising out of the war but not chargeable to Germany; it amounts to 424,340,157 francs. It is a heavy burden for the country but is unavoidable. This chapter will be automatically eliminated as soon as the effects of the war disappear.

4. *The extent of productive extraordinary expenditure (Art. III, P. F.).*

Productive extraordinary expenditure amounts to only 428,466,500 francs, as compared with 2,593,463,253 francs for ordinary expenditure.

The Government is endeavouring to restrict it as far as possible.

5. *Statement with regard to the policy of the government in the case of remuneration granted to officials by reason of variations in the cost of living and the effects of this policy on budget conditions.*

The basic salary of officials has been increased two or three times. The higher the salary, the lower in proportion is the increase. The smaller salaries have been nearly trebled, whereas salaries which before 1914 were 6,000 francs and over have only been increased by 85 %.

In addition to the salary, there exists a housing allowance varying with the size of the town in which the official habitually discharges his duties, and a family allowance amounting to .50 francs daily for each child dependent on the official.

In addition each official receives a cost-of-living bonus amounting to 100 francs a month (75 francs for junior officials). It is adjustable to the extent that it diminishes or increases by one-third at each change of 60 points in the index number of the country. Having been based on index numbers ranging from 421 to 480, it has now been reduced to two-thirds of its original amount, the index number for June 1922 being 366. On the above basis, the sum to be paid this year under this heading is estimated at 135,156,145 francs.

The total salaries to be paid to officials in 1922 amount to 710,452,325 francs, while the budget provides 2,593,463,253 francs for the total ordinary expenditure, but if the service of the debt is deducted from this budget, the total ordinary expenditure allocated to the different ministries reaches 1,453,027,166 francs; the salaries of officials, therefore, account for almost exactly half this sum.

6. *The existence of subsidies on bread and other foodstuffs, coal and other materials (Art. V, P.F.).*

Belgium has definitely abandoned any policy tending to produce an artificial cheapening of foodstuffs or other commodities. The services entrusted with the food supply of the country during the transition period are being liquidated.

The total expenditure provided for this purpose in 1922, under the heading of Food Supplies, amounts to only 79,869,431 francs; this is compensated by receipts to the amount of 75,550,000 francs. The only item of any importance is the purchase and sale of frozen meat by the State refrigerator service; the latter is only maintained provisionally and will be abolished or handed over to private enterprise as soon as circumstances permit.

7. *Charges for unemployment* (Art. V, P. F.).

There still exists in Belgium a National Emergency Fund, which pays doles to the unemployed through the insurance associations of which they are members. Its expenditure is partly covered by the Government, the communes and the local unemployment funds; certain provincial administrations also provide assistance. In 1921, the Government was obliged to pay or lend the Fund 130,000,000 francs, subject to future cancellation. In 1922, credits granted under this head were reduced to 50,000,000 francs. The crisis being now less severe and unemployment having diminished, definite progress towards a normal state of affairs may be anticipated. Meanwhile the regulations regarding the granting of doles are applied with increasing severity and the rate of allowance has recently been reduced.

8. *The financial position of public undertakings (railways, posts, telegraphs, telephones, etc.)* (Art. V, P. F.).

The revenue derived from public undertakings in 1922 has been estimated at 1,142,174,956 francs only; the expenditure being estimated at 1,353,089,717 francs, there will be a deficit of 210,914,761 francs.

A few remarks are needed to explain this figure. In the expenditure are included the annual charges on capital account for these services; they amount to 165,000,000 francs in 1922.

Revenue shows an increase of 64,612,806 francs on the previous year. In addition, it is probable that the estimates were too low and that the actual receipts will be about 60,000,000 francs in excess of the estimated figures. The first four months of 1922 have yielded 22,430,000 francs in excess of the estimates.

Lastly, if the accounts of the public services were kept on strict business lines, it would be necessary to place on the credit side a certain number of items which would reduce the actual deficit to 36,750,000 francs.

9. *The introduction of new taxation* (Art. VI, P. F.).

Taxation in Belgium has been considerably increased. The method of taxation has been changed by the introduction of a graduated income tax.

Among other measures, the succession duty has been materially increased, and a tax on the transfer of all commodities has been established, which alone will yield 200,000,000 francs.

The total amount yielded to the Government by taxation in 1914 reached the figure of 354,000,000 francs. In the Budget of 1922, the yield of taxes is estimated at 1,555,464,650 francs, in addition to 25,000,000 francs to be derived from the special tax on war profits.

A fiscal policy which multiplies nearly fivefold the regular revenue of the State represents a very serious effort.

It must, however, be remembered that the ordinary expenditure reaches the sum of 2,593,463,253 francs, including the service of the debt contracted on account of Germany under the head of reparations.

Two conclusions may be reached from the above.

In the first place, it can be seen that Belgium has made a laborious and successful effort to improve her finances. The extent of this effort will be appreciated from the fact that the figures given are only those concerning the finances of the Government; to form an exact idea of the increase in fiscal charges imposed on every citizen, it must be realised that the taxes raised by the Communes and Provinces, whose finances were also involved in debt by the war, were increased in the same proportion.

In the second place, it is evident that in spite of all her efforts Belgium is incapable of bearing alone the burden of repairing the devastation of her territory wrought by the Germans; it is manifestly impossible for her to attempt to balance her Budget without the regular payment of German reparations.

10. *Methods of raising money by loans.*

Whether by:

- (a) *long-term loans;*
- (b) *short-term loans in the open market;*
- (c) *loans direct from the central bank, leading to further new inflation.*

(Art. VIII, P. F.)

(a) The funded debt was increased in 1921 by 2,415,500,000 francs by the issue of long-term loans on the home market.

(b) During the same year the floating debt was increased in the same proportion — namely, by 2,545,500,000 francs.

On the other hand, Belgium's external debt, which represents only one-fifth of the total debt, has remained at the same level.

(c) The Belgian Government has raised only one loan from the National Bank of Belgium; this was contracted in 1919 for the purpose of replacing by Belgian notes the German notes in circulation at the date of the Armistice. It was simply a question of exchange between two currencies. Beyond this advance of a special character, which has been reduced by a first repayment of 300,000,000 francs, the National Bank has made no further loan, however small, to the Government.

11. *The influence of foreign loans and of the balance of foreign trade.*

The advances made to Belgium by the Allies during the war were placed to the account of Germany by Article 232 of the Treaty of Versailles; they need no longer, therefore, be taken into account.

The advances made by foreign Governments since the Armistice, the last of which were made in the first three months of 1919, reach the figure of $3\frac{1}{4}$ milliards of francs, but no interest is yet paid on them.

The other part of the external debt is too small in proportion to the total debt (about one-tenth) for any special influence on the economic life of the country to be with any certainty attributed to it.

The same applies to the balance of foreign trade. This is definitely unfavourable. In 1921, the exports amounted to 7,139,837,000 francs, as against imports amounting to

10,051,435,000 — that is to say, only 71 %. The negative balance of trade in Belgium is, however, covered, in addition to the pre-war items, by the payments made by Germany on account of reparations. In these circumstances it is impossible to attribute any definite influence to the balance of foreign trade.

12. *Note on the effect of local and provincial finance on the budget of the state.*

Generally speaking, that portion of the taxes raised by the central administration, but used by the provinces or communes, is not included in the figures shown in the Budget. Thus the sums appropriated to the Communal Fund have been deducted from the figures given in the budget of ways and means (No. 24, p. 6).

It is due to the war that the provincial and communal finances in Belgium have still a direct effect on the budget of the State; and the effects produced may be seen in the budget of Recoverable Expenditure.

The inter-provincial debt, resulting from the war contributions imposed on the country by the Germans, amounts to 2,347,800,000 francs. The service of this debt amounts to 100,630,000 francs in the State budget.

The sum of 26,250,000 francs, representing the annuity to be paid quarterly until 1985 to the "Société du Crédit Communal," is included in the same budget; this sum goes towards the repayment of expenses incurred by the communes as a result of the war and chargeable to the State.

It must also be mentioned that the provincial and communal taxes, which have also been largely increased, impose an additional burden on the taxpayer and diminish to a considerable degree the margin of taxation open to the Government.

II. MONETARY MEASURES.

1. *Increase or decrease of the note circulation (Art. I, C. E.).*

The resolutions of the Brussels Conference on this point have been strictly applied in Belgium. Since 1920, the growth of inflation has been completely stopped. The highest figure attained by the National Bank's "sight liabilities" was reached on May 27th, 1920, namely, 7,340,538,000 francs. Under this heading of "sight liabilities" are included two items of monetary circulation, both of which, as is clearly shown in the preamble of the Monetary Circulation and Exchange Committee, are liable to contribute to fiduciary inflation, namely, bank-notes and current accounts. These items must inevitably overlap to a certain extent.

But it should also be remarked that since the end of 1920 the total of bank-notes in circulation has remained much at the same level; the temporary modifications in one direction or the other are merely wise adaptations to the fluctuations of business.

The following figures are significant:—

(Francs: 000's omitted)

		Bank-notes	Total obligations to pay at sight
January 8th,	1921	6.227.406	7.320.919
April 7th,	»	6.086.768	7.252.826
July 7th,	»	6.119.845	7.170.026
November 3rd,	»	6.135.925	7.028.414
January 5th,	1922	6.335.012	7.010.610
April 6th,	»	6.320.968	7.052.264
May 18th,	»	6.168.556	7.035.130
June 22nd,	»	6.150.693	7.033.323

It can even be asserted that there has been more than a mere stoppage in the growth of inflation and that there have been, in some measure, signs of a movement of deflation. The total sight liabilities of the National Bank had been reduced by May 18th, 1922, to 7,033,130,000 francs, showing a decrease of about 300,000,000 on the maximum reached in 1920.

The Belgian Government had contracted with the National Bank a debt of 5,800,000,000 francs for the purpose of withdrawing from circulation the marks introduced by the Germans during the occupation. A first partial repayment of 300,000,000 francs was made on February 8th, 1920.

Such is the origin and cause of the modest decrease which we observe in the fiduciary inflation in Belgium.

This effort will undoubtedly be followed by others.

The attitude of the Belgian Delegation at Genoa clearly indicated the definite intention of the Belgians to carry on a slow and gradual deflation of the monetary circulation in conformity with the conclusions of the Brussels Report.

2. *The influence of government expenditure on the currency (Art. II, C. E.).*

It can be confidently asserted that in Belgium, unlike elsewhere, Government expenditure has had no direct influence on the currency. It is one of the special characteristics of fiduciary inflation in Belgium, and gives her a special place as compared with other countries. Paper money was not issued in Belgium to provide means of payment for the Government; it was put into circulation solely to allow the withdrawal of the marks imposed on the country by the Germans during the war. The marks thus withdrawn are in the possession of the Belgian Government; they constitute a claim against Germany; this claim is the guarantee for the value of the paper money now in circulation; the sum yielded will be applied in its entirety to the improvement of the Belgian exchange.

It need hardly be said that the Belgian Government has never issued a single State bond. It contracted one loan only with the National Bank, amounting to 5,800,000,000 francs, which were issued to replace the marks withdrawn from circulation. Of this loan the Government has made a first repayment of 300,000,000 francs. In no other circumstance of any kind has the Government had recourse to the National Bank for loans or credits; the latter has, therefore, not issued a single bank-note to meet State expenditure.

3. *The repayment of floating debt and the effects thereof (Art. IV, C. M.).*

It has not been possible to repay the floating debt, which has, on the contrary, increased from 8,724,500,000 to 11,270,000,000 francs in 1921.

It must be observed that the funded debt has also increased in the same proportion, from 8,554,500,000 to 10,970,000,000 francs, in the same year. The floating debt, however, includes the 5,580,000,000 francs advanced by the National Bank and covered by the marks withdrawn; this portion, therefore, enjoys a special guarantee. Moreover, it must not be forgotten that the floating debt in Belgium is made up, to a considerable but not easily ascertainable extent, of saved capital; many investors, who have become more cautious owing to the present difficult situation, hesitate to take up long-term securities, and invest in Treasury Bonds with the intention of renewing them.

The Government has, in the course of the last few months, been able to diminish the rate of interest on Treasury Bonds by half per cent. without cutting off the demand.

4. *Connection between the Government and the Central Bank of Issue (Arts. III, IV and XIV, C.E.).*

The Belgian National Bank is a private company, independent of the State *de jure* and *de facto*. As it possesses the exclusive privilege of issue, it is subject to the control of the Government. This control, however, although legitimate and indispensable, is of a purely negative character; the State confines itself to ensuring a strict observance of the laws and statutes; it cannot interfere in any way with the management of the institution.

5. *The restriction of granting credits, either by means of the rate of interest or in other ways (Arts. V, VI and VII, C. E.).*

Credit is controlled in Belgium by the normal influence of the rate of interest. There is no arbitrary or artificial interference to be recorded in this connection.

The discount policy of the National Bank has endeavoured to maintain a maximum of stability at an appropriate level.

The official bank rate was increased to 5½ % on April 29th, 1920; it remained at that figure until April 26th, 1921, on which date it was reduced to 5 %. Since then the situation has changed; on June 8th, 1922, the bank rate of discount was reduced to 4½ %, but the rate of advances on public funds was raised to 5½ %.

The State certainly borrows to a considerable extent on the market; it is driven to do so by the necessities of reconstruction, but it avoids the use of any artificial stimulus, and conforms to the conditions regulating the market in order to attract available capital.

A proof of the correctness of its policy in this respect is furnished by the rapid success of the last loan of one milliard floated by the "Coopérative des Dommages de guerre" and guaranteed by the State.

6. *The existence of any artificial control of exchange, with a description of its character and its effects. Are foreign holders of bank-notes and credit balances treated differently from native holders? (Arts. XIII, XIV and XV, C. E.).*

After the Armistice, Belgium, like most other countries, attempted the control of exchange. A committee supervised the operations of exchange speculators and gave its approval to transactions which it considered useful. But the same conclusion as that of the Brussels Conference was soon reached, viz., that such a policy was "futile and perhaps mischievous." For this reason the Exchange Committee was abolished at the beginning of 1921, and at the present day exchange is absolutely free in Belgium.

The only intervention of the Government in this sphere is a guarantee of *bona fides* granted through the intermediary of the Del Credere Commission to certain classes of exporters. This measure has, however, only a very indirect influence on exchange; it has, moreover, had little effect up to the present.

No discrimination is made with regard to foreign holders of bank-notes and credit balances in the banks; they are not treated differently from Belgian subjects.

7. *The causes and effects of deflation (Art. X, C. E.).*

It is too early to speak of very serious deflation in Belgium. We have drawn attention to a modest reduction of 300,000,000 francs in the total of the National Bank's sight liabilities, and we attributed it to a first repayment of the same amount made by the State to the Bank on February 8th, 1920. But such a decrease is relatively too small for it to be possible definitely to attribute to it a marked influence on the general economic conditions of the country.

The index number of retail prices in Belgium has decreased to a material extent; it reached the figure of 493 in January 1921, and sank to 365 in April 1922. On the other hand, the rate of exchange has risen; the Belgian franc, which was worth 6.28 cents in New York in November 1920, is now worth 8.51 cents (19.30 cents at par).

Among the many causes which explain the fall of prices in Belgium, the cessation of fiduciary inflation and the gradual movement towards deflation may undoubtedly be placed in the first rank. It should be emphasised that the cessation in the artificial expansion of means of payment has been accompanied by a recrudescence of exchange transactions due to the general re-establishment of normal economic activity; the currency factor remaining unchanged while the other element, viz. the rate of exchange, was increasing, the natural result was a fall in prices; in short, a "relative deflation" took place, which caused a notable appreciation in the purchasing power of the Belgian franc.

III. COMMERCIAL MEASURES.

1. *The abolition or the establishment of prohibitions on imports and exports or of special permits; the abolition or lowering of import or export duties, etc.*

The foreign trade of Belgium since the summer of 1920 may be summarised thus:—

	Imports. Francs.	Exports. Francs.	% of Exports to Imports.
1920	12,782,526	8,692,562	77.6
1921	10,051,435	7,139,837	71.0
First 3 months of 1922	2,131,243	1,333,656	65.7

The general conditions of commerce in Belgium have been gradually returning to the normal pre-war state of affairs.

The system of restricting imports and exports which, in view of the exceptional circumstances, had been imposed on the country immediately after the Armistice has gradually been modified and at the present moment only a few traces of this system remain.

In principle it can be said that trade is free. As an exception, a few articles still require the grant of a special licence. Import licences are required only for aniline dyes and agricultural machinery obtained from Germany; licences must still be obtained for the export of certain foodstuffs, fire-arms, and certain building materials.

Since January 1st, 1922, the last obstacles placed in the way of the export or import of securities, stocks, and gold or silver coin and ingots have been removed.

In Belgium no absolute prohibition based on economic grounds is imposed on the import or export of goods. The restrictions which remain are the same as before the war; they are founded on considerations other than commercial, aiming only at the protection of public security and health.

The Law of June 10th, 1920, had authorised the Government to multiply by coefficients up to 3 the rates of the specific duties in the customs tariff. In a Law dated March 31st, 1921, the maximum coefficient was increased to 6. The validity of these two Laws has been prolonged until June 30th, 1922. A new proposal with a view to prolonging them still further has just been put before Parliament. In the application of these regulations, and with the approval of the Chambers, the specific duties have been variously increased according to the goods in question; on an average they have been trebled. These steps have no prohibitive or restricting character; they are justified by the necessity of re-establishing the correct incidence of the duties, the balance of which had been disturbed by the increase in the value of the commodities in question.

A Royal Decree of November 3rd, 1921, established a special customs system to be applied to goods produced in or coming from Germany. This measure, which was taken to meet the exceptional situation created by the sudden and considerable fall of the mark, was ratified by the Chambers in April 1922. This tariff is not to remain in force beyond December 31st, 1922.

2. *The existence (or abolition) of price discrimination against foreign trade.*

In Belgium, foreigners enjoy the same rights and the same protection as Belgians. In principle, no discrimination is made as between foreigners. But it is necessary to make certain reservations. The first are those which arise out of the Treaty of Versailles.

Furthermore, mention has just been made of the special circumstances which have led to the imposition of a discriminative tariff on certain commodities obtained directly or indirectly from Germany.

With regard to the so-called "*economic*" certificates of origin which had to be obtained in the case of goods imported into Belgium from certain neutral countries, they have been abolished with the single exception of aniline dyes. But it must be mentioned in this connection that so-called "*fiscal*" certificates of origin are demanded in the case of the import of goods obtained from European countries other than Germany, and included in the class of German goods to which the special tariff applies. The only aim of this measure is to make difficult the fraudulent importation of German products by way of another country, which otherwise would be only too easy.

3. *The conclusion of:*

- (a) *Commercial Conventions;*
- (b) *Transport Conventions.*

(a) *Commercial Conventions.*

A Convention was concluded at Brussels on July 25th, 1921, between Belgium and the Grand-Duchy of Luxemburg in order to establish an Economic Union between the two countries. In its broad outline, the Convention institutes a complete Customs Union between the signatories and places the subjects of both countries on the same commercial footing. It was approved by the two Parliaments and has been in force since May 1st, 1922.

Negotiations are in progress between Belgium and France with a view to arriving at agreements calculated to improve the economic relations between the two countries.

(b) *Transport Conventions.*

Belgium, fully realising the primary importance of understandings with regard to international transport, has scrupulously observed the Conventions existing in this domain and in particular the Berne Convention.

At Barcelona her delegates supported the recommendations made by the Conference, although they recognised that the conclusion of a new international convention at that moment would present serious difficulties in view of the disturbed economic situation.

An agreement concluded at the beginning of this year between Belgium and certain large railway companies in European countries, such as England, Switzerland and Italy, has re-established the system of through-tickets.

In conclusion, it may be recalled that the "Economic Union" established between Belgium and the Grand-Duchy of Luxemburg provides for a system of co-operation in the organisation of the railways of the two countries.

July 11th, 1922.

Czechoslovakia.

I. BUDGETARY MEASURES.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

The financial organisation of the Czechoslovak State, the creation of which was proclaimed on October 28th, 1918, was in its early stages a matter of great difficulty. First, central administrative departments had to be created. It was found necessary in principle to maintain Austrian laws in the former Austrian territory (Bohemia, Moravia and Silesia) and Hungarian laws in that part of the country which had formerly been Hungarian (Slovakia), and to adapt them, as the necessity arose, to the urgent requirements of the new State which had been formed out of two sections with different legislative systems.

The administration of public finance had to be based on the last Austrian budget law (voted for the period July 1st, 1918, to June 30th, 1919) and on the corresponding Hungarian law (voted for the period January 1st, 1919, to December 31st, 1919). The figures for the first (provisional) budget, decreed by the law of December 20th, 1918, for the period up to June 30th, 1919, could only be arrived at by approximate calculations based upon the corresponding figures of the last Austrian and Hungarian budgets. The budget for the whole of 1919 was established by the law of June 27th, 1919. The figures contained in that budget were as follow:

EXPENDITURE	Kč.	Kč.
Ordinary	2,124,849,145	
Extraordinary	4,588,625,768	

CZECHOSLOVAKIA.

NOTE

Paragraphs 4, 5, 8 and 11 of Section I, Budgetary Measures, of the report of the Czechoslovak Government having been received too late for insertion in the following report, they have been printed as Annex 3 to this volume (see pages 234 to 243).

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EXPENDITURE	Kč.	Kč.
Ordinary	2,124,849,145	
Extraordinary . .	4,588,675,768	
Total		6,713,524,913
REVENUE		
Ordinary	2,306,620,802	
Extraordinary . .	505,762,698	
Total		2,812,383,500
The deficit of		3,901,141,413

had to be covered by credit operations.

There were many reasons which made it necessary to vote a supplementary budget and supplementary credits, viz. the instability of the value of money, and the effects of this instability on wages, the expenditure entailed by the shortage of the principal foodstuffs, the interest on the State debts contracted during the year, and finally, the Hungarian Bolshevik invasion in June 1919. The deficit for the financial year 1919 amounted to 4,905,591,292 Kč., expenditure standing at 1,901,820, 879 Kč. and revenue at 897,371,000 Kč.

The oscillations in the principal factors of post-war economic life (fluctuations of the exchanges and of price levels and variations in the cost of living) also made it necessary to obtain supplementary credits. In spite of these unfavourable circumstances, the position of the State budget is improving every year. As is shown in the table below, the deficit in 1920 was less than one-third of the total budget, which amounted to 15.2 milliards, while the revenue reached the figure of 10.4 milliards. In 1921 the budget expenditure rose to 18 milliards, and revenue to 17.3 milliards, so that there was only a deficit of one-twenty-fourth part of the expenditure. Finally, for 1922, the estimated expenditure amounts to 19.8 milliards, and receipts to 18.9 milliards; there is, therefore, only a deficit of one-twenty-first part of the expenditure.

These results were due partly to reduced expenditure and partly to increased revenue.

Expenditure increased in 1920 by 77.3 % as compared with the preceding year, whereas in 1921 it only increased by 18.09 %, and in 1922 by 9.9 %.

State revenue increased in 1920 by 181.1 %, in 1921 by 65.9 %, and in 1922 by 9.2 %.

The following table shows the way in which ordinary expenditure has been covered by ordinary revenue:

Year	State expenditure and revenue.	Ordinary	Extraordinary	Total	Increase (+), or reduction (—) of expenditure and revenue		
					Ordinary	Extra-ordinary	Total exp. and rev.
Czechoslovak Crowns.							
1920	State expenditure.	7,174,511,865	8,103,915,167	15,278,427,032	+174.9 %	+ 34.9 %	+ 77.3 %
	State revenue . .	7,949,648,782	2,476,852,012	10,426,500,794	+204.2 %	+126 %	+181.1 %
	Surplus	775,136,917	—	—	—	—	—
	Deficit	—	5,627,063,155	4,851,926,238	—	—	—
1921	State expenditure.	10,671,959,296	7,354,500,848	18,026,460,144	+ 48.7 %	— 9.2 %	+ 18 %
	State revenue . .	15,923,316,280	1,375,600,350	17,298,916,630	+100.3 %	— 44.5 %	+ 65.9 %
	Surplus	5,251,356,984	—	—	—	—	—
	Deficit	—	5,978,900,498	727,543,514	—	—	—
1922	State expenditure.	13,288,731,847	6,524,228,632	19,812,960,479	+ 24.5 %	— 11.3 %	+ 9.9 %
	State revenue . .	17,290,600,130	1,593,609,414	18,884,209,544	+ 8.6 %	+ 11.6 %	+ 9.2 %
	Surplus	4,001,868,283	—	—	—	—	—
	Deficit	—	4,930,619,218	928,750,935	—	—	—

2. *Whether expenditure on armaments has been reduced.*

After the collapse of Austria-Hungary, the Czechoslovak Republic had no supplies of a military character at its disposal. The Czechoslovak army was without arms. A military aviation service and even factories for the construction of aeroplanes had to be created, since

none of the constructional workshops of the former Empire were on Czechoslovak territory. The unfavourable strategical situation of our State, and the vulnerability of its railway system, impose upon it the obligation of maintaining, even in peace-time, a sufficient military force to ensure the immediate protection of the frontiers in case of need.

The Czechoslovak army has a strength of 150,000 men with the colours. The cost of its upkeep amounted, in 1919 to 1,740,166,602 Kč, in 1920 to 2,364,518,430, in 1921 to 2,561,796,001, and in 1922 to 3,108,846,222 Kč. The proportion of the total expenditure of the respective budgets represented by these figures is 20.2 % for 1919, 15.47 % for 1920, 14.2 % for 1921, and 15.69 % for 1922.

It will, therefore, be seen that army expenditure is normal and corresponds to the expenditure for that purpose in the former Austro-Hungarian Empire, *i.e.* approximately, 15.78 % of the total budget expenditure. The proportion of the expenditure so applied is much lower than in the case of Great Powers which devote to the Army as much as 20 % of their total expenditure.

3 and 4. *The extent of productive and unproductive ordinary and extraordinary expenditure.*

As the distinction between productive and unproductive expenditure is not clearly established, the enumeration of items of unproductive expenditure will be limited to those which may be considered, in view of the situation of the country, as unproductive in the absolute sense, *e.g.* military expenditure, expenditure due to the abnormal conditions prevailing in the transitional post-war period, and expenditure occasioned by the payment of interest on, and by the redemption of, State debts.

The following table shows the proportions of the total expenditure represented by ordinary and extraordinary unproductive expenditure in the years 1920 to 1922.

Expenditure on	1920		1921		1922	
	Ordinary	Extra-ordinary	Ordinary	Extra-ordinary	Ordinary	Extra-ordinary
State debts	171,300,000	986,711,468	813,458,669	272,421,000	1,659,509,270	419,660,178
National defence . .	1,582,770,355	781,748,075	1,391,904,552	1,169,891,479	2,001,534,374	1,107,311,848
Post-war measures .	—	3,486,748,492	—	426,938,000	—	744,135,462
Total	1,754,070,355	5,255,209,035	2,205,363,221	1,869,250,479	3,661,043,664	2,271,107,488
Percentage of total expenditure . . .	11.48 %	34.39 %	12.23 %	10.37 %	18.47 %	11.48 %

6. *The existence of subsidies on bread and other foodstuffs, coal and other materials.*

In 1920 expenditure under these headings amounted to 673,695,000 Kč, in 1921 to 117,323,000 and in 1922 to 310,736,000.

These sums do not include special disbursements for improving the situation of State officials (allocations to meet the increased cost of living, and extraordinary subsidies to relieve cases of extreme poverty), expenditure of this kind being included in the figures for the different branches of the administration.

7. *Charges for unemployment.*

Expenditure under this head also shows a downward tendency. From 267 million Kč in 1920, it dropped to 100 millions in 1921, and to 75 millions in 1922.

8. *The financial position of public undertakings.*

I. *Railways.*

(a) Statement of expenses and receipts according to the *ordinary State budgets*, including the supplementary votes. Actual figures for the railway administration:

Year	Expenditure	Receipts	Deficit
1919	1,630,401,730	1,211,299,750	429,101,980
1920	4,531,999,650	3,273,386,620	1,258,613,030
1921	5,468,878,020	4,912,538,600	556,339,420
1922	4,809,347,050	4,227,002,480	582,344,570
up to September 30th.			

The results for 1919 and 1920 are given according to the final balance sheets; for 1921, the final balance sheet has not yet been drawn up, and slight alterations may be made in the figures.

The figures given for 1922 apply only to the period up to the end of September.

The above receipts are distributed as follows, according to the actual results:

Nature of receipts	1919	1920	1921	1922 (up to Sept. 30)
Ministry of Railways, Central Administration . .	62,790	324,280	1,075,440	342,830
Transport of passengers . .	291,930,580	558,283,350	720,000,000	509,600,000
Transport of luggage . . .	12,352,750	29,543,090	60,000,000	50,400,000
Transport of goods by "grande vitesse"	51,569,110	101,929,420	190,000,000	134,000,000
Transport of goods by "petite vitesse"	772,319,220	2,342,718,230	2,903,499,100	1,876,000,000
Other receipts	72,650,390	192,858,060	893,842,740	709,324,880
Extraordinary receipts . .	10,414,910	47,720,290	143,221,320	954,626,070
State share of the receipts of Railway companies . .	—	—	200,000	1,514,340
Guaranteed Railway syst ^{ems} . .	—	—	700,000	194,360
Total	1,211,299,750	3,273,386,620	4,912,538,600	4,227,002,480

Railway Transport Operations.

Nature of transport	1919	1920	1921	1922 (up to Sept. 30)
Personal transport (Number of persons transported) .	157,827,932	215,106,749	227,322,777	140,246,600
Transport of luggage (in tons)	107,951	127,559	125,600	80,000
Transport of goods by "grande vitesse" (in tons)	394,344	416,825	392,000	285,000
Transport of goods by "petite vitesse" (in tons) . .	43,665,486	48,898,943	49,506,544	29,493,183

(b) In 1921 and 1922 a special budget was established, apart from the ordinary budget, for expenditure on works of public utility. Sums were included in that budget which were employed in the construction of new railway lines, in laying down second, third and fourth tracks, in improving the permanent way of existing railways, in erecting buildings to house the railway employees and in purchasing new rolling-stock (locomotives and waggons).

A sum of 1,979,045,000 Kč was voted for that purpose in 1921; the actual expenditure amounted to about 1,422,000,000 Kč; the balance sheet has not yet been finally drawn up.

The estimate for railway construction amounts to 2,000,000,000 Kč in 1922.

The actual figures for 1922 have not yet been obtained.

II. *Postal, Telegraph and Telephone Services.*

(a) Statement of expenditure and receipts according to the *ordinary* budget (including supplementary provisions).

Actual results:

Year	Receipts	Expenditure	Surplus (+) Deficit (—)
1919	187,764,100	201,149,000	+ 13,384,900
1920	413,140,200	528,716,900	+ 115,576,700
1921	1,026,310,300	828,667,100	— 197,643,200
1922 (up to June 30th)	481,723,600	481,182,200	— 541,400

The figures given for 1919 and 1920 show the final results after the closing of the accounts; for 1922 the balance sheet has not yet been finally drawn up, and slight alterations may still be made.

The results given for 1922 apply only to the period up to the end of June. The actual revenue given above is distributed as follows:

Nature of revenue	1919 Kč	1920 Kč	1921 Kč	1922 (up to June 30) Kč
Central Administration . .	. 200	17,800	148,200	69,900
Postal Service:				
(a) Post Office	134,619,800	344,396,600	504,002,800	316,243,600
(b) Telegraphs	18,043,000	62,414,100	78,357,400	36,996,000
(c) Telephones	23,163,400	52,052,200	88,006,800	55,777,400
(d) Other Revenue . . .	4,513,900	25,284,600	26,459,300	44,515,700
Postal Chequé Dept. . . .	20,808,700	44,551,600	105,920,200	12,326,800
Motor Postal Service . . .	—	—	16,281,600	9,777,200
Special revenue in Sub- Carpathian Russia . . .	—	—	9,490,800	5,475,600
Total . .	201,149,000	528,761,900	828,667,100	481,182,200

(b) The following amounts were voted in the Public Works budgets for 1921 and 1922 for work in connection with the construction and installation of the Postal Administration:

	1921 Kč	1922 Kč
1. For the establishment of post offices in railway stations	6,640,000	17,800,000
2. For the installation of telegraph, telephone and pneumatic postal lines	123,000,000	166,200,000
3. For the motor postal service (acquisition of motor-cars)	18,500,000	16,000,000
4. For the construction of buildings required for the purpose of local post offices	20,617,000	21,610,000
Total . . .	168,757,000	221,610,000

The actual sum expended in 1921 for the four kinds of work mentioned above amounts to about 101,400,000 Kč. It is distributed as follows: for the establishment of post offices in railway stations 1,200,000 Kč.; for the installation of telegraph, telephone and pneumatic postal lines 90,000,000 Kč.; for the motor postal service 6,000,000 Kč. and for the construction of local post offices 4,200,000 Kč.

The actual expenditure for 1922 cannot yet be ascertained, as the year has not yet come to an end.

The heavy expenditure which the Postal Administration has had to undertake during the first years of the existence of the Republic is due to the fact that after the revolution it took over means of exploitation which were worn out and quite insufficient.

The installation of new telegraph lines necessitated heavy disbursements; formerly, all the lines converged in the direction of Vienna and Budapest: that is to say, they went from north to south, whereas, for geographical reasons, in Czechoslovakia, the lines must be constructed to run east and west.

After the revolution, for example, only one telegraph line existed between Brno and Prague, joining Moravia to Bohemia. Now there are three telegraph lines between Brno and Prague. In addition, Přerov and Moravská Ostrava each possesses a line which connects it directly with Prague.

International telegraph lines connecting Czechoslovakia directly with France, England, Poland, Roumania, the Kingdom of the Serbs, Croats and Slovenes, Switzerland (Zurich), etc., have also been established. Moreover, machines of higher power (such as the Hughes, Baudot and Siemens machines) have been introduced.

Within the country itself, the telephone system, which was repaired after the revolution, has been considerably extended and trunk lines have been set up, establishing communication with Moravská Ostrava, Bratislava, Košice and Užhorod. At the time of the revolution there were only 1,146 telephone exchanges in Czechoslovak territory; at the end of July 1922 there were 1,288. On October 28th we had 66,537 subscribers' connections, and this number has since been increased by 2,000 new connections and 1,522 public telephone call offices. The total length of trunk lines, which was 64,254 km. at the time of the revolution, is to-day 78,839 km.

Finally, wireless telegraphy has been introduced. Stations have been built, or are now being built, at Brno, Poděbrady, Košice and Bratislava. This is, of course, only a beginning, but the Czechoslovak Administration has taken steps to ensure the active development of this enterprise.

The Postal Service at present comprises 3,766 offices (including 56 exchange offices on the frontiers, 2,228 telegraph offices and 889 local branch offices).

Road postal transport is carried on — apart from postmen — by means of postal vehicles, which belong to 1,201 private contractors and accomplish 8,960 journeys per day.

Moreover, the Postal Service has 154 motor vehicles in circulation, 23 of which are light cars and 48 lorries. The motor postal service is employed on 90 roads of a total length of 1,926 km. 790 postal waggons are in daily use, accomplishing a journey of about 63,000 km. and transporting more than 15,000,000 postal communications of all kinds and 280,000 parcels.

The total length of the Czechoslovak telegraph lines is 117,297 km., of which 70,274 km. belong to the State telegraph system and 47,023 km. to the railways.

The Postal Cheque Department, which was established immediately after the revolution, has developed rapidly; at the end of 1921, 63,739 persons possessed current accounts and the sums of money which had passed through the accounts amounted to a total of 239,000,000 Kč. The whole reserve fund has been repaid in the course of the present year.

9. *The introduction of new taxation.*

A. The system of *direct taxation* is a combination of the systems of taxes on the yield from property (real taxes) and taxes on income (personal taxes).

I. *Real taxes*, which include:

(a) *Land taxes* such as a tax on land which is not built on, a tax which is levied on all land which is under or capable of development; the amount of the latter tax is 22.7 % of the net cadastral yield.

(b) *Tax on house property*, divided into:

i. A tax on rents which is applied to all buildings in places subject to the said tax, and in other localities only to buildings which are let.

This tax is fixed at 19.25 % of the net rent in the most important towns, and 12.25 % in the others; reductions are made in respect of new buildings, premises re-built, out-buildings and additional storeys.

2. A tax divided into various categories of which we may mention the "cadastral tax", levied in all places not subject to the tax on rents on all habitable buildings which are not let. This tax is computed according to a fixed scale.

These taxes were increased in 1921. A war super-tax was levied in the fiscal years 1919 and 1920, in addition to the land tax, on vineyards, gardens and forests, amounting to 400 % and on all other land to 200 % of the ordinary tax. In 1921 the war super-tax was increased to 600 % for forests. By the law of February 17th, 1922, No. 90 (Laws and Decrees), this super-tax has been imposed for the years 1922 and 1923 at the same rate as for 1921.

II. *Personal taxes* imposed by the law of October 25th, 1896, and by the amendments of January 23rd, 1914, and March 16th, 1917.

The following taxes fall within this category:

(a) *A general tax on the profits of business enterprises and on occupations pursued for profit.*— The tax is fixed on the average yield of the business, based on the extent of its activities (turnover, number of hands, machines, etc.) and also on the total net profits. This tax, which had previously been an apportioned tax with a fixed yield, has now become in Czechoslovakia a rated tax, by which means its yield has been greatly increased. The State super-taxes known as war super-taxes have also been considerably increased.

(b) *Special tax on profits of public companies* (joint-stock companies, insurance companies, mining companies, public credit institutions, State railways, co-operative societies, etc.). It is fixed, as a general rule, at 10 % of the net profit, calculated by the method laid down by law. Czechoslovak laws have increased the State super-taxes on this tax and have also applied it to limited liability companies.

(c) *Income tax*, known as *tax on interest* imposed on incomes from real or personal property which is not subject to the land tax, the building tax, or the tax on profits. Legal persons as well as individuals are subject to this tax. The State super-taxes (war super-taxes) have been increased by the Czechoslovak laws.

(d) *Personal tax on income* based on territorial principle; only individuals are subject to this tax. The limit of exemption from this tax, which was originally 1,200 Kč, and was afterwards raised to 1,600 Kč in 1914, has been successively increased, in proportion to the general rise in prices resulting from the monetary depreciation, to 4,800 Kč and to 6,000 Kč.

The tax is progressive and varies from 0.8 % to 6.7 %. The super-taxes have also been increased by Czechoslovak legislation. (See below).

(e) *The 10 % tax on the fees of members of directorates and administrative boards, accountants of joint-stock companies, and companies with sleeping partners*, to which all persons are subject, including persons not domiciled in Czechoslovak territory.

This tax also has been increased, as shown by the figures given below.

(f) The increasing needs of the State during the war rendered it necessary, even under the old régime, to establish a *war tax on the excess profits of companies and the excess incomes of individuals*. This tax was extended by Czechoslovak law so as to apply to excess profits and incomes for 1919; it was not, however, applied in the following years. It was imposed on specially high incomes and profits of the war years as compared with average pre-war profits and incomes, if the former exceeded 10,000 Kč. The rate of the tax varied from 5 % to 60 %.

The law of November 18th, 1919, provided for the levying of the following super-taxes, entitled *war super-taxes*, as additions to the direct contributions for 1919 and 1920: to the general tax on profits, from 60 to 250 % of the normal tax; to the special tax on profits, from 50 to 150 %

of the normal tax; to the tax on interest, 100 %, and if collected at source, 200 %; to the personal tax on income, from 10 to 350 %; to the tax on fees, 200 %.

The taxes known as real taxes, the taxes on profits (both general and special) and the tax on interest, are also subject to super-taxes allocated to autonomous administrative bodies (districts, regions, municipalities, etc.), when the tax is not deducted at source. The law of January 29th, 1921, expressly exempted the personal tax on income from all super-taxes not levied by the State.

In 1921 the war super-taxes levied by the State in addition to the personal tax on income by virtue of the law of August 12th, 1921, amounted to 600 %. The other super-taxes were not changed.

In accordance with the law of February 17th, 1922, the following additional State super-taxes (war) are to be levied for the years 1922 and 1923: to the general tax on profits, from 50 to 250 %; to the tax on interest, from 100 to 200 %; to the tax on fees, 200 %. The rate of the super-tax on personal income remains the same for the years 1922 and 1923 as for 1921, that is to say, from 20 % to 600 %.

III. This system was completed by an *exceptional tax on capital* and on increases of capital introduced by the law of April 8th, 1920. The yield of this tax is devoted to covering the debts taken over from the Austro-Hungarian Bank (see under II) and the heavy charges resulting from the creation of the State and the measures for defending its independence, not including, however, budgetary deficits. This tax will be levied once and for all.

All individuals and legal persons are subject to the tax on capital. Only individuals are subject to the tax on the increase of capital. The assessment of the tax on capital is based on the amount of the capital as on March 1st, 1919. The tax on the increase in capital was assessed on the difference between the amount of capital on March 1st, 1919, and on January 1st, 1914. The scale of the tax on capital varies, for individuals, from 1 to 30 % and for legal persons from 3 to 20 % of the capital. The scale of the tax on the increase of capital varies between 5 and 40 %.

IV. The actual yield of the direct taxes, including the war super-taxes, amounted in 1919 to 745.5 in 1920 to 1,206.7 and in 1921 to 1,784.2 million Kč.

B. *The indirect taxes* have also been revised and increased with a view to improving the prospect of balancing the Czechoslovak budget.

Tax on alcohol. The rate of the tax on alcohol was increased threefold by the law of December 2nd, 1919; *the taxes on yeast* have also been raised (from 0.05 Kč originally to 0.50 Kč per litre of alcohol produced during the manufacture of the yeast); so also has the "control tax" from 0.03 Kč to 0.20 Kč per litre of alcohol, which when used for certain purposes is exempt from the alcohol tax.

The law of December 22nd, 1920, introduced an extraordinary tax of 2 Kč per litre of alcohol, to be levied for the benefit of the provinces and departments.

The tax on alcohol will thus amount in the aggregate to 14 Kč and possibly to 14.20 Kč per litre.

If, as is proposed for this year, the Central Board, which controlled the trade in alcohol during the war, is abolished, further increases in taxes on alcohol, on either production or consumption, will be proposed to Parliament, and these taxes will be raised to at least 18 Kč, not including the departmental super-taxes.

2. *Tax on sugar.* By the law of July 10th, 1922, the tax on sugar has been increased as follows:

(a) Apart from the former tax of 38 Kč per 100 kilos on beet sugar, a super-tax of 16 Kč has been imposed so that the tax amounts in the aggregate to 54 Kč for 100 kilos net.

(b) On sugars of other kinds the tax, which was formerly 6 Kč, has been raised to 12 Kč per 100 kilos net.

Certain new taxes have been introduced, and others have been completely revised as follows:

3. *Tax on meat.* Instead of the former tax of about 0.02, 0.03 and 0.04 Kč per kilo of meat — the rate varying according to the population of the district — a tax on meat of 0.20 Kč per kilo has been introduced since May 1st, 1922.

4. *Octroi.* The octroi levied in the cities of Prague, Brno and Bratislava has been revised, so that only foodstuffs are subject to the octroi, and the rate has been increased tenfold. Moreover, the octroi has been reorganised on a new basis.

5. *General tax on beverages.* This tax replaces the former tax on wine and cider, and is imposed on effervescent waters, lemonade and other mineral waters which were previously free from tax. The former tax on beer has been merged in this tax.

There has been an all-round increase in the rates. There is a tax on wine, new wine, cider, effervescent water, lemonade and other mineral waters and a special tax on bottled wines.

The following entirely new taxes have been introduced:

6. *Tax on coal,* which came into force on May 1st, 1920, and amounted to 30 % of the actual selling price.

7. *Tax on water-power,* introduced since June 1st, 1922, amounting to 0.08 Kč. per h.p. and per hour.

The actual yield of the indirect taxes amounted in 1919 to 325.7, in 1920 to 1,604.2 and in 1921 to 2,532.8 million Kč.

C. Customs.

In 1920 the Czechoslovak Government found it necessary to raise the customs duties in order to increase the revenue from this source. By a Decree of April 26th, 1920, the super-tax known as the *exchange tax*, which was assessed according to the categories of merchandise at 220%, 200 % and 0 %, was raised to 500 %, 300 % and 0 % respectively. At the same time, the super-tax of 100 % was added to the dues on all goods which up to the present had not been subject to the exchange super-taxes. This exchange super-tax was increased by a Decree of November 6th, 1920, to 900 %, 600 % and 200 %. Although this increase seems heavy, the Government applied it with wisdom and moderation, in order that the consumers and producers who have to import goods from abroad should not be too heavily burdened. Moreover, the Czechoslovak Government only took these steps after other Governments had introduced similar and much heavier super-taxes. The effects of this increase in the exchange super-taxes are seen in the revenue figure for the year 1920, which reached 411.5 million Kč.

By the law of May 21st, 1921, the Government introduced a differential and more carefully graduated scale of exchange super-tax by establishing the system of coefficients 1, 3, 7, 10, 13 and 16. At the same time import duties were imposed on several kinds of merchandise hitherto exempt from such duty (malt, cattle, poultry, meat, butter, cheese, etc.). The results of these measures are seen in the customs revenue for the year 1921, which reached the total of about 781 million Kč. Since January 1st, 1922, the co-efficients have been revised by the Decree of December 19th, 1921, the highest coefficient being now 30.

The Customs provided the State in 1919 with 149.5, in 1920 with 420, and in 1921 with 770.5 million Kč.

D. The yield from old *State monopolies* has been increased and new monopolies have been introduced.

1. *Tobacco Monopoly.*

(a) The duty on tobacco imported by the Regie has been increased to 400 Kč. per net kilo.

(b) The excise duty to be paid by the monopoly on tobacco produced within the country is included in the sale price to the public.

2. *Salt Monopoly.*

(a) The duty on salt imported by the Regie is 40 Kč for mineral salt, 100 for kitchen salt, and 200 Kč. for table salt per 100 net kilos.

(b) The excise duty on home-produced salt is taken into account in fixing the sale price to the public (20 Kč. per 100 kilos).

3. *Explosives Monopoly.*

(a) The former powder monopoly has been extended to all categories of explosives. The import duty on explosives imported by the Regie and the excise duty on the products of home industries are fixed at 7 Kč. per net kilo. These duties have been raised to 5, 10, 15 and 25 Kč. per kilo of powder.

(b) Special aggregate duties have been instituted for imported goods which, though not subject to the monopoly, contain a certain proportion of explosive substances which are so subject.

The actual yield from monopolies in 1919 amounted to 353.1 in 1920 to 1,164.3, and in 1921 to 2,128.2 million Kč.

The budgetary estimates for the revenue and expenditure of the tobacco monopoly, which is the most lucrative of the monopolies, are as follows:

Year 1919:	Expenses	122.5 million Kč;	Receipts	467.4 million Kč.;	Surplus	344.8 million Kč.
» 1920:	»	329.5	»	779.2	»	449.7
» 1921:	»	935.2	»	1,379.8	»	444.6
» 1922:	»	987.—	»	1,705.4	»	718.4

The administration of the tobacco monopoly was reorganised in 1921 on commercial principles and was separated from the general financial system of the State, thus making it possible to find out at any moment the exact economic and financial situation of the monopoly. The balance for 1921 showed a surplus of 1,064 million Kč. (budgetary estimate 444.6).

E. *Tax on Business Turnover and Stamp Duties.*

(1) The law of August 12th, 1921, increased the tax on *business turnover* from 1 to 2 %. The increase in revenue which was thus obtained was estimated at 600 millions because the former rate of 1 % was retained in the case of articles of necessity. The profits thus obtained are devoted to the improvement of the finances of the various autonomous bodies (provinces, regions, communes, etc.).

(2) The law of February 17th, 1921, increased the *tax on dealings in securities*. The yield from this increase is estimated at 2 million Kč.

(3) The *fixed judicial fees* have been increased, and new fees have been instituted, by the law of January 25th, 1922. The yield from this reform is estimated at 6.0 million Kč.

10. *Methods of raising money by loans, whether by:*

- (a) *long-term loans;*
- (b) *short-term loans in the open market;*
- (c) *loans direct from the Central Banks leading to further new inflation.*

Long-term loans and short-term loans in the open market.

I. The debts of the Czechoslovak Republic may be classed under four headings: (A) internal debt, (B) debt resulting from currency reform, (C) foreign debt, (D) debt resulting from the provisions of the Treaties of Peace.

A. *Internal Debt.*

	Kč.
1. <i>Liberty Loan 4 %</i>	1,000,000,000
Authorised by the law of November 5th, 1918.	
Repayable in part on December 1st, 1922, and	
in part on December 1st, 1923.	
2. <i>Treasury Bonds 4 %</i>	1,048,054,000
Issued in virtue of the law of June 27th, 1919, in two forms:	
(a) Repayable October 1st, 1923, Kč. 528,746,000	
(b) Repayable on October 1st, 1924, Kč. 519,308,000	
3. <i>Premium Loan 4½ %</i>	540,811,300
Issued in virtue of the laws of January 29th, 1919, and February 16th,	
1920, repayable in the period 1926-1960 by drawings as from February	
1st, 1926.	
4. <i>Fourth State Loan, about</i>	3,000,000,000
With participation of holders of the Austro-Hungarian War Loans,	
issued by virtue of the law of June 24th, 1920.	
The Austrian and Hungarian War Loans are accepted at 75 % of their	
nominal value from Czechoslovak citizens who agree to subscribe	
in cash to the new loan a sum equal to 75 % of the nominal value	
of the war bonds accepted.	

In exchange they receive:

- (a) *Privileged Persons* (Credit Institutions, Savings Banks, Insurances, Endowments, Communes, Trust Properties, etc.). Bonds bearing 5 % interest replacing the war loan and bonds bearing 6 % for the amount of cash paid.
- (b) *Other Persons*. Perpetual bonds bearing 3½ % for the converted amount and redeemable bonds bearing 5½ % for the amount of cash paid.

This loan is constituted partly as a perpetual debt and partly as a loan redeemable in 45 years, 1935-1979.

The subscription to this loan is still open and the total amount of the debt is not at present fixed.

Carried forward 5,588,865,000

	Kč
	Brought forward
5. <i>Treasury Bonds</i> (6 %)	5,588,865,300
issued in exchange for the 6 % bonds of May 15th, 1920, and May 31st, 1920, in accordance with the laws of December 20th, 1918, June 27th, 1919, and January 29th, 1920. The bonds are renewable every three months.	1,536,185,000
6. <i>Treasury Bonds</i> (5 %)	952,820,000
issued against advances on current accounts with the Office of Postal Cheques in accordance with the laws of December 20th, 1918, June 27th, 1919, and January 29th, 1920. Redeemable on July 1st, 1924.	
7. <i>Treasury Bonds</i> (6 %)	677,308,000
issued in accordance with the law of March 18th, 1921, as a covering for the expenses of military administration caused by the military operations in Slovakia (Bolshevik-Magyar attack). These bonds are redeemable on July 1st, 1924.	
8. <i>Premium Bonds to encourage building</i> (on December 31st, 1921)	25,896,000
issued in virtue of the law of March 11th, 1921, to encourage building. The amortisation is decided by drawings. The issue is fixed at 1,000,000,000 Kč. The subscription is not yet closed.	
9. <i>Loan for Public Works</i> (6 %)	452,444,800
issued in virtue of the law of March 8th, 1921, to be invested in the transport, telegraph and telephone services. The loan is repayable in 25 years by drawings. The subscription is not yet closed.	
10. " <i>Exchange</i> " loan (3½ %)	250,000,000
issued by virtue of the law of February 25th, 1919, with a view to the constitution of a metallic reserve for the Bank of Issue; repayable in 1923.	
11. <i>Supplementary Credit Loan</i> (5½ %)	322,000,000
issued in virtue of the law of August 12th, 1921, to acquire military material and equipment required for mobilisation. Redeemable in 1922.	
12. <i>State Loan</i> (6 %)	106,238,200
issued in virtue of the law of August 12th, 1921, to cover the deficit caused by the State sale of flour at reduced prices. The Minister of Finance has the right to convert this loan at his discretion as from September 1st, 1932, three months' notice being given. The subscription is not yet closed.	
	Total
	9,911,757,300

B. *Debts incurred on account of the Reform of the Currency.*

	Kč.
(See also "Monetary Measures", paragraphs 1 and 3.)	
1. <i>Notes in circulation</i> (Situation on December 31st, 1921)	6,818,800,292
2. <i>State Loan</i> (1 %) effected by retaining banknotes submitted for stamping Persons subject to the tax on capital (See II.9) may meet this obligation by producing receipts for the banknotes thus detained.	1,056,807,000
3. <i>Current Accounts in previously existing branch offices of the Austro-Hungarian Bank</i> , now in Czechoslovak territory and taken over by the State	269,015,245
	Carried forward
	8,144,622,537

	Kč.
Brought forward	8,144,622,537
In accordance with the provisions of the law of February 25th, 1919, half these current accounts have been retained to constitute a State loan at 1 %.	
4. <i>Treasury Bonds of the Austro-Hungarian Bank</i> , issued by branches in the territory now belonging to Czechoslovakia and taken over by the State (4 %)	219,648,000
Total	8,364,270,537

All these debts must be redeemed by the yield of the tax on capital (see II. 9).

C. *Foreign Debts.*

1. <i>Credit from the British Government</i> (6 %)	£417,431
This loan was agreed to in 1919 in the general scheme of international reconstruction. It is repayable on January 1st, 1929.	
2. <i>Credits from the French Government</i> (5 %):	
(a) In virtue of a Convention concluded on July 24th, 1919, a credit was granted to Czechoslovakia up to 110 million francs for the purchase of war material and to cover transport expenses. This credit has been used up to an amount of	Fr. fr. 100,000,000
This credit is repayable on July 24th, 1922, but may be extended subject to the interest being regularly paid.	
(b) Credit for the supply of horses for the Czechoslovak military administration	Fr. fr. 1,149,212
(c) Credit for the upkeep of the Czechoslovak army abroad.	Fr. fr. 28,152,226
3. <i>Credit from the Italian Government</i> (5 %) about	Lire 180,000,000
for the upkeep of the Czechoslovak army abroad.	
4. <i>The balance of the "Revolutionary" Loan from the Czechoslovak army in Russia</i> (5 %)	Fr. frs. 750,000
This loan was subscribed by the Czechoslovak soldiers in Russia up to a total of 7,200,000 Fr. frs.	
5. <i>Credit from the American Government</i>	\$91,179,528.72
The bonds bear interest at 5 % and 6 %, and are repayable from 1922 to 1925.	
6. <i>Balance of the British Government's credit</i>	£1,000,000
for the purchase of cereals and flour.	
7. <i>1922 Loan</i> , issued partly in sterling in England and Holland and partly in \$ in the United States (8 %)	\$6,300,000
(Bonds repayable during 30 years).	

D. *Debts resulting from the Provisions of the Peace Treaties.*

1. (a) Articles 203 of the Treaty of St. Germain and 186 of the Treaty of Trianon provide that each of the States to which a portion of the territory of the former Austro-Hungarian Monarchy has fallen or which have been created from the dismemberment of that Monarchy shall assume the liability for a portion of the Austrian and Hungarian debts.
- (b) In virtue of Article 208 of the Treaty of St. Germain and of Article 191 of the Treaty of Trianon, it is further specified that the Succession States acquire all the lands and

properties of the former Austrian or Hungarian Government situated within their territory. The value of such lands and properties has to be assessed by the Reparation Commission and placed to the credit of Austria or Hungary on account of reparations.

The sums which are to be thus allocated have not yet been fixed; the service of the debt referred to in (a) has, however, been approximately estimated and figures in the Czechoslovak Budget.

2. *Liberation Bonds* Gold frs. 750,000,000

In virtue of the Treaty of St. Germain among the Allied and Associated Powers, the following States: Poland, Roumania, the Kingdom of the Serbs, Croats and Slovenes and Czechoslovakia undertake to pay as a "liberation indemnity", a sum not exceeding one milliard and a-half gold francs computed as on January 1st, 1914. This debt has to be divided by the Reparation Commission between the above-mentioned States in proportion to their revenues for the years 1911 to 1913. The Czechoslovak Republic may not, however, be called upon to pay more than 750,000,000 gold francs.

The method of the fulfilment and the exact figures of this liability have not yet been finally fixed by the Reparation Commission.

II. In the early stages of the Republic's existence (1918 and 1919) short-term loans were issued, such as the Liberty Loan and the 4% bonds (I.A. 1 and 2). Later on, longer-term loans were issued, which were to be redeemed by drawings, according to the amortisation tables, between 1926 and 1979.

But as these loans were insufficient, particularly in 1919 and 1920, to cover the State's requirements, loans were contracted in the form of credits in current accounts at the Office of Postal Cheques and at private banks; these credits were transformed into Treasury bonds. These short-term bonds are to be repaid out of the yield of the fourth State loan, which is still open for subscription.

In 1921, the political situation (the attempted return of the ex-Emperor Charles) caused extraordinary expenditure which was covered by the contraction of short-term loans.

Although the first public loans did not in all cases obtain the success that was hoped, it should be noted that the last State internal loan at 6% (known as the flour loan (I.A. 12), met with considerable success. The subscriptions to this loan have already reached 2.8 milliard Kč. These bonds may be used by the holders of Austro-Hungarian pre-war bonds for the purpose of conversion to fulfil the condition that the holder subscribes an equal amount in cash.

Loans direct from the Central Bank leading to new inflation. No loans have been contracted in Czechoslovakia at the Central Bank (l'Office bancaire) of a kind to increase inflation (see "Monetary Measures").

12. *The effect of local and provincial finance on the budget of the State.*

With a view to improving the financial situation of local autonomous corporations which had been rendered critical by the war and its consequences, a law was passed on August 12th, 1921, allocating to these bodies the yield of certain State taxes. This law has made it possible to put the finances of these corporations on a sound basis and to furnish them with resources of their own, thus enabling the system of "additional centimes" to be gradually dispensed with.

It is only because the new administrative organisation (the creation of departments and regions) has not yet been established that it has not been possible, up to the present, to separate the State financial resources definitely from those of the municipalities, departments, etc.

By the law of August 12th, 1921, mentioned above, the municipalities have been granted one-half of the net yield of the tax on house property (both the tax on rents and the tax by categories). The Minister of Finance is further authorised to increase the share for the towns up to two-thirds of the total yield.

Furthermore, the municipalities are granted, for a further period of two years, one-third of the receipts from the land tax; this grant is allotted, in principle, to the provinces to afford them relief during the period of transition (see below).

Finally, all the municipalities have been granted, in principle, 5 % of the yield of the tax on business turnover. The Minister of Finance is authorised to increase the share up to 10 %. Similar subsidies have been granted to the municipal districts in Bohemia, Moravia and Silesia, and to the Departments of Slovakia and Sub-Carpathian Russia.

The Departments of Slovakia and Sub-Carpathian Russia receive, moreover, the yield of the land tax in the same way as the provincial administrations of Bohemia, Moravia and Silesia (see below).

These administrations receive, as fixed revenue, 7,000,000 Kč. in place of the "additional centimes" which were previously levied on succession duties. The net yield of the land tax (*i.e.*, without war super-tax) is also allocated to them as partial compensation for the tax on public amusements and the tax on the unearned income from house property which, according to the Law of August 12th, 1921, regarding the provisional economic and financial regime of the municipalities, is entirely reserved for the municipalities.

The most important source of revenue for the provinces consists in the allocation to them of 40 % of the yield of the general tax on business turnover, less the sums due from this source to the municipalities, districts and departments.

In addition to these receipts, a special super-tax on the State tax on alcohol has been introduced for provinces or departments; this represents the sum of 2 Kč. per taxable litre.

Furthermore, the Law of December 22nd, 1920, introduced, for the benefit of the provinces and departments, a tax on beer of 0.8 Kč. to 0.20 Kč. per litre, according to the quality of the beer.

The State has made considerable sacrifices for the benefit of the autonomous corporations whose finances had been thrown into confusion by the war and its consequences. It is hoped in this way gradually to eliminate the "additional centimes" which are levied by autonomous corporations in addition to certain State taxes.

The year 1922 brought some relief to the taxpayers; but it will not be until 1923 that a more settled economic situation and the efforts of the autonomous corporations to establish normal budgets will show the results of the sacrifices made by the State in this field.

It is possible that the reform of direct taxation, which has been proposed, may contribute towards the improvement of the finances of the autonomous corporations, and may provide, at the same time, a solution of the problem of the additional centimes.

The Law of August 12th, 1921, marks a step towards the improvement and the consolidation of the finances of the autonomous corporations. This law provides them with a sound uniform legal basis by laying down precise rules on budgetary principles, expenditure and allocations, the system of accounting, control and audit, and the covering of expenditure.

The subsidies granted to the autonomous corporations have been raised in the budget of the Czechoslovak Republic for 1922 to 1,207,229,000 Kč. (Chapters 6 and 6a), as against 180,220,000 Kč. for 1921.

The expenses under this heading for 1923 will not be less than those for the present year.

II. MONETARY MEASURES.

I. Increase or decrease of the note circulation.

The Finance Minister of the Czechoslovak Republic, having, immediately after the *coup d'Etat* of October 1918, forbidden advances being made in respect of the Austro-Hungarian war loans, decided, in March 1919, to render the Czechoslovak currency independent of the Austro-Hungarian Bank in order to save the country from the catastrophe to which it would have been brought by the policy of inflation which that bank pursued. The separation from the Austro-Hungarian currency and the creation of an independent Czechoslovak currency were carried out by the stamping of the banknotes in circulation in Czechoslovak territory and by the constitution of an independent establishment of issue.

During the period of this stamping, the State undertook the task of diminishing the circulation by retaining, as a forced loan, half the banknotes presented for stamping. In certain cases no notes or a smaller proportion were returned; the reserves in the Public Treasury, for instance, were stamped in entirety. Immediately after the stamping, the sum retained amounted to 28.69 %, according to a statement made by M. Rašín, the first Finance Minister; after the final settlement of this operation the sum retained was equal to 26.64 % of the total circulation in existence at the time of the stamping. The fact that the Austro-Hungarian banknotes were furnished with a Czechoslovak stamp gave them the character of State notes, and the Austro-Hungarian Bank was thus deprived of the privilege of issuing notes in Czechoslovakia.

The law of April 10th, 1919, fixed the limits of the circulation of paper money whether purely fiduciary or not. It established the "Banking Office of the Ministry of Finance" and conferred upon it the privileges of a provisional Bank of Issue, with the right to issue paper money. This law is the legal basis of the Czechoslovak financial system, with the Czechoslovak crown (official abbreviation: Kč) as unit. The conversion of Austro-Hungarian into Czechoslovak crowns was carried out in the proportion of 1 : 1.

In order to secure legal continuity, and as a logical result of the stamping, the State accordingly undertook responsibility for the total note circulation which existed in its territory at the time of the stamping. This amount comprised not only 5,562,000,000 Czechoslovak crowns in Austro-Hungarian banknotes then in circulation, which were stamped and subsequently exchanged for Czechoslovak State notes, but also 1,437,069,000 Kč., consisting of the balances of current accounts with the branches of the Austro-Hungarian Bank in Czechoslovak territory, and sight obligations issued by these branches.

In conformity with the principles on which the stamping was carried out, the "Banking Office of the Ministry of Finance" was instructed to proceed with the payment of such balances of current accounts with the branches of the Austro-Hungarian Bank as belonged to the State Treasury, until these balances were exhausted, while the repayment of private current accounts and Treasury bonds was temporarily restricted to half their value.

Contrary to the principles of a perfectly sound currency system on a gold basis, the Czechoslovak fiduciary circulation is divided into three groups:

1. The amount of paper money for which the State, through the "Banking Office of the Ministry of Finance", rendered itself responsible by stamping. This amount totals 6,999,069,000 Kč., or nearly 7 milliards.

To this total must be added:

(a) The State loan due to the retention, during the stamping, of Austro-Hungarian notes to an original amount of 2,134 millions of Kč; this sum was afterwards diminished by the yield of 1,077 millions of Kč. from the capital levy, and now amounts to only	1,057,000,000 Kč.
(b) The balance of current accounts with the Czechoslovak branches of the Austro-Hungarian Bank.	269,015,245 Kč.
(c) The sight obligations issued by those branches.	219,648,000 Kč.
Total . . .	<u>8,364,270,537 Kč.</u>

2. The second group consists of the State notes which were issued to meet the requirements of commerce and industry. All the State notes of this category are guaranteed by commercial bills.

3. The third group comprises the State notes which were issued for the purchase of precious metals and foreign securities. It should here be observed that the "Banking Office of the Ministry of Finance" is cautious in its use of this means of increasing its metallic reserve, as it considers that the purchase of quantities of gold beyond reasonable limits would result in increased inflation.

The circulation figures since the summer of 1920 are shown in the following table (in thousands of Kč.):

June 30th, 1920	8,729,233
September 30th, 1920	10,310,228
December 31st, 1920	11,288,512
March 31st, 1921	10,921,956
June 30th, 1921	11,167,515
September 30th, 1921	11,570,881
December 31st, 1921	12,129,573
February 28th, 1922	10,743,958
March 31st, 1922	10,323,069
June 30th, 1922	9,838,205

If the balance sheet of the "Banking Office" of June 30th, 1922, is analysed on the basis of the preceding statements, the following figures are obtained:

	Kč (000's omitted)
Total circulation of paper money	9,838,205
Amount of commercial cover	2,074,104
Value of metallic reserve.	<u>1,234,289</u>
If the banking cover of	<u>3,308,393</u>
be deducted from the total circulation, the result is	6,529,812

which represents the actual fiduciary circulation on March 31st, 1922. It may be noticed that since December 1921 — when the total circulation of paper money reached its maximum, *i.e.*, 12.3 milliards of Kč. — the circulation has diminished during the first three weeks of each month, and the surplus of money available has been paid into the current accounts with the Central Bank, to be withdrawn as required at the end of the month. Since that date, hoarding has been constantly on the decrease; this corresponds with the renewal of confidence in the

growing security of the political and economic situation of the country. This confidence was also largely increased by the fact that the financial administration never entertained any idea of printing notes to cover the expenses of the mobilisation which was rendered necessary by the last attempt of the ex-Emperor Charles in Hungary. The circulation sank to 11 milliards in January 1922, and to 10 milliards in April 1922, since which time it has remained below the latter figure.

The policy of the Central Bank is guided by universally accepted principles. While the financial administration is taking steps to produce a gradual decrease in the public debt resulting from the reform of the currency, the Central Bank is endeavouring to adjust the note-circulation to the actual needs of the economic life of the country by means of a relatively high rate for advances on bonds bearing fixed interest and a relatively low rate for discounting bills, and also by the expansion or reduction of credits according to the requirements of the situation.

2. The influence of Government expenditure on the currency.

The State expenditure has no direct influence on the circulation of money, since the Banking Office does not directly or indirectly grant credit to the State.

The law of April 10th, 1919, already quoted, and the Statute of the Banking Office, based upon that law, guarantee the independence of the commercial administration of the Banking Office in relation to the State. Under this law and statute, the Banking Office is expressly forbidden to grant credits to the State.

3. The repayment of floating debt, and the effects thereof.

The floating debt of the Czechoslovak Republic consists first of all of the debt due to the currency reform, as explained in paragraph 1 (see also "Budgetary Measures", Section 10 B).

This debt amounts to 8.3 milliards of Kč., and represents as a whole the equivalent of the note circulation. As she inherited a proportionate share of the note circulation of the former Monarchy, Czechoslovakia has, from the beginning, taken energetic steps not only to arrest the increase of this circulation but to diminish it. For this purpose special taxes have been instituted — the capital levy, and the tax on capital increases (see "Budgetary Measures", Section 9 A, II). The yield from these taxes is almost exclusively set apart for the repayment of the floating debt due to the currency separation from the Austro-Hungarian crown. The tax is to be paid within a period of three to five years from the delivery of the tax demands. It is impossible to estimate in advance the total yield from this tax; but, although the assessment will take some time to complete and the tax demands can only be sent out gradually, the present yield amounts to 1.5 milliards of Kč.

The results of this operation, which is an integral element in the Czechoslovak currency policy as a whole, may be regarded as acting in favour of the stabilisation of the Czechoslovak crown.

The other floating debts contracted under the present Government consist of various issues of Treasury bonds, the approximate amount of which, in round figures, is 3 milliards of Kč.

4. The connection between the Government and the Central Bank of Issue.

The relations between the State and the Banking Office are in conformity with the provisions of the Currency Law and the Statute. The State further employs the Banking Office as its agent for the centralisation of a part of its cash transactions.

5. *The restriction of granting of credits by means of the rate of interest or in other ways.*

The chief, because the only permanent, means of regulating the credit of the country is the financial policy applied to rates of interest by the Banking Office of the Ministry of Finance, which, in its capacity as a Bank of Issue, is the principal source of credit.

The Banking Office of the Ministry of Finance maintained the rates of discount and interest on secured loans fixed in 1916 by the Austro-Hungarian Bank for the territory of the former Monarchy, *i.e.*, discount at 5 %, loans covered by State securities at 5½ %, and loans covered by private securities at 6 %. These rates remained in force up to May 11th, 1920.

Since that date the movement of rates of interest has been as follows:

From May 12th, 1920, to August 15th, 1921: Discount 6 %, loans covered by State securities 6½ %, loans covered by private securities 7 %.

From August 16th, 1921, to April 26th, 1922: Discount 5½ %, loans covered by State securities 6½ %, loans covered by private securities 7 %.

From April 27th, 1922, to date: Discount 5 %, loans covered by State securities 6½ %, loans covered by private securities 7 %.

The special peculiarity of this movement is the abandonment of the Austro-Hungarian tradition, according to which the same proportion was always maintained between the discount rate and the interest on loans covered by securities. The Banking Office has twice — on August 16th, 1921, and on April 27th, 1922 — lowered the discount rate, leaving the interest on secured loans at its previous figure. The reason of this was the legitimate desire to arrest the increase in secured loans (which, in comparison with normal times, exceeded and still exceed the amount of bills discounted), and even to diminish them. This attempt was successful; in August 1921, for the first time, the difference between the two rates was increased to the disadvantage of loans and, consequently, since the end of September 1921, loans have decreased almost uninterruptedly, while since the end of August 1921, discounted bills have begun to increase, following the rhythm of economic life; that is, they have risen at harvest time and in the sugar season, and sunk at the beginning of each year, following a curve parallel to that of the note circulation.

A. In its discount policy the Banking Office of the Ministry of Finance naturally gives due consideration not only to the situation of the industry from which the bill of exchange has proceeded, but also to the situation of drawees. By restricting discount credit in the case of certain industries which were buying up stocks of goods in the expectation of a rise in prices, it paved the way for the general fall in prices, the results of which are already becoming visible in the whole economic life of the country and in the State budget for 1923. The present low discount rate is explained not only by the present crisis but more particularly by the considerable changes which have taken place in the banks owing to the large quantity of deposits on the financial establishments (particularly savings banks); this is the result of the increasing confidence in the State and of the gradual consolidation.

B. The Banking Committee decides what kinds of scrip may be taken as security by the Banking Office.

The following may not be taken as security: War loans, the shares of banks and industrial enterprises, and, latterly, the public funds of the former Monarchy (which, in consequence of the Peace Treaties, will be exchanged for shares in the Czechoslovak public debt). In order, as far as possible, to promote the subscription to the war loans, the former Monarchy allowed previous loans to be taken as security up to 75 % of their nominal value, and this concession was subsequently extended to all public stock. The Banking Office has gradually limited this facility by restricting loans on security to 75 % of their value at the daily exchange quotations.

No foreigner can obtain *direct credit* from the Banking Office, as the latter has no dealings except with the banks.

Under the official proclamation dated November 23rd, 1919 (No. 644 of Collected Laws and Decrees), which came into force on April 26th, 1920, credits exceeding 5,000 Kč. cannot be granted or prolonged individually to persons or firms whose place of business is abroad, except with the consent of the Finance Minister.

The Finance Minister may authorise the Banking Office to grant to private individuals commercial credits up to 5 million Kč. To foreign companies or firms carrying on their trade or industry within the country, authorised banks, institutions or firms may, without other authority than that of the Banking Office, grant the necessary credit for the maintenance of these local branches.

In conformity with these regulations, foreigners may be granted credits up to 250,000 Kč. without any sort of restriction. For credits exceeding 250,000 Kč., the authority of the Banking Office of the Ministry of Finance is required, and such credits may only be used for payments taking place within the territory of the Czechoslovak Republic. The authority of the Banking Office is sufficient up to 5 million Kč. For larger credits the authority of the Finance Minister is necessary.

The object of these measures is to prevent unjustified speculation in Czechoslovak crowns abroad.

6. *The existence of any artificial control of exchange, with a description of its character and its effects.*

The Czechoslovak Republic retained the existing Central Currency Control, which was founded in 1916 with the object of standardising and centralising all financial transactions with foreign countries. The Decree of June 18th, 1918 (No. 223 of the Austrian Imperial Code) concerning commerce, the circulation of foreign money and the restriction of foreign trade, has been rigorously maintained.

A Czechoslovak Central Currency Control was created at the Prague Clearing-House, under the Finance Ministry's Order dated January 30th, 1919 (No. 47 of Collected Laws and Decrees).

The Law of June 11th, 1919 (No. 327 of Collected Laws and Decrees), laid down that letters of credit drawn in foreign currencies must be presented to the Central Currency Control, unless they are drawn in crowns of the Succession States or in currencies in circulation within the territory of the former Russian Empire.

The movement towards the liberation of trade from the restrictions to which it had been subjected during and after the war — a movement which, in Czechoslovakia as in other countries, has increased proportionately to the consolidation of the State — led to the publication of the Official Decree of November 23rd, 1919 (No. 644 of Collected Laws and Decrees). The Decree, which came into force on April 26th, 1920, abolished the Central Currency Control and transferred its duties to the Banking Office of the Ministry of Finance. At the same time the trade in foreign currencies was partially freed. The new position established by this Decree is as follows: the *national* and all joint-stock banks established in Czechoslovakia and having a share capital of not less than 10,000,000 Kč. may freely carry on the purchase of foreign currencies, may change them, accept them as security, or acquire them on loan or by credit. No transaction in foreign currencies may take place between two contracting parties one of whom is neither a bank nor a firm authorised to carry out such operations. Arbitration is only permitted in foreign securities, the crown being excluded. Foreign transactions to be carried out in foreign currencies are only permitted if their object is the purchase and importation of goods.

The use of these currencies for other purposes is not permitted without the authority of the Banking Office of the Ministry of Finance.

An effective control has been set up; in every individual case an import licence must be presented, together with a document proving that the goods have actually been imported.

The export of Czechoslovak crowns, precious stones, cheques, letters of credit, bills of exchange, coupons, deposit books and treasury bonds is forbidden, except by the authority of the Banking Office. The maximum amounts which travellers leaving the territory of the Czechoslovak Republic may take with them are also fixed.

The Banking Office is bound to sell on the Prague exchange, to the banks, establishments and firms duly authorised for that purpose, the foreign moneys *transmitted to the Office*. It may, however, use these moneys:

- (a) To fulfil the obligations taken over from the Czechoslovak Central Currency Control;
- (b) For the requirements of the State and State establishments;
- (c) To regulate the money market;
- (d) With the approval of the Finance Minister, the Banking Office may also allocate, on application, to certain producers or to associations formed by producers, foreign moneys intended for the direct purchase abroad of necessary raw materials.

On the basis of this Decree, the Banking Office of the Ministry of Finance established its exchange policy in such a way that the movement towards the restoration of the pre-war free exchange is being carried on gradually and without difficulty. The rates of exchange naturally moved in inverse ratio to the available supply. The protection of the amount of available currency was effected automatically, that is, by the rise in rates and not by a refusal to furnish credits when the supply was low. This policy was rendered considerably easier by the rational policy of the Banking Office of the Ministry of Finance, whose accounts have shown and continue to show a surplus. The result was a considerable accumulation of currency, which ensured the success of the policy followed up to date by the Banking Office, established it upon a solid foundation and thus paved the way for a more favourable development in future.

It is true that the foreign loan contracted this year is chiefly designed to procure capital for important investments; but in so far as it is a loan designed to stabilise the exchange, it acts in the same way as the policy followed by the Banking Office. As creditors and holders of State notes, foreigners are subject to the same regulations and enjoy the same legal protection as nationals.

7. *The causes and effects of deflation.*

As stated in previous sections of this memorandum, the monetary policy of Czechoslovakia is, and has been, based primarily on the total avoidance of fiduciary inflation. The amount of unsecured currency taken over by the State, when the Czechoslovak money became an independent currency, represents the maximum authorised, and the Bank of Issue is forbidden by law to grant credits to the State either directly or indirectly. Moreover, the Czechoslovak monetary policy is directed towards effecting a gradual amortisation of the floating bank debt. An extraordinary tax on capital and on increases of capital is designed to achieve this end. The tax on increases of capital, represented by the difference between the money value of such capital in 1914 and its much higher money value in 1919 (on March 1st, 1919), is designed to correct, to a certain extent, the disparities in capital arising from the depreciation of the currency which was at that time common (*i.e.*, Austro-Hungarian) money, a depreciation which has lowered the value of cash holdings and of credits (cash, deposits, securities bearing fixed interest, etc.), while other forms of property have retained, more or less, their gold value.

This deflation — to use the term in its strict technical sense — is to be carried out in principle within three years from the date of the issue of the notices to pay. In practice it will take even longer, because, on the one hand, the collection of the taxes on capital can, for administrative and

technical reasons, only be carried out gradually, and because, on the other, payment is permitted in media other than cash. In this way it will prove possible to reduce by degrees the currency which was taken over as a result of the Austro-Hungarian liquidation. This policy is in accord with the recommendations contained in the Brussels Resolutions (Resolutions regarding Exchange, No. X), according to which deflation must not be sudden and must have regard to existing conditions. Moreover, Czechoslovak monetary policy makes use of no novel devices. The fundamental principle of all sound monetary policy, that is to say, the avoidance of fiduciary inflation is, it is true, largely dependent upon the paramount necessity of a return to budgetary equilibrium. The financial administration has made every effort from the beginning to achieve this equilibrium. The Czechoslovak finance laws, under which budgets are divided into ordinary budgets and budgets for investment purposes, allow only for deficits incurred on account of these purposes (that is to say of durable productive objects) to be covered by credit operations effected under ordinary conditions at normal rates. The fact that the budget for 1923, estimated at 19 milliards, shows a deficit of only half-a-milliard (that is to say 0.026 % of the budget) demonstrates the truth of the foregoing.

The policy of budgetary equilibrium is only possible if the whole general policy is directed towards the consolidation of the political and economic life of the country. The effort made by the Czechoslovak Government to place the public finances on a sound basis did not appear to produce any immediate effect either on the foreign rates of the Czechoslovak crown or on the stabilisation of prices and the lowering of the economic index figures.

The exchange rates showed, in fact, at first very marked fluctuations. The Czechoslovak crown was first quoted at Zurich on March 18th, 1919, at 29.75 Swiss francs to 100 Czechoslovak crowns. The movement of the rates during the year 1919 is shown by quotations of 34.25 on May 16th (maximum), 14.50 on September 10th (minimum), and 21.75 on September 27th (maximum). There was then a considerable fall to 5.25 on January 27th, 1920. The rate rose to 14.25 on May 26th, 1920, and fell again to 7.25 on September 20th, 1920. These fluctuations, which indicate a general downward movement, remained within reasonable limits, the lowest point being touched on October 29th, 1921, when the rate was 5.10. From this period (at this time the troops were mobilised on account of the attempt of the ex-Emperor Charles in Hungary); the rate rose to 10.05 on January 24th, 1922, and remained at practically that level until August, 1922, when a rapid rise took place and the rate reached 19.70 on August 28th.

This does not, however, prove that there is very little connection between the amount of currency and the policy governing its issue on the one hand, and the appreciation of the value of the means of payment on the other, even if, as is the case in Czechoslovakia, the circulation still remains a paper circulation. The appreciation of the means of payment on the international market and the readjustment of its purchasing power at home depend on a whole series of complicated phenomena, particularly in the chaotic period of post-war world disorganisation. In the particular case of the Czechoslovak State, which arose in the centre of Europe on the territory of the former Austro-Hungarian Empire, a more or less protracted period was necessary before the situation in Central Europe and that in Czechoslovakia became fully understood, particularly in the international centres most influential from the point of view of commercial and financial transactions, be these transactions of the nature of normal trade or speculation. It has taken three years for the real situation of the country and the sound policy of deflation practised by Czechoslovakia to become sufficiently widely known to make it possible to contemplate raising a first Czechoslovak foreign loan in the open market (April 1922), to be employed for productive purposes.

In a situation as unsettled as that of Europe immediately after the war and at the present day, time is required for the revival of confidence both at home and abroad. But it is certain that, once this confidence is restored, it will grow with considerable rapidity if no unfortunate events occur. This slow readjustment is clearly seen in Czechoslovakia and explains the causes

which are responsible for the condition of the Czechoslovak exchange during recent months when a sudden and considerable rise in the foreign rates of the Czechoslovak crown occurred in August 1922.

A sudden and considerable rise of this kind may, it is true, react prejudicially on economic life by suddenly changing the basis of export prices, and this consequence may be of considerable importance for a country like Czechoslovakia, which aims, above all, at exportation. This consideration makes it clearly impossible to decide definitely whether the policy of deflation is in itself a good or a bad policy. The difficulties which result therefrom are not caused by deflation itself but rather by the fact that, up to the present, analogous measures have not been adopted in certain other States of Europe, not including Russia. Czechoslovakia borders on several countries suffering from an excessive inflation, which one day or another will have to be ruthlessly dealt with. The longer the necessary measures are delayed the more serious will be the damage caused by the system of inflation and the more painful will be the process of readjustment. A simultaneous application of drastic measures is an absolute pre-requisite for the economic reconstruction of Europe.

Apart from this absence of common and simultaneous action, it should not be forgotten, in considering the most recent rise in the Czechoslovak crown and in considering the financial policy adopted by the Czechoslovak Government in respect of deflation, that there are certain other phenomena which mitigate the mischievous consequences of this rise or which provide the means for overcoming them. Certain branches of Czechoslovak industry depend wholly or partly on raw materials which Czechoslovakia may buy, or is obliged to buy, abroad at favourable prices, thus leading to a fall in the cost of production. A fall in the price of the principal foodstuffs which Czechoslovakia is obliged to import in order to supplement the insufficient production of the country itself (particularly in cereals) has already taken place. These circumstances (and particularly the last) contribute, in fact, to the inauguration and the continuation of a general movement for the reduction of prices, or, in other words, to an increase of the purchasing power of the crown within Czechoslovakia proportionate to the rise of its purchasing power abroad, and, above all, they contribute to the inauguration and continuation of the important process of lowering costs of production and especially wages, a process which must be carried out without preventing the working classes from maintaining a suitable standard of living.

This is a delicate process and cannot be effected without crises in the various branches of production; but it has to be faced. The task of the Government and others concerned — which is both considerable and difficult — is to render the various indirect effects of this process as slight as possible. It is the duty of producers to see that the organisation of production is as scientific and economical as is practicable. It is the duty of the wage-earners — without surrendering the just social rights which they have acquired in recent times — to increase their output to the greatest possible extent. If it is admitted that these efforts are indispensable for safeguarding the economic situation of the country, and if in point of fact they are carried out conscientiously and in a spirit of general good-will, it will readily be recognised that it is only the more important consequences of deflation on a large scale which possess the necessary educative influence and which will tend to restore the moral and psychological bases which render possible intensive production on economic lines.

Nevertheless, until this aim is achieved or until, at least, simultaneous efforts on common lines are undertaken and carried out with energy in the majority of countries, the most carefully considered action, taken with a view to the stabilisation of the economic situation, runs the risk of causing unexpected fluctuations. It would, therefore, be useless to think of taking technical steps to stabilise the exchange until that moment comes.

III. COMMERCIAL POLICY.

1. *The abolition of the establishment of prohibitions on imports and exports or of special permits; the abolition or lowering of import or export duties, etc.*

In view of the fact that, after the *coup d'Etat*, the Czechoslovak Republic had no customs offices along the greater part of its frontiers, and no fiscal frontier guards, and that at the beginning the frontiers were not even definitely settled (the old frontier with Germany was the only one retained), the need for control over the importation and exportation of goods became obvious. All imports and exports required special authorisations issued by a "Czechoslovak Export and Import Commission" constituted *ad hoc* by a decree dated November 22nd, 1918 (No. 43 of Collected Laws and Decrees). There were no absolute import and export prohibitions, as the licence system was introduced. A most friendly attitude was taken up towards foreign countries and particularly to the other Succession States; thus, the export of coal to Austria was permitted even when Czechoslovakia was perceptibly in need of it. The creation of import and export syndicates by the Decree of February 26th, 1919 (No. 100 of Collected Laws and Decrees), marked a change in the permit system; even before 1920 these syndicates, established under State control and partially directly by the producers' organisations, began their activities in the Czechoslovak Republic. Before June 1920, however, the State control of import and export was resumed, and by the law of June 24th, 1920 (No. 480 of the Collected Laws and Decrees), a Foreign Trade Office was created. From the beginning, this office pursued the policy of passing as quickly as possible from economic control to freedom of foreign trade. With this object it published a list of goods which might be exported without special authority, and is still adding to this list. The list contains, in general, almost all goods produced in Czechoslovakia, and authority is only required for the exportation of raw materials, certain half-manufactured products and foodstuffs. In this connection, the absence of absolute prohibitions should again be emphasised. The movement towards freedom of export may also be seen in the fact that the law of January 19th, 1922, formally suppressed the Foreign Trade Office, the duties of which passed to the Ministry of Commerce in so far as the extraordinary situation rendered it necessary to maintain its work; owing to the provisional character of the Czechoslovak customs system, the system of authorisations is, in certain respects, analogous to the transition steps taken by various Western European countries. The tendency towards a gradual removal of the existing restrictions is becoming more and more marked, as the economic situation permits, within the meaning of the decisions taken by the Economic Committee of the Genoa Conference.

With regard to the customs policy, it should be stated that the Czechoslovak customs tariff is based upon the autonomous customs tariff of the former Monarchy, adapted to the economic and financial situation and differing by the introduction of graduated (differential) coefficients; the duties on agricultural products, foodstuffs and raw materials have been suspended. In the case of numerous items in the Czechoslovak customs tariff, the graduated (differential) co-efficients involve a perceptible decrease in the pre-war customs protection if the relation between the Czechoslovak crown and the value of the pre-war crown (in which the old protective customs tariff was expressed) is taken into account.

2. *The existence (or abolition) of price discrimination against foreign trade.*

Czechoslovak legislation allows of no discrimination in the treatment of foreign trade.

3. *The conclusion of: (a) commercial conventions; (b) transport conventions.*

(a) The list of commercial treaties concluded and signed between the Czecho slovak Republic and other States up to July 1st, 1922, is as follows (in chronological order):

S.H.S. Kingdom	Customs and commercial convention	9. IX. 1919
Switzerland	Customs and commercial convention	6. III. 1920
Germany	Economic convention	29. VI. 1920
S.H.S. Kingdom	Convention on the provisional regulation of commercial relations	18. X. 1920
France	Commercial convention	4. XI. 1920
Italy	Convention on commerce and navigation	23. III. 1921
Roumania	Commercial convention	23. IV. 1921
Austria	Commercial convention	4. V. 1921
S.H.S. Kingdom	Protocol	6. VIII. 1921
Poland	Commercial convention	20. X. 1921
Spain	Commercial convention	18. XI. 1921
Russian Soviet Republic	Provisional convention	6. VI. 1922
Ukraine Soviet Republic	Provisional convention	6. VI. 1922

This list only includes commercial treaties properly so-called, and no mention is made of numerous administrative conventions of a semi-political and semi-commercial nature, such as the Compensation Treaty with the Kingdom of the Serbs, Croats and Slovenes, the similar treaties with Austria, Poland and Hungary, etc.

(b) After the *coup d'Etat*, the Czechoslovak Republic attempted to regulate the transport situation and began the introduction of new measures by concluding treaties relating to railways and transport. Some time before the conclusion of the commercial treaties, which almost always contain general clauses relating to transport, the Czechoslovak Railway Administration concluded special treaties with Poland, Germany, Roumania, the Kingdom of the Serbs, Croats and Slovenes, Italy, Austria, Latvia and Spain; while there is a separate treaty with France relating to railway transport.

It need hardly be added that the Czechoslovak Republic has adhered to all the international transport treaties.

November 15th, 1922.

Denmark.

I. BUDGETARY MEASURES.

As the financial year for the Danish public accounts runs from April 1st to March 31st, and as the State accounts are normally published in the month of October next following, it will as a rule not be possible in the following statement to give information of a later date than for the year 1920-21.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

The total ordinary expenditure on the current budget for 1920-21 may be estimated at about Kr. 325,000,000, against which there is revenue from taxes, etc., of Kr. 499,000,000. That the financial year, in spite of this, ended with a total deficit of Kr. 106,000,000 is due partly to the fact (compare section 3) that for the last time considerable contributions on account of the high cost of living had to be made, partly to the direct expenditure, mostly on the capital account, caused by the reversion of Slesvig. This expenditure amounted to about Kr. 150,000,000, of which Kr. 101,000,000 was in consideration of German State property, etc., taken over.

2. *Whether expenditure on armaments has been reduced.*

The expenditure for Army and Navy amounted to:

1919-20	Kr. 64,000,000
1920-21	» 75,000,000
	<hr/>
Increase:	Kr. 11,000,000

There has been an absolute increase of Kr. 11,000,000 or about 17 %. In this connection it must be pointed out, however, that the average level of prices in this country in 1920-21 was just so much higher than in 1919-20. The expenditure for military purposes may, therefore, be said to be proportionally unchanged in the two years in question.

3. *The extent of unproductive extraordinary expenditure.*

The extraordinary unproductive expenditure for 1920-21 may be estimated at just over Kr. 210,000,000. Of this amount, however, about Kr. 135,000,000 have been applied solely

in reduction of the prices of foodstuffs, etc., which item of expenditure will not reappear in the following financial year, as the measures connected therewith have been practically discontinued from the end of the financial year 1920-21. Further, an amount of about Kr. 35,000,000 represents expenditure on account of measures adopted in Slesvig in addition to the sums included in the above Kr. 135,000,000. A similar amount may reappear in the budget for 1921-22, after which year it should not be necessary to incur further expenditure on this account. Of the balance of about Kr. 40,000,000, an amount of about Kr. 10,000,000 is due to expenditure owing to unemployment and shortage of dwellings, which it is to be hoped may be properly described as extraordinary, while the remaining Kr. 30,000,000, although including expenditure which, in relation to the financial year in question, is extraordinary, can hardly be described as extraordinary in relation to a period of several years.

4. *The extent of productive extraordinary expenditure.*

The ordinary productive expenditure for 1920-21 may be estimated at a total of Kr. 69,500,000, divided as follows:

State Railways	Kr. 49,500,000
Post and Telegraph service	Kr. 13,000,000
Harbours, etc.	Kr. 7,000,000
	Total : Kr. 69,500,000

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

After attempts during some years to relieve some of the effects of the high cost of living by increasing extra pay to Government officials, a new Act came into force on October 1st, 1919, regulating the remuneration of all Government officials, while many municipalities and private institutions adopted the system of paying their employees according to principles similar to those carried into effect by the said Act. By this Act, regulation of all salaries was effected in such a manner as to endeavour to fix the so-called "basic salary" in proportion to the level of prices in July 1919. The actual remuneration of officials receiving the lowest pay was at the same time increased, partly at the expense of the highest salaries. To this basic salary were then added various allowances: first, a local supplement of Kr. 450 annually in large towns, Kr. 330 in ordinary provincial towns, and Kr. 240 in small towns, by which it was intended to eliminate the difference in the cost of living between large and small towns and between town and country, the officials in the country receiving no local supplement. Secondly, a "general cost-of-living supplement" amounting to Kr. 54 annually for each 3 % increase in the price of the most essential necessities beyond the level of July 1919. Finally, a "market condition supplement," which was intended to cover the difference between the Government service income and wages in the open market, and should further be regulated by the ability of the State to defray the wages of its servants. For the lower wages (below Kr. 1,500 annually) this market condition supplement amounted to 50 % of the annual wages and declined to about 1/7 of the annual salaries for those receiving the highest pay (Kr. 10,400 or more). Local and general cost-of-living supplements have hitherto not been altered, but, owing to the difficult financial position of the State and to the declining wages paid in the open market, the "market condition supplement" for the year 1. IV. 22—31. III. 23 was reduced by one-third of the rates stated.

According to the Budget for 1922-23, the expenditure of the State for remuneration of officials may be estimated at about Kr. 184,000,000 for the Government officials proper, who

number 44,000; to this must be added wages for temporary labourers in Government employ, contributions to teachers' salaries, pensions, etc., bringing the grand total of State expenditure for salaries to a figure of from about Kr. 270,000,000 to Kr. 275,000,000. The following summary may be given as far as the Government officials proper are concerned:

Basic salary (including addition according to length of service)	Kr. 117,500,000
Local supplement	Kr. 13,000,000
Market condition supplement	Kr. 24,000,000
General cost-of-living supplement	Kr. 29,500,000
	Total about
	Kr. 184,000,000

As will be seen, the supplementary pay totals about one-third of the aggregate expenditure on the pay list.

A corresponding summary for the financial year 1920-21 is not available, but the expenditure for this year may be estimated to have been approximately as high as that for 1922-23; for, while the "market condition supplement" was lower last year, the circle of Government employees who, though, strictly speaking, not officials, have been employed and paid by the State has probably been widened.

6. *The existence of subsidies on bread and other foodstuffs, coal and other materials.*

The subsidies on bread, etc., and fuel, which were given partly by the State taking over the grain and reselling it at reduced prices, and partly by contributions in various ways to the municipalities, were all discontinued in the course of the year 1921. In 1920-21, the expenditure on account of these measures was about Kr. 130,000,000; in 1921-22, the corresponding expenditure, which consists almost entirely of refunds of outlay incurred by other bodies, will presumably amount to about Kr. 15,000,000.

7. *Charges for unemployment.*

The exceedingly difficult conditions in the labour market (it is estimated that during the winter 1921-22 about one-third of the number of Danish organised labourers have been unemployed) have resulted in a probable increase in the contributions in relief of unemployment, which in 1920-21 amounted to about Kr. 4,750,000, to about Kr. 35,000,000. In the last-mentioned figure is, however, included an amount of Kr. 7,250,000, which has been contributed to recognised unemployment relief institutions as loans free of interest granted by the Exchequer.

8. *The financial position of public undertakings.*

For the financial year 1920-21 the position of the public undertakings is characterised by the following deficits:

The State Railways	Kr. 54,000,000
The Postal service	Kr. 17,000,000
The Telegraph and Telephone service	Kr. 4,000,000
The State Harbours	Kr. 1,000,000

For 1921-22 the total deficit of the public undertakings may be estimated at about Kr. 75,000,000. The fall in coal prices, which was so vitally important for the State railways,

the reduction of the wages of the employees, and the measures which have been adopted with a view to the more effective utilisation of working hours may be expected to bring about an approximate financial balance for the public undertakings in 1922-23, in spite of the reduction of the fares and goods rates of the State railways which became effective on July 1st, 1922.

9. *The introduction of new taxation.*

Of taxes which may properly be described as new, two have been introduced in 1922-23, viz., a tax on the sale of chocolates and confectionery and a tax on the turnover of public-houses, etc. The first-mentioned is estimated to provide Kr. 10,000,000, and the second Kr. 15,000,000. Further, the customs duties for a number of articles (mainly luxuries) have been increased as from November 25th, 1921. On the basis of the data already available, this may be estimated to provide Kr. 7,000,000 or Kr. 8,000,000 annually. Apart from these two new taxes, the Taxation Acts previously in force were renewed or revised for the financial year 1922-23. On introducing these measures in the Rigsdag, the Minister of Finance estimated the total revenue from taxation at about Kr. 405,000,000, of which about Kr. 195,000,000 would be derived from taxes on income and property, real estate, inheritance and gifts; about Kr. 57,000,000 from customs duties; and the balance from dues and stamp duties on turnover and on the production of or trade in spirits, tobacco, sugar, etc.

10. *Methods of raising money by loans, whether by: (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation.*

The Government debt at present amounts to about Kr. 1,300,000,000, of which about Kr. 500,000,000 are foreign debt. The entire amount of debt is consolidated in long-term bonded loans and at present there is no debt to the Nationalbank. In the past, the Ministry of Finance has several times overdrawn its account with the bank by considerable amounts.

11. *The influence of foreign loans and trade balances.*

In November 1920, a national loan of \$25,000,000 was contracted in America, the largest part being employed to cover the expenditure caused by the reversion of Slesvig. In December 1921, another national loan was contracted in America to cover that part of the deficit for the financial year 1921-22 which could not be covered by the cash in hand. The amount of this loan was \$30,000,000. The immediate effect of these loans was to strengthen the international value of the Danish krone. It should be pointed out, however, that, out of the first-mentioned \$25,000,000, an amount of \$15,500,000 was paid into the New York account of the Reparation Commission in consideration of German State property taken over in Slesvig, and did not come on the market in Denmark. It is, of course, difficult to decide how great has been the importance of these Government loans in the strengthening of the international value of the krone, because a considerable improvement of the balance of trade of the country took place at the same time, as will appear from the following figures:

Period.	Kroner (000,000's omitted).		
	Imports for Domestic Consumption.	Export of Danish Goods.	Difference (Import Surplus).
1919	2,394	740	1,654
1920	2,943	1,591	1,352
1921	1,544	1,383	161
Jan.-May 1922	537	417	120

The exceedingly unfavourable balance of trade immediately after the end of the war was followed by very high foreign exchange quotations. For instance, the dollar rate in Copenhagen was on July 1st, 1920, \$1 = Kr. 6.12 (par \$1 = Kr. 3.73), and culminated on November 9th, 1920, when the quotation was 7.68; on July 1st, 1921, the rate had declined to 5.95 and on July 1st, 1922, to 4.66.

12. *The effect of local and provincial finance on the budget of the State.*

During the war the grant of subsidies by the State to the finances of local municipalities or provinces only took place in two quite exceptional cases. Grants were made to two town municipalities which had been particularly adversely affected by the war, and only relatively insignificant amounts were involved. The refunds and subsidies granted by the State to the municipalities for social purposes, erection of buildings, etc., are not included under this heading, as they represent items of capital expenditure incurred by the municipalities concerned and are properly borne by the State budget.

Under the present section, however, it would be correct to point out that the Government has undertaken to guarantee a loan of \$15,000,000 contracted in the United States in 1921 by a number of town municipalities jointly.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The note circulation of the Nationalbank was:

	Kroner
On 31.V. 1920	516,000,000
31.X. 1920	578,000,000 (maximum)
31.V. 1921	497,000,000
31.V. 1922	439,000,000
30.VI. 1922	442,000,000

From these figures it appears that the decrease of the note circulation has practically stopped at a level of about one-fourth below the maximum amount. At present no notes other than those issued by the Nationalbank are in circulation in Denmark.

2. *The influence of Government expenditure on currency.*

As stated above, the Ministry of Finance has on several occasions overdrawn its account in the Nationalbank and has thereby effected short-term loans. On July 31st, 1920, the account was overdrawn by about Kr. 76,000,000; on July 31st, 1921, by Kr. 61,000,000, while at the present date (July 1922) the Government is not in debt to the Nationalbank.

Further, the Government had unbonded debts during the same period, due to credits obtained elsewhere. The amount of these debts has varied. They reached a maximum of just under Kr. 20,000,000, and were fully repaid early in 1922.

The amount of the note circulation and the corresponding actual value of the krone is, therefore, not at present directly affected by Government expenditure. In this connection it may, however, be pointed out that the taxes imposed to meet the expenditure of the State and the municipalities have to no small extent encroached upon the private capital employed in trade. Through the need for credit thus caused, the amount of the note circulation has indirectly been affected.

3. *The repayment of floating debt and the effects thereof.*

As stated in Chapter I, section 11, two National loans were contracted in the United States of America in 1920 and 1921 respectively. The proceeds of these loans were employed partly in repayment of the unbonded debt mentioned in section 2 of the present chapter. This made possible the decrease of the note circulation, which has taken place, and consequently an increase in the value of the krone at home, while at the same time the realisation of the proceeds of the loans contributed to the strengthening of the international value of the Danish krone. To show the increase of the value of the Danish krone in this country, it should be mentioned that the Danish wholesale price index attained its maximum in November 1920 at 403 on the base of 1912-13 = 100, and that since then it has declined and is now fairly firm about 180. The retail price index, which is computed semi-annually, has declined from 262 in July 1920 (1914 = 100) to 237 in July 1922 and 212 in January 1922.

4. *The connection between the Government and the central bank of issue.*

The Nationalbank is the bank employed by the Government, and has, as stated, periodically allowed the Government overdrafts. The bank is a private limited company incorporated by law, paying to the Government a due for the monopoly of note issue. By the Act of Incorporation, the proportion of cover of the note circulation by a bullion reserve has been stipulated, the proportion of one-third being in force until July 1925. As the bullion reserve of the bank amounts to Kr. 230,000,000 against a note circulation which is at present about Kr. 440,000,000, there is a considerable surplus of cover.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

The restriction of credits and also the concurrent decrease of the note circulation have been effected by the refusal of the Nationalbank, in co-operation with the leading commercial banks of the country, to renew old loans or to grant new ones where such were deemed not to be necessary. On the other hand, the official discount rate has gradually declined, as shown by the following figures:

From 17.IV.1920	to	4.V.1921	.	7 %
» 4.V.1921	»	6.VII.1921	.	6 ½ %
» 6.VII.1921	»	5.XI.1921	.	6 %
» 5.XI.1921	»	25.IV.1922	.	5 ½ %
» 25.IV.1922	.	.	.	5 %

6. *The existence of any artificial control of exchange, with a description of its character and its effects.*
Are holders of foreign bank-notes and credit balances treated differently from native holders ?

There is no kind of exchange control in this country. Foreign owners of bank-notes and credit balances are treated in the same manner as the citizens of the country. Domicile in this country is a condition for taxation, apart from taxes on real estate and trade.

7. *The causes and effects of deflation.*

The principal cause of the decline of prices in this country must be considered to be the decline in the world level of prices which commenced in the autumn of 1920. As it has been the constant endeavour of the Nationalbank and the leading commercial banks to reduce the note circulation of the country, the decline of the world prices naturally affected the price level in this country, and the decline of the latter again resulted in the increase of the international and actual value of the Danish krone mentioned in Chapter I, section 11, and in section 3 of the present chapter. This movement, which in itself was favourable, was, however, accompanied by an exceedingly heavy depression of the entire trade of the country, and not until lately, by the settling down of the price level, has it been possible to trace slight indications of a coming improvement. The decline not only ruined many of the undertakings which had been established during the war boom but a number of old firms came into difficulties by the sudden and heavy fall in the level of prices, and as far as the industry of the country was concerned, the decline caused a stoppage of sales, because the consumers expected still lower prices. This resulted in unemployment to an extent without precedent, as is shown by the following figures, indicating the number of unemployed:

July 1st, 1920	7,787
January 1st, 1921	52,711
July 1st, 1921	56,087
January 6th, 1922	82,825
July 1st, 1922	39,174

Partly owing to the decline of the level of prices and partly owing to this serious unemployment, the labourers were obliged to agree to considerable reductions in the increased wages earned during the last years of the war. When these increases attained their highest figure in the fourth quarter of 1920, the average for all labourers was Kr. 2.03 per hour, while in the third quarter of 1920 it was Kr. 1.99 and in the year 1914 Kr. 0.50. The following table gives the average wages per hour:

Average 1914	Kr. 0.50
Third quarter 1920.	» 1.99
Fourth » »	» 2.03
Second » 1921.	» 1.86
Third » »	» 1.70
Fourth » »	» 1.69

No proper wage statistics, corresponding to the above figures, are available later than for the fourth quarter of 1921. It may be presumed, however, that the average wage is now about 15 % lower, *i.e.*, about Kr. 1.45 per hour.

Undoubtedly the decline in the wages of labour in connection with the settling down of the price level has contributed to the fact that industry has to some extent been able to resume work, even if conditions are still difficult.

Generally speaking, it may be said that — even if the great extent of the unemployment and the protracted resistance of the workers to the reduction of wages have caused heavy expense for the community, both directly in subsidies to the unemployed and indirectly by the loss of work through the labour conflict — the social conditions during the decline of prices have had a much more orderly aspect than during the increase of prices, when illegal and local strikes by smaller or larger groups of workers caused uncertainty in the labour market.

III. COMMERCIAL POLICY.

1. *The abolition or establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

In spite of the great difficulties which, as stated above, affected Danish industry and commerce during the decline of prices, and although a considerable part of these difficulties was caused by large quantities of goods being brought into the Danish market, both from countries with high and from countries with low exchanges, in spite too of energetic demands from the trades affected, the Danish Government was unwilling to take any step towards introducing special import duties or import prohibitions. The Government rejected the demand for such measures under reference also to the dicta of the Brussels Conference. But further, the Government considered it wrong to prevent in this way the decline in the world prices from reaching the Danish market, more especially in view of the fact that the economy of the Danish community is essentially based on the export of agricultural produce. It was, therefore, of the greatest importance not to adopt artificial measures to increase the prices of such goods as might be described as being, more or less directly, means of production for agriculture, as an increase of this description would affect the ability of Danish agriculture to compete in the foreign markets.

The following measures which were adopted were in accordance with these views:

The import and export prohibitions existing in the summer of 1920 have all been abolished, with the exception of the prohibition on the export of gold, silver and coins, of weapons, munitions and apparatus for their production. Further, the import and export of spirits and strong beer is only permitted by special licence, owing to the high excise and the control on the manufacture of these goods at home, the production of spirits being limited to a certain quantity and the production of strong beer prohibited. Further, it is entirely or partly prohibited to import — and to produce in this country — footwear containing cardboard, artificial leather, etc. Otherwise there are no restrictions affecting trade across the frontier of the country. The rates of customs duty have not been altered since 1908, apart from the above-mentioned increase of the rates for a number of luxuries (Chapter I, section 9), which increase, however, was entirely unconnected with any kind of protection policy, but simply intended to provide an increased income for the Exchequer. Accordingly, no special exchange dumping import duties have been imposed in this country, and the duties collected on the export of various goods were all abolished at the same time as the export prohibitions of the goods in question.

2. *The existence (or abolition) of price discrimination against foreign trade.*

At no time has any price discrimination been effected by this country in exports of goods to foreign countries.

3. *The conclusion of: (a) commercial conventions; (b) transport conventions.*

Since the summer of 1920, the Danish Government has not made any new commercial treaty, nor any transport convention, apart from those signed also by Denmark at the Barcelona Conference on April 20th, 1921, the ratification of which, however, has not yet taken place as far as Denmark is concerned.

August 11th, 1922.

Finland.

I. BUDGETARY MEASURES.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

The public revenue and expenditure for the financial years 1920 (Closed Accounts) and 1921 and 1922 (Budget Estimates) passed by Parliament amount to the following figures in Finnish marks:

Closed Accounts 1920.

Ordinary Revenue	1,734,408,007.38	Ordinary Expenditure . . .	1,471,435,463.47
Extraordinary Revenue (of which proceeds of loans 118.4 millions)	215,726,425.69	Extraordinary Expenditure	618,092,512.54
Unexpended balances from preceding years	139,393,542.99		
Total Revenue	<u>2,089,527,976.06</u>	Total Expenditure	<u>2,089,527,976.06</u>

Estimates 1921.

Ordinary Revenue	2,154,855,650.—	Ordinary Expenditure . . .	1,898,533,679.20
Extraordinary Revenue (of which proceeds of loans 237.5 millions)	329,295,352.86	Extraordinary Expenditure	772,571,898.32
Unexpended balances from preceding years	186,954,574.66		
Total Revenue	<u>2,671,105,577.52</u>	Total Expenditure	<u>2,671,105,577.52</u>

Estimates 1922.

Ordinary Revenue	2,127,492,650.—	Ordinary Expenditure	1,931,295,735.—
Extraordinary Revenue (no loans for this year)	41,275,000.—	Extraordinary Expenditure	245,363,060.—
Unexpended balances from preceding years	7,891,145.—		
	<hr/>		<hr/>
Total Revenue	2,176,658,795.—	Total Expenditure	2,175,658,795.—
	<hr/>		<hr/>

If the ordinary budgets only are taken into consideration, it will be seen that the three years 1920, 1921 and 1922 show surpluses of 263.0 million, 256.3 million and 196.2 million Finnish marks respectively.

The considerable extraordinary expenditure is principally accounted for by the large sums which have had to be written off the accounts and by the depreciation which has taken place in the State funds. For example, holdings in Russian roubles have been entirely written off, and shares issued in German currency have been reduced to their real value according to the rate of exchange.

2. *Whether expenditure on armaments has been reduced.*

The budgets for National Defence for the years 1920, 1921 and 1922 give the following figures in Finnish marks:

Year	Ordinary expenditure F. mks.	Extraordinary expenditure F. mks.	Total expenditure F. mks.	Percentage of the total expen- diture of the State.
1920	283,224,900.—	90,144,484.44	373,369,384.44	18.4
1921	295,341,600.—	72,468,200.—	367,809,800.—	13.8
1922	273,000,200.—	33,719,700.—	306,719,900.—	14.1

These figures show that the military expenditure at least for the years 1921 and 1922 is proportionately less than the military expenditure of a great number of other countries. It must also be observed that the defence system of the country is still very young, as it dates only from the year 1918, and that for this reason it calls for heavier expenditure than that of countries whose defence systems are older and more developed.

3 and 4. *The extent unproductive and unproductive expenditure.*

The Finnish budget of public revenue and expenditure is based on the principle of gross entries. The expenditure of public undertakings, whose balance sheets are included in the public budget (Railways, Forestry, Posts and Telegraphs) amounts to one-quarter of the total public expenditure; the other principal heads of public expenditure are approximately as follows: The Central and Judicial Administration 309,000,000 Finnish marks (24 %), Public

Education 227,000,000 (17 %), Public Works 193,000,000 (15 %), Public Debt 238,000,000 (18 %). In the public budget for the period 1920-1922 large subsidies were granted for productive purposes, especially to support agricultural production and for the State saw-mills.

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

The consolidation of the independence of the country, and the subsidies granted to agricultural and industrial institutions of the State, have involved so heavy charges on the Treasury that the Government has been compelled to exercise the greatest restraint with regard to the salaries of its officials. The Government has thus been obliged, in conformity with the wishes expressed by the Diet, to restrict the number of officials, to increase the office hours, and at the same time to simplify the organisation. In spite of these measures, it has not been possible to diminish the total number of officials, as the independence attained by the country has occasioned the creation of a large number of new services and of new branches of administration.

The fact that the State revenue has had to be used for an increase of the Civil Service imposed on the Government the obligation, in dealing with its officials, to employ a method by which only those who have small salaries, and particularly the lower grades, have been able to receive salaries in proportion to the cost of living, whereas in the higher grades salaries have not been increased in the same proportion. For instance, the salaries of the higher officials for the year 1921 were only 250-350 % higher than the salaries paid in 1914, whereas the cost of living for the months of January and April of the same year showed an increase of 1,100 % compared with 1914. Extra bonuses have been granted to all officials, whatever their grade, who have children to support. These bonuses have amounted to 150 Finnish marks per month for each child under the age of 18 years.

This method, rendered necessary by the present crisis, is certainly not in the long run in conformity with the interests of the State, and ought not to be prolonged more than is necessary. The Government has accordingly taken steps with a view to introducing a new system which would favour specially qualified officials, and it is anticipated that the new system will soon come into force, at least partially.

The expenditure of the State for salaries to officials is as follows:

	(Finnish marks)
For the year 1920 approximately	435,500,000.—
» » » 1921 »	550,000,000.—
» » » 1922 »	565,000,000.—

6. *The existence of subsidies on bread and other foodstuffs, coal and other materials.*

There are no subsidies on foodstuffs, etc.

7. *Charges for unemployment.*

Unemployment has not been severely felt, nor has it been necessary to provide for any unemployment doles in the budgets for the years 1921-1922.

8. *The financial position of public undertakings.*

The receipts and working expenses of the following Public Undertakings (Forestry, Railways, Posts and Telegraphs, Manufacture of Yeast and Alcoholic Liquor), according to the

balance sheets of the closed accounts of these undertakings for the years 1920 and 1921 and according to the budget estimates for the year 1922, were as follows:

(Finnish marks)

Year	Receipts	Working Expenses	Balance (Surplus +, Deficit -)
<i>Forestry.</i>			
1920	130,625,764.61	64,117,326.60	+ 66,508,438.01
1921	146,500,000.—	103,250,000.—	+ 43,250,000.—
1922	140,848,000.—	94,599,800.—	+ 46,248,200.—
<i>Railways.</i>			
1920	378,408,457.12	303,357,214.18	+ 75,051,242.94
1921	461,472,202.03	404,309,328.79	+ 57,162,873.24
1922	443,600,000.—	402,557,289.—	+ 41,042,711.—
<i>Posts.</i>			
1920	54,263,608.56	53,133,223.06	+ 1,130,385.50
1921	72,404,267.15	70,334,370.17	+ 2,069,896.98
1922	59,000,000.—	63,416,469.34	— 4,416,469.34
<i>Telegraphs.</i>			
1920	13,110,599.95	10,749,652.68	+ 2,360,947.27
1921	18,275,775.64	14,027,432.63	+ 4,248,343.01
1922	16,120,000.—	14,561,595.—	+ 1,558,405.—
<i>Manufacture of Yeast and Alcoholic Liquor.</i>			
1920	33,506,721.57	21,723,994.25	+ 11,782,727.32
1921	48,426,574.86	30,863,605.17	+ 17,562,969.69
1922	47,000,000.—	28,920,720.—	+ 18,079,280.—

9. *The introduction of new taxation.*

Only two new taxes have been voted since the time of the Brussels Conference, viz.: an excise duty on matches and a tax on interest and dividends payable by foreigners. The laws regarding these duties are dated December 30th, 1921. The yield from each of these taxes has been estimated at 15,000,000 and 6,000,000 Finnish marks respectively.

10. *Methods of raising money by loans, whether by: (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation.*

In general it is not possible at present to obtain loans on the domestic money market. In February 1921, the Government contracted in Scandinavia a 6 ½ % loan payable at the end

of 10 years. The proceeds of this loan were used to write off from the Treasury the so-called Russian assets. It has not since that date been necessary to contract new loans and it has even been possible materially to diminish the floating debt. At the end of the year 1920 the advances obtained by the Government from the Bank of Finland and private banks amounted to 530,017,700 Finnish marks, of which the contribution of the Bank of Finland was 303,700,000 F. marks. The floating debt has since been diminished to such an extent that the advances obtained from the private banks had already been entirely repaid by September 1921, and only the sum of 125,000,000 F. marks still remains unpaid on the advances from the Bank of Finland. These outstanding balances could also have been repaid, but the repayment has been purposely delayed and only made gradually in order not to prejudice the economic life of the country.

11. *The influence of foreign loans and trade balances.*

The influence exercised by foreign loans on the financial situation of the country has not on the whole been unfavourable, as is shown by the fact that the trade balance which, in the year 1920 still showed an import surplus of 700,000,000 F. marks, in 1921 showed an import surplus of only 106,000,000 F. marks. For the first four months of this year the balance has been much more favourable than during the same period of last year, and there is reason to believe that the balance at the end of the current year will show a material export surplus.

12. *The effect of local and provincial finance on the budget of the State.*

With the exception of a single unimportant case, it has not been necessary for the State to subsidise municipalities or other local bodies. Their position has rather shown a tendency to improve since the passing of the new law on compulsory education, in accordance with which the State bears a large share of the expenditure for public education.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The total note circulation of the Bank of Finland (no other banknotes have circulation in the country) between June 30th, 1920, and May 15th, 1922, is shown in Annex I.

2. *The influence of Government expenditure on currency.*

The advances made by the Bank of Finland to the Treasury reached their maximum on June 30th, 1920, since which date they have diminished. As a result, in so far as the State finances have influenced the monetary situation, that influence has been in the direction of deflation; the repayment of the advances made by the Bank of Finland entailed a decrease in the note circulation during the summer of 1921, and the collection of overdue taxes in 1920 and 1921 made the situation of the money market more difficult and contributed to the maintenance of the high rate of interest.

3. *The repayment of floating debt and the effects thereof.*

The changes that have taken place in the floating debt since June 30th, 1920, are shown in Annex II, in which the foreign floating debt has been converted at the rates of exchange obtaining at the time the borrowed funds were drawn upon. It will be seen from the Annex that the external debt slightly increased during the period reviewed, whereas the internal debt was considerably diminished.

The floating debt consists to the greater extent of advances from the Bank of Finland and private banks against Treasury bills. It should, however, be noticed that nearly all the bills taken up by the private banks were rediscounted by the Bank of Finland. When these bills, which constituted the collateral for the note circulation, were redeemed, there followed a decrease in the note circulation from March to August, the effects of which were materially mitigated by the Bank of Finland by all means at its disposal. Nevertheless, the decrease in the number of notes in circulation made the already strained situation of the money market still more difficult. For this reason, and also because there were no other methods of preventing the decrease in the total of paper money in circulation, the redemption of State bonds held by the Bank of Finland was suspended in the middle of September 1921, and at the same time a modification of the basis of issue of Bank of Finland notes was prepared, admitting a variation in the total of paper money in accordance with the needs of commerce and industry and without taking into account the decrease in the number of State bonds. The new Act has been in force since December 30th, 1921.

4. *The connection between the Government and the central bank of issue.*

The Bank of Finland is "guaranteed and supervised by the Diet"; it is, therefore, a State bank. But before the war the State did not enjoy any priority with respect to credit. The position of the State can be described as privileged only during the period from July 27th, 1918, to December 30th, 1921, when the State bonds formed part of the cover for the issue of notes. But even during that period the Governors of the Bank had a discretionary right with regard to the acceptance of State bonds. By the Law of December 30th, 1921, the basis of the issue of Bank of Finland notes was modified in such a way that liabilities of the State after that date can neither be used as cover for the total of notes issued nor as cover for that portion not covered by gold. State bonds are thus in a less favourable situation than commercial bills, which can be included in the supplementary cover just mentioned. The Bank of Finland can therefore, in the future, only open credits to the State within the limits of its reserve of paper money and only so far as it holds a sufficient number of bills as supplementary security to cover the increase in the total number of notes necessitated by the credit granted to the State. There is, however, at present no need for further short-term credits to be made to the State.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

No special control has been exercised regarding the granting of credits. The minimum rates of the Bank of Finland since the beginning of the year 1920 have been as follows:

From March 23rd, 1920	8 %
From November 10th, 1921	9 %

6. *The existence of any artificial control of exchange, with a description of its character and its effects. Are foreign holders of bank-notes and credit balances treated differently from native holders ?*

Control was exercised over dealings in foreign exchange from May 27th to October 28th, 1920. The control of the foreign exchange market latterly in force aimed, on the one hand, at

the limitation of the sale of foreign exchange in order to guarantee that the available supply should be used only for the payment of imported goods and for other legal purposes; and, on the other hand, at the prevention of the purchase of foreign exchange by means of Finnish monies without the permission of the competent authorities. It became evident, however, at the end of 1920 that these regulations were being evaded to an ever-increasing extent, and the control having thus gradually lost its efficacy, it was determined to abolish it. This decision was also influenced by the improvement in the balance of trade, which rendered the control less necessary. The actual exchange control was accordingly abolished by a Decree dated October 28th, 1920. Only certain clauses remained in force, namely, those limiting the number of persons who were entitled to carry on business in foreign exchange and also those which imposed upon such persons the obligation to give information concerning their business to the authorities. Since the abolition of the exchange control, foreign holders of Bank of Finland notes and credit balances are in the same situation as national holders.

7. The causes and effects of deflation.

There has been no deflation in Finland except during the period March to August 1921 and then only to a small extent. The repayment by the State of the advances from the Bank of Finland caused at that time a decrease in the total note circulation from about 1,490,000,000 marks to about 1,330,000,000 marks. This decrease influenced the situation of the money market and probably counterbalanced in some degree the influence of the high rate of exchange on the price level.

III. COMMERCIAL POLICY.

Prohibition of import and export of most commodities was repealed as from February 12th, 1921, by a Decree of the Ministry of Commerce and Industry dated the 9th of the same month (even before this the export of certain commodities had been free). Since that date and since the expiration on April 9th, 1921, of the validity of the law regulating commerce, promulgated on May 27th, 1920, and of the Decree of the Council of Ministers dated 31st of the same month, based on that law, foreign trade has in general been free. Nevertheless, a Decree of the Council of Ministers dated May 27th, 1921, based on a law promulgated on the 21st of the same month, regarding the right of the Council of Ministers to make regulations with regard to trade with Russia, Esthonia and Latvia, stipulates that it is forbidden to export to Russia or to import from Russia, commodities, securities and cash without a permit from the Ministry of Commerce and Industry or from the authority designated by this Ministry.

The few exceptions to freedom of trade which still exist do not aim at the control of commerce as such but fall rather into the group of regulations dealing with public health and security and similar matters. Thus, there still remains in force a Decree of the Senate, dated April 17th, 1918, which forbids the import, without a permit from the Senate, of fire-arms and ammunition, except those addressed to the Government or to the Higher Command of the Army. The import of alcoholic products is a State monopoly by virtue of a Decree dated May 29th, 1917. The same applies to the import of methylated spirits as laid down in a law promulgated on February 6th, 1920. In accordance with the law regarding trade in cereals promulgated on December 30th, 1919, the Ministry of Agriculture prohibited as from January 18th, 1922, until further notice, the import of the grain of timothy grass, except that coming from Esthonia, and the import

of the grain of red and hybrid clover and of foxtail grass, except that coming from Sweden, Norway or Esthonia. In order to protect the country against certain contagious diseases of domestic animals, the import from all countries, except Sweden and Norway, of live cattle and sheep and of goats and pigs and also of animal products has been forbidden until further notice. To avoid the spread of diseases of the hoof, the import of horses from Russia, Esthonia, Latvia and Lithuania is forbidden until further notice. The prohibitions regarding domestic animals were laid down in a Decree of the Council of Ministers dated September 22nd, 1921, which, however, authorises the Ministry of the Interior to permit individual exceptions. The import of white (yellow) phosphorus is prohibited by a Decree dated October 7th, 1921, regarding the validity in Finland of the International Convention signed at Berne on September 26th, 1906.

By the Decree of the Council of Ministers dated September 8th, 1921, based on the law of March 24th, 1921, the right to deal in securities is open to the Bank of Finland, private banks, banking houses and other houses registered on the commercial register which have been authorised by the Ministry of Finance on special application.

With regard to Customs duties, the following laws have been passed since the beginning of 1920, viz., the law of March 10th, 1920, regarding the increase in the Customs duties for the year 1920, and the law of the same date on the import and export licences and the additional export duties for the year 1920, the law of February 28th, 1921, regarding the collection of Customs duties and of additional export duties for the year 1920, and, finally, the law of December 30th, 1921, on the Customs tariff and additional export duties to be applied during the year 1922.

Of the above laws, that of December 30th, 1921, on the Customs tariff is the only one which is still in force in addition to the Customs Decree of the year 1919, in so far as it contains general regulations on Customs duties and on the application of the Customs tariff. This law authorises the Council of Ministers to raise, for the financial year 1922, the import duties on certain items in the tariff approved by the Chamber up to four times their previous value and to reduce certain other duties by not more than a third and also to forbid the entry of commodities, the import of which they consider unnecessary. This law also authorises the Council of Ministers to fix the additional export duties for the year 1922. Availing themselves of this law, the Council of Ministers, in a Decree dated December 30th, 1921, raised the import duties on certain commodities for the year 1922, and by another Decree of the same date, fixed the additional export duties for the same year.

With regard to Customs policy, it must be mentioned that, in the elaboration of the tariff of February 28th, 1921, not only the protection of national industry and the State revenue were considered but also, and especially, the influence of the tariff on the balance of trade. Luxuries and other superfluous articles were, therefore, taxed with high duties. In order to take into consideration the changed conditions, the law which raised some of the import duties for the year 1920 authorised the Government to increase up to ten times their former value the duties on over a quarter of the items. The Council of Ministers, in a Decree dated March 15th, 1921, did in accordance with this law increase the duties on these items by several times their former value. For fiscal reasons it was not thought possible to dispense as yet with the additional export duties, although these duties were materially reduced by a Decree of April 15th, 1921.

The Customs tariff now in force rests chiefly on the same basis as the tariff of the year 1921. By the Law of December 30th, 1921, the duties were again raised, particularly with a view to the protection of national industry and for the balance of trade and also by reason of the depreciation in the value of money. To ensure more flexibility in its application, it authorises the Council of Ministers to raise the duties on the less-necessary commodities, which include about one-third of the items of the tariff, up to 300 % and also to reduce by one-third the duties on some commodities of primary importance. The Council of Ministers has also the right to prohibit the import of luxuries, properly so-called, with a view to the protection of the Finnish rate of exchange.

By a decree dated December 30th, 1921, the Council of Ministers raised the duties on the less-necessary commodities.

With regard to the export duties, it was considered that exports in general should be exempted from customs duties, but that revenue considerations prevented as yet the complete amplification of this principle. However, the number of commodities on which an export duty was imposed was considerably diminished, and not only the additional export duties fixed by a decree dated December 30th, 1921, but also the export duties, properly so-called, were reduced, though to a less degree.

In the commercial treaty between Finland and France, signed on July 13th, 1921, and put into force as far as customs duties were concerned on July 21st, 1921, several reductions in the increased import duties and in the additional export duties, as decreed by the Government, were granted to France by a decree of the 16th of the same month.

By virtue of Section IV of the customs decree of the year 1919, it is a general principle that commodities imported in a foreign vessel are not subjected to higher duties than commodities imported in a Finnish vessel; Section V of the same decree contains a regulation aiming at the prevention of "dumping" harmful to home production, in accordance with which a supplementary duty can be charged in cases of dumping corresponding to the difference between the current price of the commodity in its country of origin and its export price.

The following figures show the development in the foreign trade of Finland in the years 1920-1921:

	Imports. Millions of F. marks		Exports. Millions of F. marks	
	1921	1920	1921	1920
Germany	1,206.3	611.2	369.2	134.7
Great Britain	709.8	1,002.8	1,144.-	1,257.6
United States of America . .	610.4	794.8	275.4	192.6
Sweden	267.2	385.1	405.1	239.4
Denmark	243.4	179.7	164.7	156.7
Netherlands	190.2	55.2	272.5	250.-
Brazil	77.-	47.2	10.4	54.6
France	45.1	29.6	215.7	229.9
Dutch East Indies	33.6	167.8	—	-3
Belgium	30.1	42.3	187.3	140.7
Esthonia	28.1	15.-	50.9	16.-
Norway	24.8	33.7	39.4	25.3
Argentina	23.7	133.3	22.6	57.-
Czechoslovakia	16.2	-7	-3	-1
Switzerland	14.1	27.1	-2	-1
Italy	9.9	15.7	8.8	1.-
Spain	6.4	15.6	40.4	64.7
Canada	4.3	16.1	—	—
Latvia	4.-	12.-	8.9	17.1
Russia	-5	1.2	55.5	8.-
Other countries	37.9	40.4	114.4	80.6
Total	3,583.-	3,626.5	3,385.7	2,926.4

May 18th, 1922.

ANNEX I.

NOTE CIRCULATION OF THE BANK OF FINLAND.
June 30th, 1920 — May 15th, 1922.

		(Finnish marks.)
1920	June 30	1,206,223,619
	September 30	1,301,773,153
	December 31	1,341,041,560
1921	March 31	1,476,025,723
	June 30	1,398,586,192
	September 30	1,415,735,338
	December 31	1,356,108,067
1922	March 31	1,441,226,265
	May 15	1,387,805,937

ANNEX II.

FLOATING PUBLIC DEBT OF FINLAND.
June 30th, 1920—April 30th, 1922.

(Finnish marks, 000,000's omitted.)

End of Month	Floating Debt.			Movement
	Internal	Foreign	Total	
1920 June	661.8	110.2	772.0	
September	625.1	116.5	741.7	— 30.3
December	589.0	136.5	725.5	— 16.2
1921 March	534.0	136.5	670.5	— 55.0
June	422.3	136.5	558.8	— 111.7
September	294.4	149.2	443.6	— 115.2
December	286.3	156.1	442.4	— 1.2
1922 March	248.6	156.1	404.7	— 37.7
April	243.3	156.1	399.4	— 5.3

Hungary.

I. BUDGETARY MEASURES.

SUMMARY OF BUDGETARY DEVELOPMENTS IN THE PERIOD FROM THE SUMMER OF 1920 TO THE END OF THE FINANCIAL YEAR 1921-1922.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

As regards the extent to which budget expenditure has been met from ordinary revenue, we shall not be able to give a definite reply until the State accounts have been finally closed. It may, however, be stated at once that ordinary expenditure has been covered by ordinary revenue, in view of the fact that, according to the estimates for 1921-1922 a surplus balance of 939,698,328 Kr. is shown in the accounts for ordinary administration. The excess of actual expenditure was smaller than the increase of revenue; we were, however, unable to pay in full the interest on our national debt.

2. *Whether expenditure on armaments has been reduced.*

It was not possible to effect a reduction in the appropriations for armaments because we were obliged, under the terms of the Peace Treaty, to maintain an army of recruited soldiers at a very much higher cost than would have been necessary if the English territorial system, which we proposed, had been adopted. The depreciation in the value of the korona has resulted in a very noticeable increase of current expenses for the maintenance of the army, and, although we have reduced the cost of equipping our soldiers (everything was taken from them at the time of the Roumanian occupation) below the sum allowed under the provisions of the Peace Treaty, nevertheless the figure of 3,600 million Kr., as estimated in the budget for 1921-1922, has risen to 5,798 millions; of this sum 2.4 milliards are required for personal allowances in consequence of the very high pay which the soldiers receive. It should be observed that we have so far found it impossible to pay the cost of first equipment, and we still have a debt of 2.6 milliards under that head.

3 and 4. *The extent of productive and unproductive extraordinary expenditure.*

We have distinguished between unproductive and productive expenditure by including under the latter head only really useful investments. This expenditure amounted, during the financial

year 1920-21, only to the sum provided for in the Finance Law, whereas during the financial year 1921-22 the sum actually spent on account of investments amounted to 974,128,017 Kr.

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

Since the summer of 1920 no measures have been taken to modify the old system of remunerating officials. It will, however, be realised that, as the conditions of life became gradually worse in consequence of the depreciation of our currency and the removal of economic restrictions, the salaries of officials have had repeatedly to be raised.

The introduction, in March 1920, of the system of granting allowances in kind at reduced prices, and the increase of salaries as from August 1st, 1920, gave rise to the hope that it might be possible to avoid a further increase of salaries for a considerable period. It is true that, even at that time, salaries were insufficient, but we were counting upon an improvement in our currency, which would have automatically improved the conditions of our officials. These hopes were not realised, and the temporary rise in our currency at the beginning of 1921 was soon followed by a swift depreciation, with the result that we were compelled to grant to officials, as from April 1921, fresh subsidies, which have since had to be increased on several occasions, in October 1921, in February 1922, in May 1922 and finally in August.

These increases were always made, as had been the case during the war, in the form of subsidies, for we constantly hoped that the value of the crown would soon increase, or that at least we might count upon an improvement of the conditions which had necessitated the most recent subsidies. But the subsidies which were granted always proved insufficient in view of the constant increase in prices and the increasing difficulties of the conditions of life. Indeed, considerations of economy often compelled us to make distinctions between the various categories of officials as regards the amount of the subsidies, with the result that the system of payment of our officials was rendered so complicated that it is almost impossible to give a general description of it. The Government has therefore decided to establish at an early date a new system of payment, which shall be clearer and simpler than the almost inextricable system at present in force. Under the new system the numerous classes of subsidies will be abolished and uniform allowances will be made. This unification and simplification cannot, of course, be effected without a fresh increase in the amount of the allowances, since it would be impossible to reduce those of the higher-paid categories, and, moreover, the increase in the cost of living, which is ever growing more intolerable, makes it essential to increase considerably the present allowances.

This rise must, of course, apply to all classes of allowances; it will therefore be necessary to increase not only the cost-of-living subsidies and the grants made in addition to salary, but also relief granted to large families, rent subsidies, overtime grants, daily travelling allowances, etc., and it will also be necessary to increase proportionately the allowances made to pensioners, widows and orphans, including those to disabled soldiers and war widows and orphans.

With regard to the figures, we may observe that, as matters stood in the summer of 1920, the allowances made to officials, pensioners, widows and orphans amounted approximately to 4,600 million Kr. a year; on July 1st, 1921, the sum required for these purposes had risen, roughly speaking, to 6,200 millions and on July 1st, 1922, to 18,000 million Kr. Allowing for the subsidies which were recently voted (as from August), 24,000 million Kr. will now be needed annually.

The system of remunerating officials has not yet been changed in order to employ a method which would establish, on the basis of the respective index numbers, an organic connection between the increase in the cost of living and the amount of the allowances.

The Hungarian system of remuneration contains, however, one factor which adapts itself to the conditions of life and ensures for the official an automatic increase in his allowances in

proportion to the rise in the cost of living; and this factor, again, entails a fresh burden on the State. The factor in question consists of the grant in kind, at reduced prices, of certain food-stuffs (flour, fat, sugar, salt and potatoes), and further, of periodical distributions, at moderate prices, of fuel, boots and clothing materials. It is only by means of this system of selling articles at reduced prices that it has been possible hitherto to do without index numbers and that officials have been able to maintain themselves at all.

The grant of allowances in kind at reduced prices signifies, from a budgetary point of view, that the expenditure of the State increases automatically in the same proportion as that in which general living conditions become worse. But the State budget is favoured rather than otherwise by this system, since expenditure under this head does not increase the cost of living and does not introduce the vicious circle which is the inevitable result of the system of index numbers. In any case, allowances in kind at reduced prices are less expensive than constant increases in salary, inasmuch as the State always makes its purchases at a lower price than individuals.

As we have just explained, a repeated deterioration of the conditions of existence results in a proportionate increase in the cost of the grant of articles at reduced prices. The situation may be expressed in figures as follows:— Whereas in the summer of 1920, the expenditure occasioned by allowances of this kind amounted to approximately 3,000 million Kr. a year, it had risen on July 1st, 1922, to a round figure of 10,700 million Kr., and we must reckon on a further large increase, since the rapid depreciation of our currency during the last few months is only just beginning to make its effects felt.

The Hungarian budget has thus had to support a very heavy increase in expenditure for the remuneration of officials since the summer of 1920, and a further increase of these liabilities must be expected. In order to reduce these heavy costs so far as possible, the Government is making every effort to reduce the number of its employees, and the budget of 1921-1922 shows very great progress in this direction; about 10,000 posts have been abolished and others will be abolished in the future, while the principle of not filling posts which become vacant has been applied. Unfortunately, these efforts on the part of the Government to reduce the number of posts have been thwarted, alike by the continuous influx of officials expelled from the territory of the Succession States, whom the Hungarian Government is morally bound to support, and by the unaccustomed difficulties which have made the work of administration much more complicated, owing to the complete change in circumstances, so that it is impossible at present to work at normal strength. There are indeed certain administrative departments, *e.g.*, the Finance Department, in which the number of officials cannot be reduced and has even had to be increased. Increases of this kind will, of course, be effected in the first instance by nominating officials who have become superfluous in other departments for transfer to the Finance Department. The Government makes new appointments only in cases of absolute necessity and as an exceptional measure; it is indeed very difficult to obtain new officials, since present scales of payment are not sufficiently attractive to induce persons of ability who possess the necessary qualifications to accept public employment.

It is also part of the Government's programme gradually to put an end to the system of granting allowances in kind at reduced prices, but the only action which it has been able to take in this connection has been to withdraw these allowances in kind from officials who are themselves producers; in these cases a pecuniary allowance is granted instead.

6. *The existence of subsidies on bread and other food-stuffs, coal and other materials.*

We have expended the sum of 10,057,185,730 Kr. on food subsidies and subsidies for coal and other necessaries of life, the greater part being required for the maintenance allowances granted to State officials. Apart from officials, private soldiers and non-commissioned officers

of the army and of police organisations, as well as pensioners in hospitals and other humanitarian and charitable institutions, receive a special grant of flour, which is accorded to them in monthly rations at a price below the market price.

7. *Charges for unemployment.*

No unemployment benefit has been paid; no credit has been granted for that purpose and no expenditure has been incurred.

8. *The financial position of public undertakings.*

1. *State Railways.* — Owing to the fact that the Peace Treaty deprived us of two-thirds of our territory, we have been obliged to establish more than 50 frontier railway stations, and very heavy expenditure will still be necessary under this head for a long period, as well as the employment of a large staff. We lost most of our locomotives and stock as a result of the Roumanian occupation, and it is extremely difficult for us to supply these wants owing to the lack of raw materials and of capital. The precarious situation of the railways is rendered still more acute by the fact that, in a country like Hungary, which is almost exclusively agricultural, traffic is limited to a few months of the year (from August till the end of January), while during the other months the system is not operated up to its full capacity. The operation of the State railways in the financial year 1921-1922 resulted in a deficit of 4,993 million Kr.; the remainder of the deficit will be covered by the proceeds of the Land Redemption Levy. In order to meet the uncovered deficit, rates have been raised twice — in March and in August 1922; annual receipts of 4.4 milliards are expected from the first increase and 2.5 milliards from the second. We may add that measures will soon be taken to increase the rolling-stock, and the orders which are about to be placed will be paid for at once, so that a deficit will be inevitable in the future also.

2. *Postal, telegraph and telephone services.* — The operation of these services showed a deficit of 63.2 million Kr. in 1920-1921, whereas the period 1921-1922 showed a surplus of 119.2 millions. This is, however, merely an apparent surplus for the most part, since the department in question obtained from the public, as contributions to the postal, telegraph and telephone services, advances for future enterprises amounting to 187.4 million Kr. In order to increase the receipts from these services, rates were raised by 39 % as from July 1st, 1921, and by 78 % as from January 1st, 1922. This department has also been burdened with a loan of 150 million Kr., contracted with a view to the installation of a new wireless station.

3. *State agricultural establishments.* — The year 1920-1921 showed a deficit on the year's working of nearly 50 million Kr. In consequence of the rise in price of agricultural products, the year 1921-1922 showed a surplus of 11 millions. In order to supply the deficiencies as regards both implements and live stock, we are endeavouring to equip these estates with better industrial appliances.

4. *State foundries.* — The loss of carboniferous regions and the fall in the value of the korona have considerably increased the difficulty of obtaining raw materials. Consequently, the period 1921-1922 shows a deficit of 212.6 million Kr., as compared with a surplus of 72 millions in 1920-1921.

GENERAL OBSERVATIONS.

The approximate costs of administration during the budget years 1920-1921 and 1921-1922 are shown in the accompanying tables (Annex). These data, which must be regarded as provisional until the final accounts have been drawn up, differ from the budget estimates owing to the fact that the estimates were in all cases based upon the average rates actually quoted for the Hungarian korona. At the time when the budget for 1920-1921 was prepared (February 1920) the crown was quoted at Zurich at 2.27, and the budget for 1921-1922 was based upon a quotation of 2.82, while the general reduction in market prices was taken into account. The depreciation of the crown which has taken place in the meantime and the constant increase in the cost of living sufficiently explain the increase in expenditure in spite of the most scrupulous restriction of requirements. We have done everything in our power to obtain a larger revenue; but all our efforts to re-establish equilibrium in our budget will be of no avail until the question of reparations has been satisfactorily settled and the Commissions of Control have finally left the country.

In order to meet the deficit, recourse has been had — apart from the resources of the budget — to the proceeds of the levy on property (5,317,519,646 Kr.) and to the loans issued by the National Note Issue Office (7,200,000,000 Kr.).

We would further point out that all the above data refer to the position as on June 30th, 1922.

9. *The introduction of new taxation.*

Laws passed in 1920.

With the object of increasing the State revenue, the rates and the total yield of the various classes of taxes were considerably increased under the provisions of Law XVIII of 1920. It was hoped to obtain, as a result of these increased rates, an addition to the revenue of 800 million crowns.

The following changes have been made in the various classes of tax:

Land tax. — The land tax has been increased tenfold.

Tax on buildings. — This tax applies to two different classes of property. As the tax on the first class, *i.e.*, on houses let for hire, is already sufficiently heavy, no increase has been made. On the other hand, the tax on houses which are not let for hire has been considerably increased, especially in cases where the tax was very small. In these cases the rate has been increased tenfold, while in the remaining cases the increase is only five or six times the former rate.

The tax on profits has also been increased.

In order to increase the yield from the *income tax*, the law has been made more stringent in certain respects and the tax has also been raised. The rate formerly varied from 0.55 per cent. to 6 per cent.; it is at present from 0.55 per cent. to 30 per cent., *i.e.*, the rate imposed in the case of incomes amounting to 10,000 Kr. is 2.9 per cent., for incomes of 20,000 Kr. 3.25 per cent., 40,000 Kr. 8.6 per cent., 100,000 Kr. 11 per cent., 200,000 Kr. 14 per cent., 300,000 Kr. 16 per cent., 400,000 Kr. 18 per cent., 500,000 Kr. 19.6 per cent., 800,000 Kr. about 24 per cent., 1,000,000 Kr. 25 per cent., 2,000,000 Kr. and over, 30 per cent.

The property tax, payable yearly, has also been greatly augmented; the former rate of 0.16 to 0.30 has now been replaced by a rate graduated from 0.16 to 1.5 per cent., *i.e.*, it amounts to

about 0.033 per cent. on a total value of 20,000 Kr., about 0.1 per cent. on 100,000 Kr., about 0.2 per cent. on 500,000 Kr., about 0.4 per cent. on 1,000,000 Kr., about 0.55 per cent. on 2,000,000 Kr., 0.7 per cent. on 4,000,000 Kr., 1 per cent. on 15,000,000 Kr., and 1.5 per cent. on 40,000,000 Kr. and over.

Law IV of 1920 raised the former rate of the additional *hotel tax* from 3 per cent. to 20 per cent. As a result of this increase, it is hoped to add 100,000,000 Kr. to the revenue.

Laws passed in 1921.

The taxes on fire-arms and sporting arms have been raised and, as a result, it appears likely that the tax on fire-arms will yield an additional 1,000,000 Kr. and that on sporting arms 20,000,000.

Under Law XVIII of 1921, mines belonging to firms which are compelled to publish extracts from their accounts will no longer be liable to pay the mines tax, which amounts to 5, 7 and 10 per cent., but they will be liable to pay the general tax on profits imposed on businesses which are compelled to publish extracts from their accounts (joint-stock companies). In the case of industrial concerns, the rate of the latter tax is graduated from 10 to 18 per cent., and is imposed on the annual taxable profits of the undertaking in relation to paid-up capital. This provision has very substantially increased the public burden imposed on mines belonging to joint-stock companies. The number of privately-owned mines in the country is so small, and these concerns are so unimportant, that there are scarcely any taxpayers liable to pay the mines tax and the yield is wholly insignificant.

Under Art. 17 of Law XXIII, passed in 1921, a special tax granting to the State a part of the rents has been levied, in addition to the ordinary tax on rents since the third quarter of the year 1921. This tax is imposed on all buildings liable to pay the buildings tax and also on buildings which are wholly exempted from that tax under a special law but which are let for hire. The portion thus due to the State is 20 per cent. of the rent, as defined in the law to which reference is made.

Two laws relating to a non-recurring levy on property are intended to secure the early restoration of the financial and economic situation of the State by means of heavy taxes on property. These two laws, which have already been promulgated, contain the following prohibitions:

The first law regarding the levy on property, No. XV of 1921, deals with the taxes payable on savings deposits and deposits on current account, deposits in cash which are kept separately, shares of national joint-stock companies and national co-operative societies and on foreign money and shares.

The revenue anticipated as a result of this law is estimated at a sum of 3,000,000 Kr.; the application of the law, most of the provisions of which have been enforced, has so far brought in to the State a revenue of 3,167,000 Kr.

The second law regarding the levy on property, No. XLV of 1921, applicable to premises and installations therein, stocks of goods, industrial concerns and certain other classes of property (gold, plate, jewels, precious stones, pearls, mechanically propelled vehicles for the transport of persons, and race-horses), is ready to be put into force at any moment.

A yield of 20 milliards is anticipated under this head. Owners of country estates of less than 1,000 acres have so far paid 3,900,000 Kr. in cash, in war loan bonds and in Treasury certificates. Owners of country estates of over 1,000 acres were compelled to hand over to the Government lands the net yield of which, as recorded in the land register, amounted to 4,400,000 Kr., *i.e.*, an area of about 400,000 acres. These lands, obtained from the levy on property, will be employed for the purpose of carrying out agrarian reforms. The sum of 1½ to 2 milliards, which the farming leases of these lands — henceforward national property — will yield, will be applied to the same object.

A third bill with reference to a levy on buildings is in course of preparation, and it is estimated that it will bring in 1,000,000,000 Kr.

A levy in respect of exemption from military service was instituted by Law XIII of 1921; it is to be paid by all persons who did not serve, for any reason whatever, as combatants during the world war of 1914 to 1918. This tax will be graduated. The amount to be paid is assessed on the basis of the income tax and the tax on the property of the person liable to pay the tax, and, if necessary, on the basis of his military tax. It amounts to from 5 to 30 times the property tax, or from a half to four times the income tax, or from 10 to 50 times the military tax, respectively, of the taxpayer concerned.

It has so far not been possible, in view of the extremely complicated administrative work which that measure will necessitate, to give effect to the law regarding the military service exemption levy. At present the administration is engaged on much more urgent work connected with assessments which are behindhand, and it must deal in the first place with classes of taxes which bring in large and immediate returns to the State. The war service exemption levy will scarcely bring in 300,000,000 Kr.

Laws passed in 1922.

As regards the *land tax*, Law XXI of 1922 enacts that this tax should be assessed, for the period between July 1st, 1922, and the end of June 1925, in accordance with the value of corn, in such a manner that any land tax imposed according to the present method — prescribed by Law V of 1909 — should be calculated on the basis of 5 kg. of corn being equivalent to one crown of the tax. Payment must always be made in cash on the recognised quarterly settling days, and the value of the corn is to be computed on each occasion according to the rate fixed for a given settling day by the National Council of Finance. The rate will invariably be fixed three months beforehand.

On the basis of the present price of grain, it is estimated that the land tax, assessed and levied as above, will bring in 10 milliard Kr.

The four categories of the *profits tax* were abolished by a Law of 1922 and replaced by the *general tax on profits* which had already been codified when the taxation system was improved in 1909, but the enforcement of which had been postponed. The *general tax on profits* embraces, in addition to the four categories of the former profits tax, the tax on mining enterprises which are not compelled to publish accounts, and finally that part of the tax on the interest of capital which was previously levied on income having the characteristics of an annuity. The other category of this latter tax has been abolished. The general tax on profits varies from 1 per cent. to 5 per cent. The rate is fixed in the annual budgets of the towns (municipalities) in accordance with their requirements, since the yield of the general tax on profits will no longer fall to the State, which has handed the tax over to the towns (municipalities). The rate of the general tax on profits applied to salaries and wages is fixed by law as a graduated tax up to 5 per cent. This tax is in any case to be deducted by the employer and paid to the towns (municipalities). No estimate has yet been made as to the probable yield of the general tax on profits since it is no longer paid to the State. Moreover, future receipts will depend on the rate to be fixed independently by each town (municipality).

In view of the amendments to the Law of 1922, it is estimated that the *buildings tax* will probably yield a sum exceeding the previous returns by from 300 million to 500 million Kr.

This Law of 1922 regarding the buildings tax has, moreover, imposed a special tax upon luxury flats and dwellings — a tax the proceeds of which do not belong to the State, but have been handed over to the local administrative authorities. This tax applies to every large flat or dwelling in which the accommodation exceeds the ordinary requirements. The rate is from 20 to 60 per cent.

The special Government *tax in respect of rents*, imposed by Art. 17 of the above-mentioned Law XXIII of 1921, was raised, under Art. 16 of Law XVII, 1922, from 20 to 60 per cent. wherever

the increase in the rent authorised by Government decree does not exceed four times the former rent. In all other cases an extra 20 per cent, is levied in addition to the 60 per cent already mentioned.

It is difficult to determine the additional revenue which will be obtained from this increase in the tax. The amount will depend on the increases imposed by owners as a result of the Government decree.

A Law of 1922 abolished the tax on profits of concerns which are compelled to publish extracts from their accounts and substituted for it a *corporation tax*, payable not only by companies liable to publish extracts from their accounts (joint-stock companies and co-operative societies), but also by private companies and associations for social purposes. This law abolished the tax on the war profits made by concerns which are compelled to publish extracts from their accounts and substituted for it a much fairer tax on extra income, levied as a *supplementary corporation tax*, the basis of which is the surplus profit obtained as compared with the profit of the preceding fiscal year, provided that this increase exceeds the amount of 100,000 Kr. Moreover, a tax, graduated from 15 to 25 per cent., is imposed by this law on fees to officials. The corporation tax is also graduated and varies from 16 to 30 per cent. in the case of concerns which are compelled to publish extracts from their accounts; from 6 to 20 per cent. in the case of private companies and associations for social purposes; and, finally, 10 per cent. in the case of co-operative societies paying a dividend of less than 6 per cent.

In order to increase the yield of the tax, the law contains provisions to the effect that the basis of the tax should as far as possible correspond to the actual result of the working of the corporation, which implies that concealed reserves must also be taxed. In certain cases the minimum amount of the tax is actually fixed. The rates have been increased only in so far as was rendered necessary by the abolition, at the same date, of the additional State taxes. The yield of the tax will be increased as a result of the other legislative measures indicated above.

The increase in revenue anticipated as a result of the new law regarding the corporation tax may be estimated at 500 or 800 million Kr.

*Laws regarding Taxes and Duties on Transactions promulgated between July 1st, 1920,
and June 30th, 1922.*

I. *Taxes on Transactions.*

i. *Luxury tax on transactions.*

Imposed on December 1st, 1920, in accordance with Law XVI of 1920.

The rate of the tax is fixed at: (a) 10 % of the value fixed for luxury articles; (b) 13 % of the value of luxury articles when the tax is payable at the place of manufacture or when the article is imported into the country; (c) 25 % on the price of food and drink served in certain luxuriously appointed establishments.

Revenue from August 1st, 1921, to January 31st, 1922 (six months), 148,006,000 Kr.

As from February 1st, 1922, Decree No. 1900, issued by the Minister of Finance, imposes the luxury tax on several other classes of goods.

As a result of this decree, the receipts for the period February 1st, 1922, to July 31st, 1922, amounted to 298,576,000 Kr., *i.e.*, this increase in revenue amounted to 100 %.

Law VI of 1922 empowers the Minister to increase the rate in the case of certain luxury articles to an amount not exceeding 20 %. The new rate to be established is still under consideration.

2. *Milling tax.*

Imposed on July 1st, 1921, by Chapter 1 of Law XXXIX of 1921.

A tax of 15 % is levied in kind on cereals delivered for the purpose of being ground or husked and a tax of 8 % on deliveries of cereals for crushing or being otherwise treated.

3. *Tax on transactions in beetroot.*

Imposed on September 1st, 1921, under Chapter 1 of Law XXXIX of 1921.

The tax amounts to 2 % of the price of the beetroot delivered at the sugar refinery.

Receipts for the period January 1st, 1922, to June 30th, 1922 (six months): 2,963,000 Kr.

4. *Tax on the sale of live stock.*

Imposed on September 1st, 1921, by Chapter 2 of Law XXXIX of 1921.

Rate of the tax, 3 %.

Receipts for the period January 1st to June 30th, 1922 (six months): 699,378,000 Kr.

5. *General tax on turnover.*

Imposed on September 1st, 1921, by Chapter 3 of Law XXXIX of 1921.

Until February 28th, 1922, the rate was 1.5 %.

Revenue from this source for the period September 1st, 1921, to February 28th, 1922 (six months): 950,228,000 Kr.

Law VI of 1922 raised this tax to 3 % as from March 1st.

Receipts for the period March 1st to August 31st, 1922 (six months): 3,599,643,000 Kr.

The increase in receipts amounted, therefore, to about 270 %.

6. *Tax on transactions in shares and bonds.*

Imposed on August 1st, 1900, by Law XI of 1900. Until October 1st, 1900, the tax amounted to 10 centimes after the first 2,000 Kr.

Receipts for the period April 1st, 1920, to September 30th, 1920 (six months): 3,500,000 Kr.

Law XXIV of 1920 raised the tax, as from October 1st, 1920, to 20, 40 and 300 centimes, respectively.

Receipts for the period January 1st, 1922, to June 30th, 1922 (six months): 159,986,000 Kr.

The increase in receipts, therefore, amounts to 4,470 % approximately.

II. *Duties.*

1. *Duties on change of ownership of property.*

The law on this subject in force before 1920 is No. XI of 1918.

Receipts for the period July 1st, 1920, to December 31st, 1920 (six months): 52,900,000 Kr.

As from November 1st, 1920, Law XXXIV of 1920 increased the succession duties and duties payable on gifts *inter vivos*.

Under Law XI of 1918, succession duties were graduated from 2.5 % to 26 %, and the duty on gifts from 1 % to 24 %.

Law XXXIV of 1920 fixes the succession duties at rates from 1 % to 55 %, and the duty on gifts also from 1 % to 55 %. Moreover, in the event of real estate being inherited or handed over as a gift, a special land tax is levied amounting to 1.5 % or 2 % respectively.

The same law also imposed a special transfer fee not to exceed a maximum of 1.5 %, to be paid in the case of the transfer of urban premises.

Receipts for the period January 1st to June 30th, 1922 (six months): 233,402,000 Kr.

The increase in receipts is thus approximately 350 %.

2. *Stamp Duties.*

Before 1920, the graduated rates for stamp duties had been increased under Law XXVII of 1916.

Receipts for the period July 1st, 1920, to December 31st of the same year (six months): 118,756,000 Kr.

As from October 1st, 1920, Law XXIV of 1920 raised some of the stamp duties by an average of 100 % and other permanent stamp duties by 400 to 2,400 % on an average. It also introduced an inclusive duty, amounting to 0.01 % on savings bank deposits and on deposits on current account.

Receipts for the period January 1st to June 30th, 1922 (six months): 448,926,000 Kr.

The increase is thus 200 % approximately.

3. *Legal fees (Registration fees).*

The law regulating these fees which was in force before 1920 was No. LXIII of 1914.

Receipts for the period July 1st to December 31st, 1920 (six months): 40,276,000 Kr.

As from October 15th, 1920, Law XXIV of 1920 raised the rates of the registration fees to an extent which cannot be determined exactly as a percentage, but which actually began with 100 %.

Receipts for the period January 1st to June 30th, 1922 (six months): 136,009,000 Kr.

The increase is therefore approximately 240 %.

4. *Administrative fees.*

Receipts for the period July 1st to December 31st, 1920 (six months): 8,761,000 Kr.

As from October 1st, 1922, Law XXIV of 1920 raised the administrative fees by 400 % on an average.

Receipts for the period September 1st, 1921, to February 28th, 1922 (six months): 24,895,000 Kr.

As from March 1st, 1922, Law VI of 1922 again raised the administrative fees by 300 %. In certain cases this increase amounts to 50,000 %.

Several administrative fees have been increased according to a graduated scale of the values concerned.

Receipts from March 1st to August 31st, 1922 (six months): 45,436,000 Kr.

This represents increases of 240 % and 87 % respectively.

Changes in the System of Excise Duties since the Summer of 1920.

I. *Duty on alcohol.* — On July 1st, 1920, the duty on alcohol was 41 Kr. 50 c. per degree-hectolitre; in addition, a supplement of 70 centimes and a special Treasury tax of 39 Kr. 90 c. on sales have been imposed.

By Article 1 of Law VIII of 1921, the supplementary duty on alcohol was abolished, and the basic duty was raised from 90 centimes to 1 Kr. 60 c. This duty has been in operation since July

1st, 1921. The rate of the special Treasury tax on sales is fixed from time to time, under this law, by the Finance Minister, who is required to report on it later to the Legislature. The rate was raised from 39 Kr. 90 c. to 100 Kr. as from March 1st, 1921; it has since been raised successively, on March 15th, 1922, to 110 Kr., on June 20th, 1922, to 150 Kr., and on August 21st, 1922, to 230 Kr.

Thus, since August 21st, 1922, the total tax on alcohol is 231 Kr. 60 c. per degree-hectolitre, representing an increase of 458 % over the duty of 41 Kr. 50 c. which was in operation on July 1st, 1920.

II. *Duty on beer.*— By virtue of the authority given by Law IX of 1921, a separate Treasury tax of 6 Kr. per hectolitre of unfermented beer and per degree indicated by the saccharometer is imposed, in addition to the duty on beer, which was increased to 6 Kr. by Law IV of 1920. This is equivalent to a further increase of 100 % in the excise duty on beer, or an increase of 1,090 % as compared with the pre-war rate.

III. *Duty on sugar.*— By virtue of the authority contained in Law XVI of 1921, Article 5, a special Treasury tax of 37 Kr. per kilogramme is imposed, in addition to the duty, which was increased by Law IV of 1920 to 2 Kr. per kilogramme. Thus the total tax on sugar is increased by 10,263 % as compared with the pre-war position.

IV. *Duty on petroleum.*— The special Treasury tax on the sale of mineral oil products has been increased to 2 to 5 Kr. per kilogramme, as against the 1 to 3 Kr. imposed up to March 1st, 1921.

V. *Duty on production of wine.*— Under Law VI of 1921, this duty, which was previously at the rate of 14 Kr., was raised to 84 Kr., thus showing an increase of 500 %. Of the 84 Kr. imposed per hectolitre, 72 Kr. represent the State duty and 12 Kr. the municipal rate.

VI. *Duty on matches and patent lighters.*— Introduced by Law XI of 1921. The rate of this duty is 10 centimes per packet containing a maximum of 56 matches, and 40 centimes for superior qualities. Patent lighters are subject to a duty varying from 2 to 6 Kr., according to weight and quality.

The above-mentioned law also imposed an additional special Treasury tax on matches. Its original amount was 20 or 30 centimes, according to quality, per packet containing a maximum of 56 matches; since July 1st, 1922, the rates under this heading have been respectively 60 and 90 centimes.

VII. *Duty on cigarette holders and cigarette paper.*— Introduced by Law XIX of 1921. A duty is imposed of 1 Kr. per box containing a maximum of 100 holders, and of 50 centimes per packet containing a maximum of 60 leaves of cigarette paper.

Under the authority granted by Law XVII of 1922, there is an additional Treasury tax of 1 Kr. per box containing a maximum of 100 holders, and 50 centimes per packet containing a maximum of 60 leaves of cigarette paper.

Tobacco Monopoly.

The prices of tobacco handled by the Treasury have been raised, up to March 23rd, 1921, by an average of about 1,600 % over the 1913 prices. Recently, *e.g.*, as from February 5th, 1922, and September 24th, 1922, the prices of tobacco products were again raised, so that the increase over peace-time prices is 2,300 %. With the latest increase this figure reaches 3,000 %.

In 1913 the Tobacco Régie received 172,356,529 Kr. from the sale of tobacco products in the country, and the net profit of the department amounted to 112 million Kr.

The 1920-21 budget showed as its estimate for the Tobacco monopoly a gross revenue of 1,087 millions; with costs of manufacture and preparation 551 millions, giving a net profit

of 536 million Kr. The actual gross receipts in 1920-21, however, amounted to 1,225,300,000 Kr. The 1921-22 budget shows estimates of 2,158 millions for gross receipts, and 967 millions for costs of manufacture and preparation, giving a net profit of 1,191 million Kr. The actual gross receipts, however, amounted to 3,115,000,000 Kr. Lastly, the 1922-23 budget estimates show 9,602 millions for gross receipts, 5,336 millions for costs of manufacture and preparation, and a consequent net profit of 4,266 million Kr.

10. *Methods of raising money by loans, whether by: (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation.*

When the notes issued by the Austro-Hungarian Bank were stamped in 1920, 8,014,025,510 Kr. were presented for stamping by private individuals. Half this sum was retained by the Treasury as a forced loan, against Treasury receipts. Of the sums retained, 300 million Kr. have been repaid, and the Treasury receipts for that amount cancelled. These repayments were carried out, either for reasons of equity and expediency, or under Law XXVI of 1921, Article 7, which provided for the repayment of forced loans not exceeding 1,000 Kr. The actual amount of this forced loan still outstanding is, therefore, approximately 3,700 million Kr. The statement of the loans contracted since July 1st, 1920, does not include this forced loan, the yield of which has already been shown in the statement of the loans existing on June 30th, 1920.

Since July 1st, there has been contracted:

- (a) No long-term loan;
- (b) No floating loan on the public market.

12. *The effect of local and provincial finance on the budget of the State.*

Information with regard to the local rates of towns and municipalities.

Under Laws XXI and XXII of 1886, the towns are divided into two classes — municipal boroughs, and towns with duly constituted municipal councils. The rural districts are also divided into large and small municipalities, according to the extent of their powers of self-government.

Budapest, as the capital and the seat of the Government, occupies a special and independent legal position.

Owing to the differences in their legal status, these administrative units possess varying powers of imposing rates on their citizens. We must, therefore, take into account these administrative classes if we wish to gain an accurate knowledge of the system of local taxation employed by the towns and municipalities.

After the revolutions and the foreign occupations, the year 1920 is the first for which we have trustworthy statistical data.

Local public rates payable by the inhabitants of Budapest.

Budapest levies ten kinds of local rates and duties, including charges which do not strictly come under the heading of taxes.

The municipal rates are assessed on the basis of the State tax, at the rate of 60 %; their yield for the year 1920 was. 157,562,434 Kr.

The yield from the taxes levied in virtue of the self-governing powers of the city was. 97,843,603 Kr.

Total. 255,406,037 Kr.

These receipts form 55 % of the ordinary administrative receipts for the year 1920 (458,730,410 Kr.) and cover 65 % of the ordinary expenditure of the city (391,713,537 Kr.).

If to the revenue of 255,406,037 Kr. from local taxation we add the 7,044,296 Kr. paid by the persons concerned as a tax for the Chambers of Commerce and Industry, the municipal public rate for the 930,247 inhabitants of Budapest was 282 Kr. per head in 1920.

This taxation did not cover extraordinary requirements, particularly the extraordinary payments in cash and in kind granted to officials in the capital.

In 1920, Budapest contained 5,494 officials, whose salaries were supplemented by the State by payments amounting to a total of 104,520,000 Kr.

Although no portion of the considerable foreign debts was paid off, the administrative requirements of the city of Budapest again increased considerably in 1921, owing to the increase in the cost of living and the continual deterioration in the economic and financial situation. The city was, therefore, obliged to increase the supplementary municipal rate, in spite of the large subsidies which were granted to the city by the State to an increased extent in 1921. These subsidies were granted in the form of:

War relief.	9,600,000 Kr.
High-cost-of-living allowances	42,000,000 »
Assistance to families.	7,000,000 »
Extraordinary allowances on account of high cost of living.	40,160,000 »
Payments in kind to municipal officials, calculated at a proportional rate	191,954,239 »
<hr/>	
Total subsidies from the State	290,714,239 Kr.

Local public rates in municipal boroughs.

Towns which constitute separate municipalities levy fifteen different categories of taxes and local rates, including such charges as are not really in the nature of a tax.

In 1920, local rates based on State taxes at a rate varying from 50 to 350 % were collected to the amount of 51,431,965 Kr.
and public contributions otherwise assessed amounted to 20,518,298 »

Total 71,950,263 Kr.

This revenue is equivalent to 33 % of the ordinary revenue for the year 1922, which amounts to 220,690,458 Kr. and covers 32 % of the ordinary expenditure, amounting to 225,742,757 Kr. If to the local rates of 71,950,263 Kr. we add the sums received from the persons liable for taxation on account of Chambers of Commerce and Industry, and the local water rates, in all 1,599,987 Kr., the rates paid by the 603,320 inhabitants of the municipal boroughs amounted in 1920 to 122 Kr. per head.

These charges, however, did not cover the extraordinary expenditure, particularly the subsidies in cash and in kind granted to the municipal employees under the heading of "Special Relief." The State was obliged to contribute a sum of 29,598,837 Kr. towards municipal expenditure under this heading.

In 1921, as a result of the continuous depreciation of our currency and the increase in prices, our economic situation had become considerably worse, and the boroughs found themselves in a still more critical position. In spite of the gradual increase in the percentage of local taxation, they were unable to meet their most urgent needs, so that the State was obliged to grant them, under different headings, subsidies amounting to 207,644,885 Kr.

Towns with duly constituted Municipal Councils.

Towns of this category have levied nineteen different taxes and rates, including public contributions which are not really in the nature of taxes.

The local taxes of these towns, based on the State taxes at a rate varying from 11 to 495 %	84,544,610 Kr.
have produced in all	
and other public contributions otherwise assessed	9,404,350 »
	93,948,960 Kr.
Total	

This revenue corresponds to 69 % of the total ordinary revenue of 1920, *i.e.*, 136,336,437 Kr. The latter provided for 73 % of the ordinary expenditure, *i.e.*, 128,125,140 Kr.

If we add to the total of 93,948,960 cr. the receipts from the supplementary provincial taxes, the local water rates, the sums paid for exemption from compulsory public service, the charges of the Chambers of Commerce and Industry, the charges levied by the insurance institutes of the workers and farm-labourers — in all 30,719,031 Kr. — the local taxation imposed on each of the 931,539 inhabitants of these towns amounted to as much as 134 Kr. per head in 1920.

This revenue was insufficient to provide for the ordinary needs of the towns with duly constituted municipal councils, and the State was obliged to contribute a sum of 33,859,335 Kr.

In the year 1921, the position of these towns became even worse, and in spite of the increase in the rate of local municipal taxes, they were unable to provide for the needs of their employees owing to the ever-increasing rise in prices. In view of these difficulties, the State was obliged to increase its grants to such towns, and to allocate to them a total sum of 218,255,116 Kr.

Rural Districts.

According to law, the large and small municipalities exact from their inhabitants municipal rates assessed as a certain percentage of the State taxes.

The rate varies in different municipalities and even reaches 1,542%. The total revenue of the municipalities in 1920 amounted to 254,299,567 Kr. If we add the additional provincial taxes (86,720,200 Kr.), the sums paid for exemption from compulsory public service (60,717,332 Kr.), the local water rates (22,130,872 Kr.), the charges of the Chambers of Commerce and Industry (939,452 Kr.), and the other public charges borne by the inhabitants of the municipalities (38,738,153 Kr.), in all 209,246,009 Kr. — and divide this sum among the number of inhabitants — 5,480,772, it will be seen that in 1920 municipal taxes amounted on an average to 85 Kr. per head.

These receipts were not sufficient to cover the extraordinary expenditure of the municipalities, and the State was obliged to contribute a sum of 36,015,255 Kr.

The year 1921 was still more critical for the municipalities, and in spite of the gradual increase in the percentage of State taxes levied by the municipalities, they were unable to carry on their administrative work satisfactorily, or even to maintain their employees. For this reason, the State was obliged in 1921 to grant to 4,216 municipal employees a subsidy in cash of 69,474,490 Kr. and relief in kind of the value of 147,302,340 Kr. — a total of 216,776,830 Kr.



II. MONETARY MEASURES.

No measures of an absolutely decisive nature have been taken in Hungary since the summer of 1920; general conditions have continued to be unfavourable to such a step. The State budget still shows considerable deficits, which, in view of their extent and of the provisions of the Treaty of Peace in respect of reparations, can only be met by the issue of notes. It is true that State expenditure was considerably reduced, and that a series of measures was taken in order to effect a gradual increase of revenue, but all these measures were insufficient. The reduction in expenditure was counter-balanced by the rise in prices, and, further, the economies effected in staff expenditure will only make themselves felt in several years' time. On the other hand, the increase in revenue has been rendered nugatory owing to the decrease in the purchasing power of money, which has been continuous save for one short period. In May 1921, the rate quoted on the Zurich exchange for the Hungarian korona was 2.85. From that moment up to the end of the financial year 1921-1922, this rate steadily decreased save for a few short periods, and at that date — on June 30th, 1922 — the Zurich rate had fallen to 0.51. Although the issue of uncovered notes in Hungary has been relatively less than such issue in other countries of Central Europe in a similar position, it has been impossible to remove the fundamental cause of the evil, that is to say, the issue of paper money to meet the budget deficit. This unsound condition of public finance has been still further aggravated by the constantly adverse trade balance.

Under these circumstances, it has not only been impossible to take steps to secure deflation, but it has even been found necessary to increase the fiduciary circulation in order to meet the requirements of the State. In April 1920, the notes of the Austro-Hungarian Bank in circulation were stamped with the Hungarian stamp, and half the notes presented were retained as a forced loan. By this means the State acquired a round sum of 4 milliard kr. In addition, it was obliged to levy a separate contribution from the Austro-Hungarian Bank by the discounting of bonds, and this contribution was gradually increased, until in May 1921 it reached a round figure of 11.8 milliard Kr. From that time until October 1921, the Treasury exacted no further contribution from the bank of issue, but it found itself compelled to use the authorisation granted to the Minister of Finance and to make a fresh demand upon the National Office of Issue, which had been created in the meanwhile. In this manner, up to the end of the financial year, on June 30th, 1922, notes were issued to a total amount of 6.9 milliard Kr.

The discount rate remained fixed at 6 % during the whole of this period. Indeed, it had no restrictive effect on credits. Furthermore, private requests for credit during the period in question remained within moderate limits so far as the Office of Issue was concerned. It was only in the second half of the month of August, owing to the rise in prices and other phenomena recurring every autumn, that the requests for credit increased.

During the financial year 1921-1922 no steps were taken with a view to influencing artificially the rates of exchange. When, in August of this year, there was a sudden and heavy fall in the rate of exchange of the Hungarian korona at Zurich, the Government re-established the "Devizenzentral" (Central Exchange Office), which had been reorganised in the second half of August, decreeing at the same time important restrictions on imports, prohibiting the sale of the korona abroad and obliging all persons to hand over to the Government foreign notes and currency derived from exports.

With regard to the organisation of the National Office of Issue, which has been in operation since August 1st, 1921, the following statement may be made.

The Treaties of Trianon and of St. Germain contain identical provisions ordering the liquidation of the Austro-Hungarian Bank, which, in virtue of identical laws in Austria and in Hungary,

had the privilege of issuing bank-notes in both these countries. The Treaties also stipulate that each of the States to which territory of the former Austro-Hungarian Monarchy is transferred — including the present Austria and Hungary — shall be obliged within a fixed period to stamp all notes of the Austro-Hungarian Bank existing within its territory, and later to supersede such stamped notes by its own or by a new currency.

In addition to this provision of the Peace Treaty, the Hungarian Government was forced to regulate the amount of currency in circulation, because, after the notes had thus been stamped, there were in circulation, within the territory of the present State of Hungary, notes properly stamped, notes with spurious stamps, Post Office Savings Bank notes and false 1 and 2 Kr. notes, printed from the original plates of the Austro-Hungarian Bank, and put into circulation during the Bolshevik regime. The Governments which succeeded the fall of the Bolshevik regime did not deprive these notes of their validity as legal currency, for practical reasons and in order not to cause a loss to the poorest classes of the population.

There were also notes in circulation not stamped by the Austro-Hungarian Bank, which had been deprived of their validity as legal currency, but which were still used in business transactions. It was, therefore, urgently necessary to remedy this state of confusion.

The immediate establishment of a National Office of Issue was, however, impossible; it could only have been set up with the assistance of foreign capital. The situation of the international currency market was so uncertain and foreign capitalists were so cautious that it was almost impossible for any attempt at a foreign loan to be successful. It would also have been very difficult to fix a ratio between the value of the former currency and of that to be introduced, the purchasing power of the crown being much greater than its value as calculated on the basis of the rates of exchange. It will only be possible to abolish this difference after the free exchange of goods in international relations has been re-established — a condition which is still far from being realised in this period of prohibitions of exports and imports.

This difficult situation made it necessary provisionally to regulate the circulation of currency by issuing Government notes and providing sufficient guarantee for these notes to remove any objections which might have been raised to their issue.

In virtue of Law XIV, 1921, the State reserves to itself the right to issue notes in accordance with the above-mentioned principles. It avails itself of this right solely and exclusively through an Office of Issue. The note issue is fixed on the basis of certain clearly defined securities, and no exceptions are allowed to the following conditions: State notes may only be issued: (1) in exchange for notes of the Austro-Hungarian Bank, notes of the Post Office Savings Bank, and false 1 and 2 kr. notes of the Bolshevik regime; (2) on the security of commercial undertakings which have been transferred to the Office of Issue as a result of the general liquidation of the Austro-Hungarian Bank; and (3) on the security of bona-fide transactions legally recognised by the Office itself. The total amount to be issued in the form of notes on the security of bona fide transactions recognised by the Office was fixed at two milliards — quite a moderate sum in view of the great decrease in the purchasing power of the korona. Should the amount fixed for the issue be exhausted without meeting all legitimate business requirements, the Council of Ministers is authorised to issue a decree provisionally increasing the sum, as, for instance, for the purpose of financing the harvest operations or during the present period of payment of the capital levy.

Government notes are issued under parliamentary supervision, exercised by a committee which is obliged to meet at least once a month and publish a report in the *Official Journal*. The Minister of Finance is obliged to supply the necessary information.

As has already been stated, notes may only be issued by the Office of Issue, which entered upon its duties on August 1st, 1921.

The Office of Issue is recognised as a public corporation; it is a legal person, and possesses all the rights granted by law to registered firms, without, however, being obliged to register. It is entitled to establish branch offices in Hungary.

The Office consists of the president, the vice-president, the council, the directors and the employees of the Office. The president and vice-president are appointed by the Head of the State, and the members of the council by the Council of Ministers, on the proposal in all cases of the Minister of Finance.

The council is the proper representative of the Office. The council takes decisions regarding the conduct of business, as, for instance, the discount rate and the rate of interest on secured advances, the limit of credit to be granted to commercial firms and private persons, etc.

The Office is authorised to carry out all the various kinds of business for which the Austro-Hungarian Bank was authorised, with the exception of credits on landed property. In the conduct of its business, it is obliged to comply with all the provisions and conditions contained in the statutes of the Austro-Hungarian Bank.

The State notes represent a State floating debt guaranteed by State property and revenue. They are legal tender. The Office is authorised to discount bills of exchange, securities and coupons, to make advances on security, to accept deposits and sums of money for transfer, to issue money orders on its own funds, to act as a commercial agent, to purchase gold and silver in coin or bullion, to purchase bills of exchange and cheques on foreign markets, and foreign currency, to draw cheques and orders on foreign markets, to receive money in foreign countries and payments for other accounts, and to keep in foreign countries the funds necessary for the conduct of its business.

The financial year of the Office is the same as the civil year. The first financial year will close on December 31st, 1922.

Under an agreement entered into with the liquidators of the Austro-Hungarian Bank, the Office has taken over the assets and liabilities of the establishments of that bank which were in the present territory of Hungary, and also the business carried on separately, as from January 1st, 1920, under the title "Hungarian Branch."

The Office took over also, by agreement with the liquidators, such of the staff of the Austro-Hungarian Bank as were of Hungarian nationality and the establishments of that bank on Hungarian territory; the Hungarian Government purchased the premises in which these branches were installed. Negotiations are still in progress with regard to the bank building at Budapest.

The Office is by law independent of the Government. The latter has only the same control as it has over all legally established public corporations; it has no influence over the conduct of business or the interest policy pursued by the Office. The Office only does business for the Government as its agent, and must not, on principle, grant credits to the State.

Nevertheless, as a result of the present condition of public finance, of the fluctuations in the rates of exchange and of the fact that the collection of the new taxes will take some time, it has been impossible to maintain this provision, although it is laid down in principle. Article XLVI, 1921, authorises the Minister of Finance to cover the budget deficit by the yield of the capital levy and provisionally — pending the receipt of this revenue by the Treasury — to ask the Office of Issue for advances, giving as guarantee Government securities, which the Office shall be entitled to realise whenever it thinks fit.

III. COMMERCIAL MEASURES.

1. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

The system of export and import prohibitions in force in the summer of 1920 is still maintained in principle. But it should first be noted that there are no absolute prohibitions now in force in Hungary, with the exception of those which had been introduced before the war for reasons of public health, or in the interests of public safety, so that the system now followed in Hungary is rather one of special licences. These licences are granted more or less readily, according to the relative importance, from the economic point of view, of the articles which it is desired to import or export. A list has been drawn up of articles which may be freely imported; these include almost all food-stuffs, goods necessary for production and also certain manufactured articles which may be regarded as indispensable, but which cannot be produced by the country itself. Every class of goods not included in this list requires a special import licence.

The system for exports is the exact opposite; all goods may be freely exported, with the exception of those on the list of prohibited goods. There are two good reasons for continuing in Hungary this co-ordinated system of special licences. In the first place, the more or less similar policy adopted by her neighbours obliges Hungary to adopt the system of restricting the transport of goods. The second reason is the constant and progressive depreciation of the Hungarian currency, which necessitates, on the one hand, the limitation to the utmost possible extent of imports, and, on the other hand, obliges the country to take measures to protect itself against the export of stocks of goods held or produced in the country.

With regard to prohibitions, it must be remembered that Hungary adhered without any reservation to the conclusions of the Porto Rosa Conference, where it was decided to remove all the obstacles which had been placed in the way of trade between the Succession States; the Conference even fixed a time limit, which expired some time ago, for the final abolition of measures prohibiting imports. Up to the present, however, no other Succession State has ratified, still less put into force, the above-mentioned agreements, and Hungary cannot be expected to take the initiative in this respect, on account of her exceedingly serious economic position.

Hungary's inability to abolish, or even to decrease, export duties must also be ascribed to the depreciation of the Hungarian crown. Indeed, she has been compelled, by this cause, to make considerable additions to the list of articles — particularly agricultural products — liable to export duties (fees or customs duties), and constantly to increase the rates for such duties or fees. Hungary has not increased the rates for import duties, as drawn up on a gold standard basis under the old Austro-Hungarian contractual customs tariff, but, in cases in which the duty is paid in paper money, she has been obliged to augment the super-tax levied in proportion as her currency has depreciated. A new customs tariff adapted to the changed requirements of the country will shortly come into force.

2. *The existence (or abolition) of price discrimination against foreign trade.*

The Hungarian Government has not applied the system of super-taxes to foreign trade.

3. *The conclusion of: (a) commercial conventions; (b) transport conventions.*

With the exception of the provisional treaty of commerce concluded with Germany on June 1st, 1920, which came into force on January 1st, 1921, Hungary has, since the summer of

1920, concluded only one provisional treaty of commerce, namely, with Austria, on February 8th, 1922. This treaty has not yet been put into force.

Agreements with regard to the exchange of certain quantities of goods the import or export of which is prohibited have been entered into with Austria, and were signed on June 1st, 1921. These conventions were annulled in September of the same year and were renewed on January 27th, 1922, with certain modifications. Conventions of this kind cannot be considered as conducive to the improvement of the country's economic situation, for they oblige Hungary to permit the importation of large quantities of superfluous goods, coming mainly under the category of luxury articles, whilst the goods exported by Hungary consist for the most part of food-stuffs and raw material, *i.e.*, articles which can easily be disposed of abroad, even without special conventions, whenever the available stocks exceed the requirements of the country.

Although the restrictions on imports and exports have remained practically unchanged since the summer of 1920, Hungarian foreign trade has grown considerably, as will be seen from the following figures:—

	Total Imports (in metric quintals)	Total Exports
1920 January-June.	2,332,188	2,583,731
1920 July-December	3,090,899	2,642,529
1921 January-June.	6,941,760	4,038,435
1921 July-December	16,335,334	4,341,237
1922 January-June.	13,894,541	5,889,566

As regards imports, fuel (coal and wood), wood for building and the manufacture of implements, and certain other raw materials (cotton, jute), and, among manufactured articles, textile goods, glass and china, pottery, machinery and paper, attain the largest totals. Exports consist for the most part of agricultural products, fruits, flour, horned cattle and wines.

Transport Agreements.— The agreements reached at the Conference of Porto Rosa concerning railway transport have been ratified by Hungary, but they have still to be ratified by the other Succession States. Nevertheless, the boards of the Hungarian State railways and of the railways in some of the adjoining States have signed various reciprocal agreements, as a result of which the question of goods and passenger traffic over the Hungarian frontier may be considered as satisfactorily settled from a *transport* point of view. The agreements reached at Porto Rosa concerning postal transport have been ratified and put into effect not only by Hungary, but also by Italy, Austria and Roumania; moreover, these provisions, though not formally ratified, have been applied in regard to communications with Czechoslovakia. A provisional convention was signed last June with the Kingdom of the Serbs, Croats and Slovenes concerning postal traffic. Hungary has also adhered to the Universal Postal Convention concluded at Madrid on November 20th, 1920, and has applied its provisions.

STATISTICS OF OUR FOREIGN TRADE DURING THE PERIOD 1920-1922.

(a) *Goods other than precious metals and metallic currency.*

Year	Kr. (000,000's omitted).	
	Imports	Exports
1920: 1st half	8,670	3,926
2nd »	15,635	5,576
1921: 1st »	19,630	7,164
2nd »	23,394	15,125
1922: 1st »	35,352	27,626

(b) *Precious metals and metallic currency.*

		Kr. (000,000's omitted).	
		Imports	Exports
1920: 1st	half	0.9	20
	2nd »	11.8	22
1921: 1st	»	—	46
	2nd »	6.0	466
1922: 1st	»	0.3	392

N.B. — Our exports of precious metals and metallic currency consisted chiefly of silver.

November 24th, 1922.

ANNEX

*Hungarian budget estimates and provisional returns for the financial years
1920-21 and 1921-22.*

REVENUE.	Budget estimates for the financial year 1920-21.	Provisional returns for the financial year 1920-21.	Budget estimates for the financial year 1921-22.	Provisional returns for the financial year 1921-22.
	Kr.	Kr.	Kr.	Kr.
<i>1. Direct taxes:—</i>				
(a) Tax on income and super-tax	200,000,000	111,765,699	600,000,000	600,003,238
(b) Tax on increase of profits	85,000,000	201,052,550	935,000,000	1,126,218,477
(c) Land tax	275,000,000		260,000,000	
(d) Transfer duty	141,600,000		575,000,000	
(e) Corporation tax	37,500,000		90,000,000	
(f) Tax on capital	100,000,000	1,804,340,809	150,000,000	1,897,239,040
(g) Tax on buildings	56,000,000		135,000,000	
(h) Tax on earnings	172,500,000		240,000,000	
(i) Tax on the interest on capital	5,514,000		20,000,000	
(j) Other direct taxes	236,470,000		281,400,000	
<i>Total of direct taxes</i>	1,309,584,000	2,117,159,058	3,286,400,000	3,623,460,755
<i>2. Indirect taxes and taxes on transactions:—</i>				
(a) Import duty	600,000,000	1,261,824,516	1,400,000,000	2,946,867,222
(b) Export duty	50,000,000	269,161,071	20,000,000	2,457,834,467
(c) Excise duty on:—				
Beer	48,000,000	27,620,197	96,000,000	90,088,334
Wine	27,000,000	92,154,513	94,000,000	214,677,716
Spirits	499,344,000	718,254,343	1,034,400,000	1,287,391,138
Sugar	550,000,000	430,299,521	1,050,000,000	1,268,826,904
Petrol	479,500,000	53,373,297	150,000,000	159,025,467
Matches & cigarette paper		19,759,539	182,000,000	111,850,753
Miscellaneous indirect taxes	11,966,000	18,900,631	28,450,000	36,827,089
Total excise duty	1,615,810,000	1,360,362,041	2,634,850,000	3,168,687,401
(d) Stamp duties	58,441,300	221,343,547	422,500,000	1,040,281,971
(e) Miscellaneous taxes on transactions	366,000,000	582,958,647	2,150,000,000	5,964,736,110
(f) Miscellaneous	5,000	4,000	2,550,000	5,359,944
<i>Total of indirect taxes and taxes on transactions</i>	2,690,256,300	3,695,653,822	6,629,900,000	15,583,767,115
Carried forward	3,999,840,300	5,812,812,880	9,916,300,000	19,207,227,870

REVENUE.	Budget estimates for the financial year 1920-21.	Provisional returns for the financial year 1920-21.	Budget estimates for the financial year 1921-22.	Provisional returns for the financial year 1921-22.
	Kr.	Kr.	Kr.	Kr.
Brought forward	3,999,840,300	5,812,812,880	9,916,300,000	19,207,227,870
3. <i>Net surplus receipts from State monopolies:—</i>				
(a) Tobacco	531,855,500	636,246,142	1,084,163,694	1,920,203,642
(b) Salt	164,688,220	96,570,473	309,270,200	704,293,285
(c) Saccharine	116,698,000	48,231,693	126,703,000	100,921,625
(d) Lotteries	3,777,600	3,413,364	7,644,900	7,410,344
4. <i>Net surplus receipts from State lands</i>			1,003,663	50,142,034
5. <i>Net surplus receipts from State undertakings:—</i>				
(a) Postal, telegraph and telephone services	35,543,940		85,659,506	119,246,625
(b) Post Office Savings Bank		4,941,201		13,154,417
(c) National foundries	5,022,392	72,318,689	265,250	
(d) Railways	110,024,002	458,041,000		
6. <i>Sale of State property</i>			1,500,000	
7. <i>Miscellaneous revenue</i>	5,553,105,850	1,389,299,889	8,763,683,525	14,944,218,456
Total revenue	10,520,555,804	8,521,875,331	20,296,193,738	37,066,818,298
STATE MONOPOLIES:—				
1. Tobacco:—				
Gross receipts	1,087,501,000	1,223,550,268	2,158,401,000	3,114,931,636
Working expenses	555,645,500	587,304,126	1,074,237,306	1,194,727,994
Balance	531,855,500	636,246,142	1,084,163,694	1,920,203,642
2. Salt:—				
Gross receipts	497,500,000	326,015,069	670,000,000	756,916,416
Working expenses	332,811,780	229,444,596	360,729,800	52,623,131
Balance	164,688,220	96,570,473	309,270,200	704,293,285
3. Saccharine:—				
Gross receipts	455,003,000	122,642,895	210,003,000	105,636,652
Working expenses	338,305,000	74,411,202	83,300,000	4,715,027
Balance	116,698,000	48,231,693	126,703,000	100,921,625
4. Lotteries:—				
Gross receipts	3,777,600	3,413,364	7,644,900	7,666,716
Working expenses				256,372
Balance	3,777,600	3,413,364	7,644,900	7,410,344
STATE UNDERTAKINGS:—				
1. Postal, telegraph and telephone services:—				
Gross receipts	536,520,000	573,413,500	832,500,000	1,350,553,633
Working expenses	500,976,060	636,682,660	746,840,494	1,231,307,008
Balance	+ 35,543,940	— 63,269,160	+ 85,659,506	+ 119,246,625

REVENUE.	Budget estimates for the financial year 1920-21.	Provisional returns for the financial year 1920-21.	Budget estimates for the financial year 1921-22.	Provisional returns for the financial year 1921-22.
	Kr.	Kr.	Kr.	Kr.
2. Post Office Savings Bank:—				
Gross receipts	29,274,000	41,560,280	64,070,000	86,358,823
Working expenses.	40,794,000	36,619,079	68,573,800	73,204,406
Balance	— 11,520,000	+ 4,941,201	— 4,503,800	+ 13,154,417
3. State foundries:—				
Gross receipts	456,030,000	864,248,000	1,439,400,000	1,422,682,620
Working expenses.	451,007,608	791,929,311	1,439,134,750	1,635,288,473
Balance	+ 5,022,392	+ 72,318,689	+ 265,250	— 212,605,853
4. Railways:—				
Gross receipts	2,500,000,000	2,896,342,000	3,417,000,000	5,360,289,027
Working expenses.	2,389,975,998	2,438,301,000	5,926,349,460	10,353,059,295
Balance	+ 110,024,002	+ 458,041,000	— 2,509,349,460	— 4,992,770,268

EXPENDITURE.	Budget estimates for the financial year 1920-21.	Provisional returns for the financial year 1920-21.	Budget estimates for the financial year 1921-22.	Provisional returns for the financial year 1921-22.
	Kr.	Kr.	Kr.	Kr.
1. National defence	4,567,379,245	5,086,230,000	3,600,000,000	4,398,865,635
2. Civil and military pensions . .	302,473,871	306,527,803	517,875,180	725,751,900
3. Subsidies	2,371,750,000	2,990,485,115	2,029,200,000	10,078,813,056
4. Unemployment doles	1,036,000	144,049,282	1,204,200	6,325,242
5. Education	639,384,876	801,937,728	1,082,568,600	1,659,024,788
6. Interest on national debt . .	3,465,421,068	1,507,778,202	2,879,364,209	1,101,024,935*
7. Redemption of national debt.	5,466,020	5,009,080	5,359,589	5,359,589
8. Deficit on State undertakings :				
(a) State lands	24,726,444	42,008,827		
(b) Post Office Savings Bank . .	11,520,000		4,503,800	
(b) Postal, telegraph and telephone services		63,269,160		
(d) Railways			2,509,349,460	4,992,770,268
(e) National foundries				212,605,853
9. Capital expenditure	140,407,000	115,339,730	313,700,000	295,952,017 ¹
10. Other expenditure	8,681,184,091	5,204,205,794	13,821,383,171	25,060,296,226
Total expenditure	20,210,748,615	16,266,840,721	26,764,508,209	48,536,789,509

* See Summary of Balance Sheet on following page.

¹ In addition, the sum of 678,176,000 Kr. was used for investment.

SUMMARY OF BALANCE SHEET.

	Budget estimates for the financial year 1920-21.	Provisional returns for the financial year 1920-21.	Budget estimates for the financial year 1921-22.	Provisional returns for the financial year 1921-22.
	Kr.	Kr.	Kr.	Kr.
<i>Expenditure</i>	20,210,748,615	16,266,840,721	26,764,508,209	48,536,789,509
<i>Revenue</i>	10,520,555,804	8,521,875,331	20,296,193,738	37,066,818,298
<i>Deficit</i>	9,690,192,811	7,744,965,390	6,468,314,471	11,469,971,211

* If we had paid the interest on the national debt, the total expenditure would be increased by	5,117,263,027
<i>Final Deficit</i>	16,587,234,238

APPROXIMATE FINAL BALANCE SHEET 1921-22.

	Kr.	Levy on property.	Receipts from loans.
	Kr.	Kr.	Kr.
<i>Revenue</i>	37,066,818,298	8,208,143,143	8,065,000,000
<i>Expenditure</i>	48,536,789,509	2,890,623,497	315,000,000
<i>Deficit</i>	11,469,971,211	5,317,519,646	7,750,000,000
<i>Cover</i>	13,067,519,646	7,750,000,000	
<i>Surplus</i>	1,597,548,435	13,067,519,646	
<i>Cash in hand 30. vi. 22</i>	1,553,129,120		

British India.

I. BUDGETARY MEASURES.

The year 1920-21 was the last year of the old regime in which the finances of the central and the provincial Governments were closely inter-connected, the latter being assigned revenues calculated to provide for a certain standard of expenditure and the former retaining the remainder. The year 1921-22 witnessed a complete separation between the central and provincial revenues and expenditure. Certain subjects were defined as belonging to the central Government's sphere of administration, and the remainder were entrusted to the administration of the provincial Governments, the revenue from and expenditure on each subject being classified as central or provincial according as the subject was administered by the central or a provincial Government. The separation thus effected, while it gave the provinces financial autonomy, admittedly left the central Government with insufficient funds to meet its own expenditure, and it became necessary, therefore, to subsidise the latter by contributions from the provinces, which were fixed at Rs. 9,83 lakhs a year. The central Government, however, undertook gradually to reduce and finally to abolish these contributions.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

The ordinary revenue and the ordinary expenditure of the central Government during the three years ending March 31st, 1923, were as follows¹:

	In lakhs of rupees ² .		
	1920-21 Actual	1921-22 Revised	1922-23 Budget
Ordinary revenue	1,35,63	1,14,73	1,33,79
Ordinary expenditure	1,61,64	1,43,51	1,42,95
Deficit	26,01	28,79	9,16

¹ The sterling figures have been included in the above table after conversion into rupees at the average of the daily rates for telegraphic transfers from Calcutta on London, which, for the year 1920-21, was 1s. 8.7d. per rupee and was assumed at about 1s. 4d. per rupee for each of the years 1921-22 and 1922-23.

² 1 crore = 100 lakhs = 100,00,000 rupees.

2. *Whether expenditure on armaments has been reduced.*

3. *The extent of unproductive extraordinary expenditure.*

The net expenditure on military services during the pre-war year 1913-14 and in the subsequent years was as follows:

	Lakhs of rupees.
1913-14. . . .	29,84
1914-15. . . .	30,65
1915-16. . . .	33,39
1916-17. . . .	37,49
1917-18. . . .	43,56
1918-19. . . .	66,72
1919-20. . . .	86,98
1920-21. . . .	87,38
1921-22. . . .	69,35
(Revised)	
1922-23. . . .	67,75
(Budget)	

The heavy expenditure in 1920-21 included certain arrear adjustments on account of stores purchased and consumed in previous years, and special expenditure amounting to 7,27 crores on the frontier operations and to 12,95 crores on the occupation of Waziristan. The 1921-22 figure included 6 ³/₄ crores of expenditure in Waziristan and one crore on demobilisation, while in 1922-23 the budget contemplated an expenditure of about 2 ¹/₂ crores on these abnormal items. These abnormal items represent unproductive extraordinary expenditure.

4. *The extent of productive ordinary expenditure.*

The productive ordinary expenditure of the Central Government mainly comprises capital expenditure on railways, the figures for which, for the three years ending March 31st, 1923, are given below:

	Lakhs of rupees
1920-21. . . .	25,89
1921-22. . . .	23,68
(Revised)	
1922-23. . . .	30,00
(Budget)	

5. *Statement with regard to the policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living and the effects of this policy on budget conditions.*

Wholesale increases were given to Government officials on account of the rise in the cost of living. This contributed materially to the heavy deficit of the years under review.

6. *The existence of subsidies on bread and other foodstuffs, coal and other materials.*

There are no such subsidies in India.

7. *Charges for unemployment.*

There are no such charges in India.

8. *The financial position of public undertakings.*

Figures for railways and posts and telegraphs are given below:

Railways.

	1920-21	In lakhs of rupees	
		1921-22 (Revised)	1922-23 (Budget)
Gross receipts	82,42	87,60	99,77
<i>Deduct:</i>			
Working expenses	56,24	66,87	68,59
Net receipts	26,18	20,73	31,18
Interest and other charges	23,00	24,45	26,13
Net gain (+) or loss (—)	+ 3,18	— 3,72	+ 5,05

Posts and Telegraphs.

	1920-21	In lakhs of rupees	
		1921-22 (Revised)	1922-23 (Budget)
Gross receipts	9,63	9,13	11,17
<i>Deduct:</i>			
Working expenses	8,16	8,82	9,46
Net receipts	1,47	31	1,71
Interest and other charges	1,53	1,23	93
Net gain (+) or loss (—)	— 6	— 92	+ 78

Part of the outlay on the Indian Postal and Telegraph Department, all of which was formerly charged to revenue, is now treated with effect from the year 1921-22 as capital expenditure and is met from loan funds. Debits of 60 and 66 lakhs respectively have been made to the Postal and Telegraph Department in the revised estimates for 1921-22 and the budget for 1922-23 on account of capital outlay, but the actual amounts of outlay on which interest should be charged have not yet been determined.

9. *The introduction of new taxation.*

The details of the new taxation imposed by the central Government during the three years, with the yields estimated for the first year of the taxation, are as follows:—

DETAILS OF TAXATION IMPOSED FROM 1920-21 TO 1922-23.

Year	Nature of taxation	Yield estimated for first year (Lakhs of rupees)
1920-21	(1) Substitution of a corporation or companies tax at flat rate of one anna in the rupee on total income of each company in excess of Rs. 50,000 a year for super-tax previously in force	44
	(2) Import duties raised as follows :—	
	General <i>ad valorem</i> rate raised from 7½ to 11 per cent. except on matches and certain articles of luxury . .	8,17
	Specific import duty of 12 annas per gross boxes levied on matches in place of 7½ per cent. <i>ad valorem</i> . . .	
	Duty on sugar raised to 15 per cent. and on certain articles of luxury to 20 per cent. <i>ad valorem</i>	
	Duty on ale, beer, etc., raised to 6½ an. per gallon; on spirits, liqueurs, to Rs. 18¾ per proof gallon with special rates for liqueurs, untested and perfumed spirits; and on wines to Rs. 9 a gallon for sparkling wines and Rs. 4½ for other wines	
	Duty on tobacco other than unmanufactured tobacco raised by 50 per cent.	
	(3) Surcharge on railway goods traffic raised to 2½ annas per rupee of net freight payable on all goods except food-grains, pulses, firewood and fodder	5,20
	(4) Postage rates raised as follows :—	
	Rates for book, pattern and sample packets raised from ½ anna for every 10 tolas to ½ anna for every 5 tolas	71
	Rates on money-order commission raised to rates in force up to April 1902	
	Rates for registered newspapers raised from ¼ anna for newspapers not exceeding 8 tolas and ½ anna for papers not exceeding 40 tolas to ¼ anna up to 8 tolas and ½ anna up to 20 tolas	
	Rates for letter postage altered to ½ anna up to ½ tola, 9 pies up to 1 tola, 1 anna up to 2½ tolas and 1 anna for every additional 2 ½ tolas	
	(5) Rates of super-tax and income-tax on higher incomes revised so as to work to a maximum of 4 annas in the rupee in the case of supertax and 16 pies per rupee in the case of income-tax	3,25
1922-23	(6) Increase in railway passenger fares by 25 per cent. approximately	6,00
	<i>Carried forward.</i> . . .	23,77

Year	Nature of taxation	Yield estimated for first year (Lakhs of rupees)
	<i>Brought forward . . .</i>	23,77
	(7) Revision of postal rates, <i>viz.</i> : raising to 1/2 anna of 1/4 anna postcard	1,60
	Abolition of 1/2 anna and 9 pies postage for letters, rates in future to be one anna up to 2 1/2 tolas and one anna for every additional 2 1/2 tolas	
	(8) Revision of import tariff as follows:—	
	General <i>ad valorem</i> tariff raised from 11 to 15 per cent. . .	9,64
	Import duty on iron and steel and railway material raised from 2 1/2 to 10 per cent., on foreign sugar from 15 to 25 per cent., on articles of luxury from 20 to 30 per cent., and on liquors by 20 per cent.	
	Import duty on matches doubled, <i>i.e.</i> raised to Rs. 1.8.0. per gross boxes	
	Import duty levied on yarn at 5 per cent. <i>ad valorem</i> .	
	Imposition of excise duty of one anna per gallon on kerosene produced in India with corresponding increase in import duty	
	(9) Rates of super-tax and income tax on higher incomes revised so as to work to maximum of 6 annas per rupee in case of former and 18 pies per rupee in case of latter	2,25
	TOTAL	37,26

(10) *Methods of raising money by loans, if by: (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the Central Bank leading to further new inflation.*

Money was raised in the period under review mainly in the form of short-term loans in the open market both in India and in England. The details are:—

1920-21.

Rupee Loans.

	Amount of loan
6% bonds repayable in 1930	Rs. 29,35 lakhs.
5% loan repayable not earlier than 1945 and not later than 1955	» 40 »

1921-22.

(a) *Rupee Loans.*

6% bonds repayable in 1926	» 37,90 »
6% " " " 1931	» 11,31 »

(b) *Sterling Loans.*

India 7% stock repayable not earlier than 1926 and not later than 1931	£7 1/2 million
India 5 1/2% stock repayable in 1932	£10 »

1922-23.

(a) *Rupee Loans.*

6% bonds repayable in 1927	Rs. 26,26 lakhs
6% " " " 1932	" 19,16 "

(b) *Sterling Loans.*

India 5 ½% stock repayable in 1932	£12½ million
--	--------------

In addition to the above, money was raised by means of Treasury bills of a maturity not exceeding 12 months to the extent of 51,95 lakhs and 6,96 lakhs respectively in the years 1920-21 and 1921-22. It is hoped to discharge Treasury bills to the amount of 22,14 lakhs in 1922-23.

(12) *Note on the effect of local and provincial finance on the budget of the State.*

Local finance does not exercise any material effect on the finances of the central Government. As regards provincial finance, the transactions of the provincial Governments result in a net deposit or withdrawal of money lodged with the central Government, the figures for the three years being as follows :—

	Deposit (+) withdrawal (-) Lakhs of rupees.
1920-21	+ 87
1921-22 (revised)	— 10,17
1922-23 (budget)	— 9,85

II. MONETARY MEASURES.

The official year of the Government of India is from April 1st to March 31st, and this summary deals with the years ending March 31st, 1921, and March 31st, 1922.

1. *Increase or decrease of the note circulation.*

The statistics of note circulation at the beginning and at the end of the two years are given below in lakhs ¹ of rupees:

March 31st, 1920.	1,74,52
" 1921.	1,66,16
" 1922.	1,74,76

It will be seen that the circulation at the beginning and end of this period of two years was practically unchanged. The variations in the note circulation during this period are due to a variety of causes, which are summarised below for each of the two years in question.

¹ A lakh = 100,000 rupees.

1920-21.

Increase in note circulation owing to:

	Lakhs of rupees.
(I) Return of rupees from the public	+ 24,95
(II) Return of gold coin from the public	+ 5,34
(III) Purchase of gold	+ 12,85
(IV) Purchase of silver bullion	+ 77
(v) Created Treasury bills added to the Paper Currency Reserve (at cost price)	+ 31,02
TOTAL	<u>+ 74,93</u>
<i>Less</i> (VI) Sales of gold to public	— 29,79
(VII) English securities held in Paper Currency Reserve sold out	— 53,50
TOTAL	<u>— 83,29</u>
Net decrease in note circulation during the year	8,36

1921-22.

Increase in note circulation owing to:

	Lakhs of rupees
(I) Return of rupees from circulation	+ 11,87
(II) Purchase of gold and silver bullion	+ 22
(III) Temporary loan from Paper Currency Reserve against bills of exchange	+ 2,00
TOTAL	<u>+ 14,09</u>
<i>Less</i> (IV) India securities in Paper Currency Reserve cancelled	— 2,99
(v) English securities in Paper Currency Reserve sold out	— 2,50
TOTAL	<u>— 5,49</u>
Net increase in note circulation during the year.	8,60

The most important cause of variation was the continued return of silver rupees from circulation. There was also a return of gold coin in 1920-21 when sovereigns were received from the public for a limited moratorium of 21 days at the old ratio of Rs. 15 per sovereign, the legal tender value of the sovereign having been altered by legislation from Rs. 15 to Rs. 10 per sovereign, with effect from October 1st, 1920, in accordance with the recommendations of the Babington-Smith Committee on Indian Exchange and Currency. The return of rupees from circulation did not alter the total currency in the hands of the public but merely affected its composition, silver rupees being replaced by currency notes. The return of gold coin from circulation, on the other hand, amounted, in effect, to an addition to the total currency used by the public, as gold coin had for some years ceased to be medium of circulation.

During the year 1920-21, large sales of gold were made to the public from gold bullion purchased by the Government in Europe and America and from the holding in the Reserve (See Section (6) below). The currency in the hands of the public was increased to the extent to which gold was so purchased and added to the currency reserve, while the effect of sales of gold was to reduce the currency in circulation.

During 1920-21 the Secretary of State placed himself in funds for meeting the normal expenditure of the Government of India in England and the sterling drafts sold by them on

London (See Section (6) below) by selling out sterling securities held in the Paper Currency Reserve in England to the value of £36½ millions sterling. The payment to the Government in India of the value of the sterling drafts on London enabled the withdrawal and cancellation of a certain amount of currency in circulation. It was not, however, possible to effect a cancellation of notes to the full value of the sterling drafts; firstly, because this would have resulted in an excessive deflation of currency; and, secondly, because the sterling drafts were sold at a larger price in sterling per rupee than that at which the sterling securities from which they were met were valued in the Paper Currency Reserve. The difference in price had to be found from the general ways and means resources of the Government, and these were inadequate for the purpose. Accordingly, notes amounting to 17,07 lakhs were withdrawn from circulation and cancelled against the financial operations mentioned above, while Treasury bills of the Government of India were created *ad hoc* and placed in the Currency Reserve to the extent of 31,02 lakhs.

Further, in October 1920, the gold and sterling securities held in the Reserve on that date were revalued at the new ratio of Rs. 10 instead of Rs. 15 to the sovereign, the resultant deficit being made good by placing in the Currency Reserve, bills created *ad hoc* to the value of 17,47 lakhs (at cost). This latter operation did not add to the note circulation, but merely altered the constitution of the Reserve.

In the year 1921-22 there was a reduction of these created Treasury bills and a corresponding cancellation of notes to the amount of 3,37 lakhs. The renewal, however, of Treasury bills at various rates during the year made the net decrease of the holding of Indian securities (which are held in the Reserve at cost price) Rs. 2,99 lakhs only.

The Secretary of State again placed himself in funds by selling out English securities to the amount of £2½ millions, the corresponding amount of notes being cancelled in India.

The note circulation was temporarily expanded in March 1922 by the issue of a loan of 2 crores to the Imperial Bank of India against internal bills of exchange. This loan was made under a new procedure authorised by the Indian Paper Currency Amendment Act, 1920, which permits the issue of currency notes to an amount not exceeding 5 crores of rupees against bills of exchange maturing within 90 days from date of issue. The loan was at 8 % and was extinguished in April 1922.

Thus the net effect of the financial operations of the two years was that the note circulation was increased by 36,82 lakhs by the substitution of notes for silver currency in the hands of the public, while the currency in the hands of the public was contracted to the extent of 36,58 lakhs as the result mainly of the sales by the Government of gold and reserve drafts on London. The revaluation of the gold and sterling securities in the Paper Currency Reserve resulted in an addition of 17,47 lakhs to the holding of Indian securities in the Reserve without affecting either the currency in the hands of the public or the bullion contents of the Reserve.

2. *The influence of Government expenditure on the currency.*

The figures of the revenue and expenditure of the Government of India for the two years in question are given below with the figures of the original budget estimates:

	REVENUE.		EXPENDITURE.	
	In lakhs of rupees.		In lakhs of rupees.	
	Budget.	Actual.	Budget.	Actual.
1920-21.	131,69	135,63	129,88	161,64
1921-22.	128,31	113,15 (estimate)	127,60	141,95 (estimate)
1922-23.	133,23		142,39	

The total deficit in 1920-21 and in 1921-22 (estimated) was, therefore, 54,81 lakhs. The deficit in 1920-21 was due mainly to war with Afghanistan and to adjustments of arrear expenditure on the Great War. The deficit in 1921-22 was the combined result of a falling-off in revenue on account of bad trade and of increased expenditure on frontier defence, railway working costs and general administration on account of higher prices of materials and of food-stuffs.

The deficits were met mainly by increased borrowing in England and India and by an increase in the floating debt. The principal effect on the currency was the alteration in the constitution of the Paper Currency Reserve by the substitution of 31,02 lakhs of created Treasury bills for sterling securities sold out and utilised in England for revenue purposes and for meeting sterling drafts sold on London.

3. *The repayment of floating debt and the effects thereof.*

The floating debt consists of short-term Treasury bills issued mostly for 3, 6, 9 and 12 months. The amount of this debt has somewhat increased in the period under review, and the deficits of the last two years have not permitted of its reduction. The amount outstanding at the beginning and end of the two years is shown below:

	In lakhs of rupees.
March 31st, 1920.	42,87
" 1921.	43,74
" 1922.	54,02

The created Treasury bills issued to the Paper Currency Reserve, to which reference has been made in paragraph 1, form a separate section of the floating debt and will be reduced in due course out of revenue (*i. e.*, by the appropriation of interest receipts from investments on behalf of the Paper Currency Reserve) or by special appropriations from the assets of the Gold Standard Reserve with the exception of 12 crores, which is a permissible holding under the Permanent Constitution of the Reserve. The amount of these bills held in the Reserve (at nominal value) was as follows:

	In lakhs of rupees.
March 31st, 1920.	10,09
" 1921.	61,26
" 1922.	57,89

4. *Connection between the Government and the Central Bank of Issue.*

There is no Central Bank of Issue in India, the Government being the sole authority empowered to issue notes. The three Presidency Banks of Bengal, Bombay and Madras were, however, amalgamated in January 1921 into the Imperial Bank of India. The constitution of this bank and its special relations with the Government, which is represented on the Central Board of Governors, has been described in paragraph 29 of the report of the Controller of the Currency for the year 1920-21.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

There was no such restriction.

6. *The existence of any artificial control of exchange with a description of its character and effects.*

Between January 2nd and September 28th, 1920, the Government of India endeavoured to support exchange by the weekly sale of sterling drafts on London. The total amount sold was £55,382,000. This attempt was made in pursuance of the recommendation of the Babington-Smith Committee on Indian Finance and Currency, which recommended the establishment of the rupee at 2s. gold. A full account will be found in paragraph 16 of the Annual Report of the Controller of the Currency for 1920-21. The operation was ineffective, the market rate of exchange falling throughout this period and being consistently below the rates at which the Government endeavoured to support the exchange.

Further, between September 1919 and September 1920 the Indian Government offered gold bullion for sale fortnightly, with the object, first, of reducing the internal premium on gold so as to facilitate the establishment of the new ratio, and, secondly, of supporting exchange by reducing imports of gold. These operations are fully described in paragraphs 32 and 18 respectively of the reports of the Controller of the Currency for 1919-20 and 1920-21.

Since September 1920, no attempt has been made by the Government to control exchange. There has been no differential treatment of foreign holders of banknotes and credit balances.

7. *The causes and effects of deflation, if existing.*

The operations of the Government may ordinarily cause deflation in one of two ways:

- (a) By transfer of sterling reserves to India, the procedure being that, as the English securities are sold out and used in England for Treasury or other purposes, the note issue is reduced by a corresponding amount in India unless Indian securities are substituted for those sold out;
- (b) By reduction of the created Treasury bills in the Paper Currency Reserve.

Both these operations have taken place during the two years in question, although their effect on the total note circulation as shown in paragraph 1 has been obscured by other factors. The amount of notes cancelled in these two ways during 1920-21 and 1921-22 was as follows:

1920-21 . . .	17,07 lakhs	nil
1921-22 . . .	2,50 »	3,37 lakhs.

The balance of the total deflation of 36,58 lakhs mentioned at the end of Section (1) above was the result mainly of the sale of gold which was held in the Paper Currency Reserve or was purchased by the Government in previous years.

As every crore (100 lakhs) of notes cancelled means a withdrawal of a crore from the money market, with proportionate tightening of money, these cancellations have in the year 1921-22 had a sensible effect on money rates. A trade demand for money in connection with the movement of the cotton and rice crops commenced in the middle of December 1921. In consequence, the full programme of deflation was not carried out, and a cancellation of 4,06 lakhs of created securities made in August and November 1921 was, in fact, reversed in December 1921 when the period of tight money set in. The Indian Legislative Assembly subsequently suspended, for the years 1921-22 and 1922-23, the provision of the Indian Currency Amendment Act 1920, which requires the interest on all investments in the Paper Currency Reserve to be utilised for reduction of the created Treasury bills in the Reserve until the latter are reduced to the figures contemplated in the Permanent Constitution of the Reserve. The deflation of 3,37 lakhs which was carried out in February and March 1922 represents partly an adjustment on the remittance

of 2,50 lakhs made to the Secretary of State through the Paper Currency Reserve in respect of the difference between the value at which it was actually held in the Paper Currency Reserve and its rupee equivalent at the market rate of exchange at the time of remittance, and partly a cancellation equivalent to the excess of the assets of the Gold Standard Reserve over £40 millions, it having been decided to utilise such excess assets of the Gold Standard Reserve towards the reduction of created securities in the Paper Currency Reserve. If the cancellation of an amount equivalent to the interest on the securities in the Reserve had been added to the above, there would have been a further cancellation before March 31st, 1922, of about 4 crores.

III. COMMERCIAL MEASURES.

1. *The abolition or the establishment of prohibitions on imports and exports or of special permits ; the abolition or lowering of import or export duties, etc.*

During the period in question (*i.e.* from April 1920 up to date) the following prohibitions have been imposed and relaxations allowed on imports and exports respectively :—

Prohibition imposed on imports.

<i>Names of articles.</i>	<i>Country to which prohibition applies.</i>
(I) Shaving brushes, tooth brushes, nail brushes and paint brushes manufactured in or exported from Japan.	All countries.
(II) Russian rouble notes.	Do.
(III) Wireless telegraph apparatus except such as are obtained under a licence.	Do.

Prohibition on exports.

(I) Poppy seed.	China.
(II) Bajra, barley, pulse, jawar, lentils, grain, maize, and wheat, and flours made therefrom.	Destinations other than Persian Gulf ports, Ceylon, Jeddah, Mauritius, Makran coast, East Africa, Seychelles, Portuguese India, Aden, Shehr and Mokalla, Straits Settlements, Labua, Siam, Perim, Hong Kong, South Africa, Australia, New Zealand, Fiji Islands, British Guiana and West Indies.
(III) Rouble notes except such as can be exported under a licence.	All destinations.
(IV) Cattle, Ongole breed (from the Madras Presidency only).	Do.

<i>Names of articles.</i>	<i>Country to which prohibition applies.</i>
(v) Coal, except such as is taken out of British India by sea by the Crown or is taken under permit for bunkering purposes.	All destinations.
(vi) Charas.	Egypt, Palestine, Turkey and Mesopotamia.

Removal of prohibition on imports.

Old newspapers in bulk.	Norway, Sweden, Denmark, Holland, Spain, Roumania and European Russia.
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Removal of prohibition on exports.

Pig-iron, rice and rice flour, silver bullion and coin, aluminium ores, raw wool, camels, uniforms, cinchona bark and quinine.	All destinations.
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The following articles have been exempted from import duty since April 1920 :—

- (i) Winnowers, threshers, mowing and reaping machines, elevators, seed-crushers, chaff-cutters, root-cutters, ploughs, cultivators, scarifiers, harrows, clod-crushers, seed-drills, hay-tedders, and rakes, and component parts of these implements when so constructed as to be worked by power other than manual or animal¹.
- (ii) Binding machines, ensilage-cutters, and agricultural tractors and component parts thereof used for agricultural purposes.
- (iii) Urea.
- (iv) Cream separators, milk sterilizing or pasteurizing plant, milk aerating and cooling apparatus, churns, butter dryers, butter workers, and component parts thereof used for dairy purposes, when constructed as to be worked by power other than manual or animal.
- (v) Metallic ores.
- (vi) Pearls, imported, pierced.
- (vii) Unmanufactured mica.
- (viii) Grain, pulse and flour (up to December 31st, 1922).

The import duty has been reduced in the case of the following articles :—

- (i) Aeroplanes and parts thereof, aeroplane engines and parts.
- (ii) Stereo blocks, wood blocks, half-tone blocks, electrotype blocks, galley presses, proof presses, arming presses, copper-plate printing presses, rolling presses, ruling machines, ruling pen-making machines, lead and rule cutters, type-casting machines, type-setting and casting machines, rule-bending machines, rule-mitreing machines, bronzing machines, leads, wooden and metal quoins, shooting-sticks and galleys.
- (iii) Bicycles, tricycles and accessories thereof.
- (iv) Motor omnibuses.

¹ Those worked by manual or animal labour were already exempt.

(v) Switchboards imported complete or in parts, provided that the Collector of Customs is satisfied that they are for use on high-pressure¹ circuits.

Oil switches and oil circuit breakers.

Motor starters and controllers of all types with their accessories and resistances, provided that the Collector of Customs is satisfied that they are for use with machinery and not for motor vehicles, tramcars, lifts or the like.

Regulators and rheostats of all types with their accessories, resistances, except regulators for fans (other than induced or forced-draft fans), and resistances intended for purposes other than the control of machinery.

Transformers, with their accessories or parts, static converters and static condensers of three k. v. a. capacity or over.

2. *The existence (or abolition) of price discrimination against foreign trade.*

The Government of India has never had any price discrimination against foreign trade, and there is no question at present of imposing any.

3. *The conclusion of: (a) commercial conventions; (b) transport conventions.*

(a) Commercial agreements have been concluded with the following States :—

- (I) Czechoslovakia.
- (II) Finland.
- (III) Esthonia.
- (IV) Lithuania.

(b) The Barcelona Convention has been ratified on behalf of India.

October 5th, 1922.

¹ The expression "high pressure" has the meaning assigned to it in the Indian Electricity Rules, 1911.

Japan.

I. BUDGETARY MEASURES.

1. *How far ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

In the budgets since 1919-1920, the ordinary expenditure was covered as follows ¹:

	Ordinary revenue	Ordinary expenditure	Percentage of revenue against expenditure
1919-1920	Yen	Yen	%
Estimate . . .	839,140,943	505,936,692	165
Closed Account.	1,063,120,909	502,785,948	215
1920-1921			
Estimate . . .	1,012,614,197	744,354,941	136
Closed Account.	1,174,688,429	709,313,941	165
1921-1922			
Estimate . . .	1,238,456,628	911,108,967	135
1922-1923			
Estimate . . .	1,245,457,634	941,762,981	132

¹ These figures comprise only the General Accounts, and the same remark applies to the paragraphs following with the exception of (8) "The financial position of public undertakings", and (10) "Methods of raising money by loans", which include the Special Accounts.

2. *Whether expenditure for armaments has been reduced.*

The expense on defence in 1922-1923 was curtailed in the voted ordinary expenditure, the items and amounts of which are as follows:

<i>Army:</i>	Yen
Reduction caused by altering the date of joining and disbanding the corps	1,221,542
<i>Navy:</i>	
Reduction caused by saving the voted expenditure	18,230,990
Reduction caused by discharge of obsolete ships	3,844,291
Reduction caused by cutting down of fleet and headquarters	492,043
Total	22,567,324
Grand Total	23,788,866

Besides the above-mentioned economies, some parts of the voted expenditure are to be carried over to the following years. Taking all other decreases and increases of expenditure into account, the total expenditure to be curtailed for 1922-1923 is as shown in the following table.

	Ordinary	Extraordinary	Total
	Yen	Yen	Yen
<i>Army:</i>			
1921-1922.	183,336,659	79,926,291	263,262,950
1922-1923.	196,990,133	58,989,588	255,979,721
Decrease (—) or increase (+).	+ 13,653,474	— 20,936,703	— 7,283,229
<i>Navy¹ :</i>			
1921-1922.	144,872,911	357,252,064	502,124,975
1922-1923.	135,170,228	259,921,647	395,091,875
Decrease (—) or increase (+).	— 9,720,683	— 97,330,417	— 107,033,100
Total decrease or increase	+ 3,950,791	— 118,267,120	— 114,316,329

3. *The extent of unproductive extraordinary expenditure.*

The unproductive expenditure referred to above comprises all expenditure other than the under-mentioned items, which are regarded as productive expenditure, except, however, the interest on the national loans, the principal of which is partly applied to unproductive enterprises.

- (a) Expenditure, the outlay of which affords some material interest to persons and consequently brings revenue to the State.
- (b) Expenditure for the development of industry and communication.
- (c) Expenditure disbursed for capital accommodation or public establishments.

¹ The curtailment of the Navy expenditure is not based on the Washington Naval Agreement of 1921-22.

The expenses for the construction of railways are not included, because they are defrayed out of Special Accounts.

The ratio of unproductive extraordinary expenditure to the total extraordinary expenditure has been as follows:

	Total extraordinary expenditure	Unproductive expenditure	Ratio of the latter to the former
	Yen	Yen	%
1919-1920:			
Estimate	558,253,648	441,445,919	79
Closed Account . .	669,542,356	449,872,220	67
1920-1921:			
Estimate	651,928,362	506,884,013	78
Closed Account . .	650,664,313	488,137,005	75
1921-1922:			
Estimate	680,177,819	513,468,686	75
1922-1923:			
Estimate	540,656,980	390,086,287	72

4. *The extent of productive ordinary expenditure.*

The ratio of productive ordinary expenditure to total ordinary expenditure is shown in the following table.

	Total ordinary expenditure	Productive expenditure	Ratio of the latter to the former
	Yen	Yen	%
1919-1920			
Estimate	505,936,692	63,526,319	12
Closed Account . .	502,785,948	60,300,512	12
1920-1921			
Estimate	744,354,941	115,156,498	15
Closed Account . .	709,313,941	107,701,030	15
1921-1922			
Estimate	911,108,967	160,702,293	18
1922-1923			
Estimate	941,762,981	176,810,343	19

5. *Policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living and the effects, of this policy on budget conditions.*

In order to meet the increased cost of living caused by the advance of prices, special bonuses were paid, and foreign service allowances and travelling expenses were increased from 1918-19. Since August 1st, 1920, salaries, wages, foreign-service allowances, other allowances and travelling expenses¹ were permanently increased and the same increase was added to the pension for retired officials and to the annual allowance to members of the Diet. The main points and the effects on the budget of these altered salaries, etc., may be summarised as follows:

I. *Increase of salaries of Government officials, etc.*

(a) Officials:

The annual salaries of under 300 yen are increased by 100 %. The increase in the rate of salaries from 300 yen to 3,000 yen is reduced gradually as the salaries become higher. Those between 3,000 yen and 5,500 yen are increased by from 27 % to 50 %, with a maximum of 1,500 yen; those between 5,500 yen and 6,500 yen are increased by from 8 % to 16 %, the total salary being within the limit of 7,000 yen; those over 6,500 yen (and not over 7,500 yen) are increased by 8 % at the most, the increase not exceeding 500 yen.

(b) Pay of the army and the navy:

The pay to army men is increased by 140 % or less on an average, while that to seamen is increased by 82 % or more on an average.

(c) Non-official staffs, employees:

The jailers receive average increases of 100 %; the non-official staffs receive increases of 60 % on an average; while transport workers receive increases of 105 %, and those in other concerns receive increases of 80 % on an average.

The total average of increase is about 78 % and the corresponding increase of salaries and pay is introduced in the budget.

II. *Increase of foreign service and other allowances.*

Additional salaries or allowances for foreign service officials, and allowances for foreign instructors, etc., are increased by 50 %, while expenses for students sent abroad by the Ministry of Education are increased by 100 %.

III. *Increase of travelling expenses.*

Daily allowances and lodging charges are increased by 200 % for journeys both inland and abroad, and the railway and passage fares are paid according to the actual expenses, but, owing to a reduction in the number travelling, the estimated amount is increased by 100 % compared with former expenditure.

IV. *Increase of pensions.*

Pensions to retired officials are calculated on the basis of the salary at the time of retirement, so that those who retired after the augmentation of salary was introduced receive increased

¹ The amendment of the regulation concerning travelling expenses was introduced about the same time as the permanent increase of salaries, etc.

pension as a result. Those who retired before the salaries were permanently increased receive pensions calculated on the total sum of both their salary at the time of retirement and an additional sum calculated on the same standard as that which was introduced with regard to the permanent increase of salary. The average amount of increase is equivalent to 71 %, and the corresponding increase of expenditure is introduced in the budget.

V. *Salaries of the members of the Diet.*

The salaries of the members of the Diet are increased by 50 %.
The increased expenditure thus resulting may be summed up as follows¹:

	Yen
Salaries of officials	83,381,721
Foreign-service allowances, etc.	3,914,271
Travelling expenses	9,319,768
Pensions	22,914,251
Salaries of the members of the Diet	711,000
Total . .	120,241,011

6. *The existence of subsidies on bread and other foodstuffs, coal and other materials.*

In order to mitigate the stress on the national life caused by the rise of prices and the shortage of the supply of home-grown rice during 1918-1919 and 1919-1920, the Government appointed certain traders to import foreign rice and sell it at a low price, a State subsidy being provided.

The quantity of rice sold and the amount of the subsidy in 1919-1920 were as follows:

Rice sold	Koku ² 245,313
Subsidy	Yen 8,079,607

Later in 1919-1920, the Government bought rice from abroad and sold it in the country at a low price. The quantity and the price of purchase and of sale were as follows:

¹ These figures are mainly the increase in expenditure for 1920-21 as regards the items which appeared in the previous budget, and do not include the following increases for and after 1920-21:

(a) The increase in the newly created expenditure, caused by augmenting the payment to officials, etc.

(b) The increase of payment for salaries out of the voted expenditure or other similar expenditure, which is appropriated within the limit of the voted amount of the fixed expenditure.

² 1 Koku { 1.80391 hectolitres.
4.96005 bushels.

Quantity imported	Koku	1,434,021
Purchase price ¹	Yen	95,349,748
Average purchase price per koku . .	Yen	66.491
Quantity sold	Koku	831,680
Proceeds from the sale	Yen	30,639,458
Average sale price per koku	Yen	36.840

The rice unsold was properly disposed of.

7. *Charges for unemployment.*

The outlays for unemployment are as follows:

For 1921-1922:	Yen
Subvention to the labour exchanges for workers other than mariners, etc.	222,000
For 1922-1923:	
Subvention to the labour exchanges for workers other than mariners, etc.	222,000
Expenses of the labour exchanges for mariners	74,753
Total . . .	296,753

8. *The financial position of public undertakings.*

Of the Government undertakings, forest, postal, telegraphic and telephone services are included in the General Accounts, while the rest are managed under Special Accounts. The profits from the undertakings are, however, all transferred into the General Account and are applied as the revenue thereof, except the profits of the Railway Special Account and the excess of revenue of the Popular Life Insurance Special Account. The former are appropriated to the Construction and Improvement Fund of the Government railways, while the latter is put into the Premium Reserve Fund.

The financial position of the Government undertakings is briefly shown in the following tables.

¹ The purchase price includes the charges for warehousing and expenses for sale.

FORESTS.

(General Account.)

	Revenue	Expenditure	Profit
1919-1920 ¹	Yen	Yen	Yen
Estimate	16,532,286	6,673,592	9,858,694
Closed Account .	32,900,818	6,483,974	26,416,844
1920-1921 ¹			
Estimate	24,807,721	12,986,604	11,821,117
Closed Account .	35,863,844	11,798,349	24,065,495
1921-1922			
Estimate	32,057,000	15,666,494	16,390,506
1922-1923			
Estimate	39,221,435	23,066,515	16,154,920

POSTAL, TELEGRAPHIC AND TELEPHONE SERVICE.

(General Account.)

	Revenue	Expenditure	Profit
1919-1920 ¹	Yen	Yen	Yen
Estimate	126,866,992	52,092,552	74,774,440
Closed Account .	132,801,721	49,315,140	83,486,581
1920-1921 ¹			
Estimate	160,537,787	97,864,204	62,673,583
Closed Account .	139,672,606	90,188,394	49,484,218
1921-1922			
Estimate	187,177,396	139,683,845	47,493,551
1922-1923			
Estimate	187,849,768	149,397,730	38,452,038

¹ The expenditure for 1919-20 and 1920-21 does not include temporary allowances to officials and employees, which were defrayed from the Contingency Expense Account in consequence of the advance of prices.

PRINTING OFFICE.

(Special Account.)

	Revenue	Expenditure	Excess of revenue
	Yen	Yen	Yen
1919-1920			
Estimate	5,989,470	5,423,875	565,595
Closed Account	6,847,714	6,247,432	600,282
1920-1921			
Estimate	8,261,499	7,594,249	667,250
Closed Account	9,154,810	8,010,277	1,144,533
1921-1922			
Estimate	11,594,576	10,470,324	1,124,252
1922-1923			
Estimate	10,979,775	9,847,984	1,131,791
	Profit other than revenue ¹	Loss other than expenditure ¹	Net profit
	Yen	Yen	Yen
1919-1920			
Estimate	—	93,000	472,595
Closed Account	711,859	442,126	870,015
1920-1921			
Estimate	—	—	667,250
Closed Account	1,001,153	754,472	1,391,214
1921-1922			
Estimate	—	—	1,124,252
1922-1923			
Estimate	—	—	1,131,791

¹ "Profit other than revenue" represents all such profits other than revenue which may be regarded as profit in the light of the Profit and Loss Account of the enterprise, such as value of raw material carried over to the next year, material or manufactured goods and unpaid revenues.

"Loss other than expenditure" implies all such losses other than expenditure which may be regarded as loss in the light of the Profit and Loss Account of the enterprise, such as value of raw material carried over from preceding year, material or manufactured goods and unpaid expenditure.

The same notes apply to the accounts of other undertakings.

MONOPOLY OFFICE (TOBACCO, SALT AND CAMPHOR).

(Special Account.)

	Revenue	Expenditure	Excess of revenue
	Yen	Yen	Yen
1919-1920			
Estimate	180,330,915	124,050,150	56,280,765
Closed Account	223,991,645	151,330,107	72,661,538
1920-1921			
Estimate	258,057,858	159,382,729	62,675,129
Closed Account	249,540,821	186,586,871	62,953,950
1921-1922			
Estimate	271,963,886	192,467,900	79,495,986
1922-1923			
Estimate	270,018,355	174,885,362	95,132,993
	Profit other than revenue	Loss other than expenditure	Net profit
	Yen	Yen	Yen
1919-1920			
Estimate	33,130,527	19,441,753	69,969,539
Closed Account	85,284,520	52,448,688	105,497,370
1920-1921			
Estimate	49,603,172	17,663,153	94,615,148
Closed Account	141,359,926	85,397,123	118,896,753
1921-1922			
Estimate	57,635,974	40,643,460	96,488,500
1922-1923			
Estimate	48,017,768	43,130,006	100,000,755

STEEL FOUNDRY.

(Special Account.)

	Revenue	Expenditure	Excess of revenue
	Yen	Yen	Yen
1919-1920			
Estimate	167,088,832	133,109,444	33,979,388
Closed Account .	85,733,924	76,533,789	9,200,135
1920-1921			
Estimate	109,029,547	108,136,463	893,084
Closed Account .	56,699,684	82,080,723	— 25,381,039
1921-1922			
Estimate	105,195,579	101,694,836	3,500,743
1922-1923			
Estimate	71,246,288	78,265,683	— 7,019,395
	Profit other than revenue	Loss other than expenditure	Net profit
	Yen	Yen	Yen
1919-1920			
Estimate	16,169,054	15,146,383	35,002,059
Closed Account .	54,687,107	58,792,419	5,094,823
1920-1921			
Estimate	23,696,767	20,971,766	3,618,084
Closed Account .	67,626,125	42,230,343	14,743
1921-1922			
Estimate	59,288,494	59,288,494	3,500,743
1922-1923			
Estimate	58,859,371	51,829,621	10,355

POPULAR LIFE INSURANCE.

(*Special Account.*)

	Revenue	Expenditure	Excess of revenue
	Yen	Yen	Yen
1919-1920			
Estimate	4,899,830	2,739,166	2,160,664
Closed Account .	7,117,538	2,815,462	4,302,076
1920-1921			
Estimate	8,272,387	4,561,547	3,710,840
Closed Account .	10,302,679	4,255,039	6,047,640
1921-1922			
Estimate	12,533,257	6,592,979	5,930,278
1922-1923			
Estimate	19,475,063	9,006,078	10,468,983

IMPERIAL RAILWAY.

(*Special Account.*)

Profit and Loss Account.

	Revenue	Expenditure	Subvention to local railways paid out of expenditure
	Yen	Yen	Yen
1919-1920			
Estimate	328,920,651	279,537,906	1,500,000
Closed Account .	378,035,430	308,633,750	743,523
1920-1921			
Estimate	440,070,025	376,070,025	1,500,000
Closed Account .	422,208,963	362,835,788	620,513
1921-1922			
Estimate	495,501,738	404,201,738	1,500,000
1922-1923			
Estimate	501,798,815	398,718,815	2,000,000

IMPERIAL RAILWAY (Continued).

	Excess of revenue	Profit other than revenue	Loss other than expenditure	Net profit
	Yen	Yen	Yen	Yen
1919-1920				
Estimate . . .	49,382,745	—	—	49,382,745
Closed Account.	69,401,680	—	5,015,584	59,386,096
1920-1921				
Estimate . . .	64,000,000	—	—	64,000,000
Closed Account.	59,373,175	—	5,015,584	54,357,591
1921-1922				
Estimate . . .	91,300,000	—	—	91,300,000
1922-1923				
Estimate . . .	103,080,000	—	—	103,080,000

9. *The introduction of new taxation.*

No new tax has been introduced since the summer of 1920, though some amendments were carried out in the Income Tax Act, Custom Tariff Act, Saké Manufacture Tax Act, Beer Tax Act, and Alcohol and Alcoholic Beverage Tax Act.

The Income Tax Act was completely amended and was drawn up on the principle of collective taxation, in which are embodied earned income allowance, family allowance for small income, the raising of the lowest taxable income, and the revision of the progressive rate. This amendment may be considered of great consequence and importance from the standpoint of social politics.

10. *Methods of raising money by loans, whether by: (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation.*

The amount of money raised by loan for both General Accounts and Special Accounts each year was as follows:

	Yen
1920	235,224,375
1921	359,221,900
1922 (from January to June) .	90,779,325

These amounts were all raised by issuing in the market short-term loans of from three to eight years.

The loans direct from the central bank, beside the above loans, are of small amount.

11. *The influence of foreign loans and trade balances.*

No considerable change has taken place with regard to the foreign loans since the summer of 1920.

It may be noted in passing that the outstanding amounts of the foreign loans at the end of 1920 and 1921 are 1,428,293,532 yen and 1,362,370,446 yen respectively.

12. *The effect of local and provincial finance on the budget of the State.*

Local government finance has no direct effect upon the budget of the State, but it expands year by year, as may be seen from the state of local loans.

The outstanding amount of the local loans increases year by year, as may be clearly seen from the following figures:

	Yen
At the end of 1913	305,343,295
At the end of 1920	436,409,008
At the end of October 1921. .	475,816,826

The increase may be explained by the fact that the expenditure on local finance is increased mainly on account of the civil engineering expenses caused by calamities, while the proceeds from the revenue fail to keep pace with the expenditure, which naturally necessitates the raising of local loans.

The increasing issue of local loans is apt to have an effect on the floating of national loans.

The subvention by the State of local governments is estimated at 56,649,451 yen for 1921-1922 and 55,208,671 yen for 1922-1923, the details of which are shown in the following tables.

(On August 3rd, 1922.)

	Estimate for 1920-21	Closed Accounts for 1920-21	Estimate for 1921-22	Estimate for 1922-23
	Yen	Yen	Yen	Yen
Ordinary:				
Home Dept.	19,927,642	19,804,573	20,290,314	20,737,278
Education Dept.	12,505,380	12,505,576	13,382,376	13,382,376
Agriculture and Commerce Dept	471,308	470,996	471,308	471,308
Communication Dept.	209,724	210,733	233,369	367,766
Total	33,114,054	32,991,678	34,377,367	34,958,728
Extraordinary:				
Home Dept.	12,695,322	12,998,017	20,249,721	17,825,204
Agriculture and Commerce Dept.	1,854,363	2,076,326	2,022,363	2,424,739
Total	14,549,685	15,074,343	22,272,084	20,249,943
Grand total.	47,663,739	48,066,021	56,649,451	55,208,671

II. MONETARY MEASURES.

1. Increase or decrease of the note circulation.

Standing Amount of Notes.

(In thousands of yen.)

	Bank of Japan	Bank of Chosen	Bank of Taiwan	Total bank notes	Government notes	Grand total	Compared with previous month
	Yen	Yen	Yen	Yen	Yen	Yen	Yen + Increase — Decrease
1920							
July	1,202,433	99,571	40,527	1,342,531	184,890	1,527,421	— 158,224
August . . .	1,217,077	96,915	36,218	1,350,210	190,790	1,541,000	+ 13,578
September .	1,170,144	96,271	36,627	1,303,042	193,810	1,496,852	— 44,147
October . . .	1,192,082	95,459	33,422	1,320,963	197,560	1,518,523	+ 21,671
November . .	1,180,216	98,972	34,891	1,314,079	200,000	1,514,079	— 4,445
December . .	1,439,241	114,035	40,249	1,593,525	200,000	1,793,525	+ 279,446
1921							
January . . .	1,235,137	103,324	38,706	1,377,167	205,850	1,583,017	— 210,507
February . . .	1,140,673	100,029	36,268	1,276,970	209,230	1,486,200	— 96,817
March	1,177,665	106,955	38,004	1,322,624	213,630	1,536,254	+ 50,054
April	1,147,384	104,079	36,115	1,287,578	213,620	1,501,208	— 35,046
May	1,117,961	99,542	34,981	1,252,484	213,630	1,466,114	— 35,094
June	1,218,843	98,609	36,270	1,353,722	213,630	1,567,352	+ 201,239
July	1,142,628	100,519	36,322	1,279,469	213,630	1,493,099	— 74,253
August	1,192,587	103,457	35,937	1,331,981	216,300	1,548,281	+ 55,182
September . .	1,232,935	109,717	36,338	1,378,990	216,500	1,595,490	+ 47,209
October	1,255,800	114,485	35,491	1,405,776	216,500	1,622,276	+ 26,786
November . . .	1,283,121	125,872	35,105	1,444,098	216,500	1,660,598	+ 38,321
December . . .	1,546,546	136,360	40,864	1,723,770	216,500	1,940,270	+ 279,673
1922							
January	1,377,490	118,717	36,834	1,533,041	216,500	1,749,541	— 190,729
February . . .	1,246,070	121,906	36,231	1,404,207	218,000	1,622,207	— 127,335
March	1,289,420	114,043	35,000	1,438,463	205,177	1,643,640	+ 21,433
April	1,226,957	101,849	32,827	1,361,633	203,177	1,564,810	+ 78,830

2. The influence of Government expenditure on currency.

Government expenditure has no direct influence upon currency, it being always covered by the revenue of taxes, duties, receipts from public undertakings, etc., and recourse not being had to the issue of paper money or to advances by the central bank to meet the expenditure. Although Government expenditure increases or decreases almost proportionately as the note

circulation increases or decreases, it is not to be concluded from this fact that the Government expenditure has any influence on currency.

3. *The repayment of floating debt and the effects thereof.*

Since the summer of 1920, floating debt, when matured, has been converted. In converting it the Government has adopted the principle that it should be funded as far as possible.

4. *Connection between the Government and the central bank of issue.*

There are two banks of issue other than the Bank of Japan, which is the central bank of Japan, *viz.*: the Bank of Chosen and the Bank of Taiwan. These banks, however, have a limited power of issue. The Bank of Chosen issues notes which are legal tender only in Chosen, and the Bank of Taiwan only in Taiwan.

The status of the central bank, *i.e.* the Bank of Japan, is regulated by the Act of 1822 (Bank of Japan Act). The Bank of Japan, in accordance with this Act, is a joint-stock company with limited liability and is under the auspices of the Government. It has the power to issue banknotes as legal tender and receives and disburses State funds.

As regulated by the Act of 1822 the Government controls the central bank of issue in the following manner:

(i) The bank must obtain the permission of the Minister of Finance:

- (a) To establish branches;
- (b) To open correspondence with other banks;
- (c) To buy or sell Government bonds.

(ii) The bank must petition the Government before extending the terms of business and before increasing its capital.

(iii) Any person desiring to become a shareholder of the bank must obtain the permission of the Minister of Finance.

(iv) The Governor and Vice-Governor are nominated by the Government, and the Directors are nominated by the shareholders at their general meeting, and must be appointed by the Minister of Finance.

(v) The Minister of Finance shall direct the Comptroller to visit the bank for the purpose of inspecting all its transactions.

(vi) The bank must make a report to the Minister of Finance stating in detail the actual condition of all the business.

(vii) The sanction of the Government must be obtained before the bank can enact or amend by-laws and deal with matters not provided for in them.

(viii) The Government shall inspect the management of the bank's business.

Besides the controlling powers above mentioned, the bank is subject to the control of the Government in regard to the issue of banknotes as regulated by the Bank Notes Act.

5. *The restriction of granting credits either by means of the rate of interest or in other ways.*

There is no restriction of this kind in Japan.

6. *The existence of any artificial control of exchange.*

There is no artificial control of exchange existing in Japan. The export of gold and silver coin and bullion is subject to the licences of the Finance Minister, for which reason the rate of

exchange with certain countries is under specie-point. But this system has been adopted to prevent the outflow of gold from the country and does not aim at the control of exchange.

Foreign holders of banknotes and credit balances are in the same position as native holders and are not treated differently from them.

7. *The causes and effects of deflation.*

Since the summer of 1920 there have been some movements in the amount of note circulation, but, broadly speaking, they are not of importance.

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

Neither the abolition nor the establishment of prohibition on imports and exports or of special permits has been effected.

Some alterations in the import tariff, however, were introduced in 1920 and 1921, the principal reasons for which were as follows:

The previous specific import tariff rate, fixed in 1909 on the prices of the commodities at that time, had been proved to be too low in comparison with the advanced prices, which had become universal since the last war. These circumstances called for a general reform in the specific tariff.

Further alterations in the import tariff on special articles were also necessitated owing to the post-war economic and financial condition.

The Saké brewery tax was increased with other inland taxes, and consequently it became necessary to raise the rate of import duties on alcoholic liquor so as to maintain equilibrium with the inland tax.

Some alteration in the tariff rate was required in order both to protect the dyestuff and other chemical industries and to facilitate the importation of raw materials with a view to stimulating the development of industries in recent years.

It was also considered to be necessary to take proper measures for the protection of important industries from the danger of the importation of unreasonably cheap articles or the sale of imported articles at unreasonably low prices.

2. *The existence or abolition of price discrimination against foreign trade.*

No price discrimination exists against foreign trade.

3. *The conclusion of: (a) commercial conventions; (b) transport conventions.*

The Japanese Government concluded a commercial treaty with the Government of Paraguay, which was signed on November 17th, 1919, and of which the exchange of ratifications took place on August 25th, 1921.

The Declaration recognising the Right to a Flag of States having no Sea-coast, and the Convention and Statute on Freedom of Transit, were signed by Japan, but still remain to be ratified.

November 15th, 1922.

Luxemburg.

The present statement is in continuation of the information given in the report which the Delegate of the Grand-Duchy of Luxemburg submitted to the International Financial Conference at Brussels in October 1920.

I. BUDGETARY MEASURES.

1. How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.

It did not prove possible in the years 1921 and 1922, any more than in 1920, to balance the budget by means of the ordinary resources of revenue. Even without taking account of extraordinary expenses, it has not yet been possible completely to restore the budgetary equilibrium, which had been upset by the war.

For the financial year 1921 the ordinary expenses — which are not shown separately in the text of the budget — may be estimated at 73 million francs, and the receipts at 55 million francs.

According to the Budget Law of 1922, ordinary expenditure amounts to 79 million francs and ordinary receipts amount to 46 million francs.

According to these estimates, about one-third of the ordinary credits will have to be met from extraordinary resources. However, various fiscal laws which have just been passed will cause the revenue of the State to rise, during the remaining months of 1922, to a much higher figure; and when all the laws imposing taxation which have at present been voted, or which have at least passed their first reading, have been put in force, the normal receipts will offset the current and ordinary expenditure, both of which will be somewhere in the neighbourhood of 70 to 80 million francs. In other words, their total will be three or four times as great as those in the pre-war budgets. With the aid of the fresh sources of revenue which have just been referred to, the Government believes that it will be able to balance the budget of the Grand-Duchy completely in the financial year 1923.

2. Whether expenditure on armaments has been reduced.

The Grand-Duchy of Luxemburg has no army; it maintains a body of police solely for the preservation of internal security and public order. The budget, accordingly, contains no credit for armaments, in the strict sense of the word. The expenses incurred for the volunteers

and the corps of gendarmerie are accounted for in the budget of 1921 by a sum of 2,259,000 francs, and in the budget of 1922 by a sum of 2,549,670 francs.

3. *The extent of unproductive extraordinary expenditure.*

The total of the extraordinary expenditure is estimated in the budget of 1921 at 41 millions, of which 13 millions represent productive expenditure. For 1922 the corresponding amounts are 31 and 18 millions respectively. The budget for 1921 includes extraordinary receipts to the value of 8 million, and that of 1922 of 10 million francs.

4. *The extent of productive extraordinary expenditure.*

The estimates for ordinary expenditure do not include productive expenditure, in the strict sense of the word (*i.e.*, expenditure which is specially designed to produce receipts which will counterbalance the outlay), unless we include in that category credits allotted to public enterprises and to the administrative services of the Fiscal Department and State Lands. Mention will be made later on of public enterprises in the Grand-Duchy; the expenses and receipts of these enterprises are included in the ordinary expenditure and revenue respectively.

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

Since the year 1916, as the currency has depreciated and the cost of living has increased, the State has been compelled to supplement the salaries of officials and employees by "cost of living" allowances. Finally, a law was passed on August 9th, 1921, revising the salaries in such a way as to provide for automatic adjustments to meet subsequent changes in the economic situation. The pre-war salaries constitute the fixed portion of the present salaries. This portion is augmented by a variable amount which fluctuates with the rise or fall of the index numbers. State employees have also been granted lodging allowances and bonuses for family expenses. The result is an all-round increase, in comparison with pre-war salaries, in a proportion which is larger for the lower classes of salaries and smaller for the higher classes. Speaking generally, this increase ranges at present — taking the index number at 375 — from about 300 % to 175 %.

6. *The existence of subsidies on bread and other foodstuffs, coal and other materials.*

The extraordinary expenses which have produced deficits in the post-war budgets are in a great measure due to the fact that the State has caused foodstuffs and other articles of primary necessity to be purchased for the community and has then disposed of them to the population below cost price. In this way, the State of Luxemburg — in the same way as many other States — has devoted large sums to maintaining the price of bread at a reasonable figure. The Grand-Ducal Food Supply Office was definitely abolished in May 1921. The total loss which had to be borne by the State on account of the activities of this Office, during and since the war, amounted to about 66 million francs.

7. *Charges for unemployment.*

Finally, somewhat large sums have had to be expended to meet the effects of the industrial crisis which followed the war. The budget for 1921 contains a credit of 5 million francs for relief works for unemployed and 1,200,000 francs for unemployment doles. On the other hand, the budget for 1922 contains only a single credit of 500,000 francs for relief of unemployed.

The financial position of public undertakings.

The Grand-Duchy has two public enterprises: the administration of posts, telegraphs and telephones, and the thermal establishment of Mondorf-les-Bains. Their financial situation during the period under review is shown by the following figures:

(a) Postal Administration:	(francs)	(francs)
	1921	1922
Expenses	8,039,628	8,038,600
Receipts	6,975,000	7,800,000
	1,064,628	238,600
Deficit	1,064,628	238,600

(b) Thermal Establishment of Mondorf:	1921	1922
Expenses	318,000	280,000
Receipts	81,000	100,000
	238,000	180,000
Deficit	238,000	180,000

9. *The introduction of new taxation.*

Since the second half of 1920 the sources of revenue of the State have been increased by the following measures:

- (a) The law of August 7th, 1920, increasing registration duties;
- (b) The laws of August 7th, 1920, and January 31st, 1921, increasing succession duties;
- (c) The law of March 10th, 1921, increasing the taxes for licensed premises;
- (d) The law of April 11th, 1921, imposing an additional super-tax on the income tax in place of the Excess Profits Duty levied during the war;
- (e) The law of July 28th, 1921, establishing a new customs tariff, and the law of March 5th, 1922, ratifying the Customs Union and making the customs dues in force at that time in Belgium applicable to the Grand-Duchy;
- (f) The Bill increasing taxes levied on mechanically-driven vehicles, the first reading of which has been passed by the Legislative Chamber;
- (g) The Bill, also passed in first reading, establishing a tax on business transactions (*chiffres d'affaires*);
- (h) The Bill, also adopted in first reading, revising the general income tax.

10. *Methods of raising money by loans, whether by: (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation.*

Since the period referred to above the Grand-Ducal State has contracted the following new loans:

- (a) Issue of 56 million francs in one-, two- and three-year Treasury bonds, intended to supply Germany with advances in connection with the execution of the decision of the International Conference of Spa, these bonds being redeemable in three instalments at the beginning of the next three years respectively;

(b) Issue of 30 millions in one-year Treasury bonds, in pursuance of the budget law of 1921, these bonds being intended to cover the deficit for the financial year 1921;

(c) Current account opened at the Treasury by the Savings Bank of the Grand-Duchy; this account at present amounts to 11 million francs. These advances bear no relation to any increase in the fiduciary circulation;

(d) The loan of 175 millions employed, in virtue of Article 22 of the Treaty of Economic Union, for the purpose of withdrawing from circulation an equivalent amount in Luxemburg notes;

(e) Long-term loan of 75 million francs finally voted on May 16th last and intended to consolidate the floating debt by means of which the deficits for the financial years 1920, 1921, and 1922 have been met; the amounts referred to under (b) and (c) above are included in this loan.

11. *The influence of foreign loans and trade balances.*

The Grand-Ducal State has no foreign debt. On the other hand, attempts have been made to place abroad considerable amounts of Luxemburg capital, though no exact estimate of these amounts can be given.

As the Luxemburg Customs system has for long been merged in the larger administration of a Customs union, no data are available which would enable the situation of the trade balance to be estimated with any accuracy. The exports and imports of the metal industry, which in this respect forms by far the most important factor in the economic life of the Grand-Duchy, were in 1920 almost twice as great as in 1919. The principal exports for 1920 may be estimated as follows:—

Iron ore	2,042,899 tons
Cast iron, steel, etc.	692,935 tons
Thomas slag	112,111 tons

and the principal imports:—

Iron ore	1,042,000 tons
Coal and coke	1,500,000 tons.

It is no doubt due to this steadily favourable trade balance that, although the fiduciary circulation is very considerable as compared with the extent of territory in which Luxemburg currency circulates, its exchange value has nevertheless remained for three years at approximately the same level as the French and Belgian currencies. In future, under the regime of the new Economic Union, the Luxemburg exchange will, whatever trade conditions may prevail, be assimilated to that for Belgian notes.

12. *The effect of local and provincial finance on the budget of the State.*

The crisis due to war and post-war conditions has also reacted upon the financial situation of the communes. The State has had to come to their aid. The items of expenditure in the budget for 1921 include 14,724,040 francs for various subsidies granted to the communes. The corresponding amount for 1922 is 15,702,550 francs.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The result of exchanging the German marks which were in circulation in the Grand-Duchy at the time of the Armistice for Luxemburg notes at the rate of 1.25 francs to the mark was to raise the amount of the fiduciary circulation to 266,000,000 francs. In order to reduce the amount of paper money, which was considered excessive, the Government issued Treasury bonds at 4 % — since extended at the rate of 5 % — short-term bonds to a corresponding value being withdrawn from circulation (Law of August 13th, 1919). This issue at present amounts to 40,000,000 francs. Furthermore, about 9,000,000 francs in worn-out notes were retained in the State Treasury during the interval. Without counting the 6 $\frac{1}{4}$ million francs of bank-notes issued by the International Bank of Luxemburg, there is, therefore, a sum of 217,000,000 francs actually in circulation.

The coming into force of the Treaty for Economic Union with Belgium will result, as an immediate consequence, in the exchange of 175,000,000 francs in Luxemburg notes for Belgian notes. Apart from the Belgian notes, an amount of 25,000,000 francs of the Luxemburg "bons de caisse" will remain in circulation. It is intended to entrust a bank of issue with the issue of these 25,000,000 francs' worth of notes, which will be regarded as legal tender. The difference between the sums representing the fiduciary circulation before the coming into force of the treaty and that provided for by the treaty — including the 175,000,000 francs in Belgian notes — a difference of about 17,000,000 francs, will be absorbed by means of an extension of the issue of Treasury bonds referred to above.

2. *The influence of Government expenditure on currency.*

The issue of paper money being strictly limited to the value of the German notes withdrawn from circulation, the paper currency has not been utilised to support the budget. In order to meet the excess of public expenditure during the years 1920-1922, the Treasury, besides availing itself of the funds paid into the Post Office Bank, has had recourse to short-term loans as enumerated under the heading of "Budgetary Measures" *b* and *c*.

3. *The repayment of floating debt and the effects thereof.*

After the calling-in of the long-term loans mentioned under the same heading, the Luxemburg State will still have the following non-consolidated liabilities:

(a) Treasury bonds issued on different dates before 1912 to provide the necessary funds for the construction of local light railways, and repayable by earmarking special reserves derived from mining concessions; total amount, 5,363,746 francs.

(b) Treasury bonds which have been used to enable an equivalent amount of Grand-Ducal State notes to be withdrawn from circulation; 40,000,000 francs.

(c) The short-term bonds issued by the Luxemburg State, amounting, — until full effect has been given to the Economic Treaty — to a total of 42,000,000 francs.

4. *The connection between the Government and the Central Bank of Issue.*

There is no State bank in the Grand-Duchy. However, by virtue of a special privilege conferred on it, the International Bank, which is a private and independent establishment under the control of a Government commissioner, is allowed to issue a maximum amount of 50,000,000 francs in notes. The value of such notes actually in circulation is 6 ¹/₄ million francs; they are compulsory legal tender up to that amount.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

6. *The existence of any artificial control of exchange with a description of its character and its effects.*

There are no restrictions on credits and no official control of exchange in the Grand-Duchy.

7. *The causes and effects of deflation.*

A noticeable deflation has resulted from the measures explained in Section II, 1. The value of the Luxemburg franc is tending to become identical with that of the Belgian franc. Both are maintaining a certain level, which tends to improve, in relation to the value of gold.

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

Since the customs union with Germany has been denounced, that is to say since January 1st, 1919, Luxemburg has adopted free trade to a considerable extent. On July 25th, 1921, a treaty was signed by the representatives of the Belgian and Luxemburg Governments, establishing an economic union between the two countries. Attempts might have been made to make profitable speculations during the interval between the signature and the putting into force of the treaty by taking advantage of the difference between the two régimes which were to be unified. In order to prevent any danger of abuses of this kind, on August 1st, 1921, a law was passed in Luxemburg introducing a customs tariff with the same duties as those levied in Belgium, with certain exceptions in cases in which it was important provisionally to protect the interests of the producers or the consumers in the Grand-Duchy.

Since May 1st, 1922, this provisional régime has been replaced by that of the Customs Union which then came into force. Since that time "the territories of the two Contracting States" only form "one territory from the point of view of customs and joint excise." The legal provisions and regulations formerly in force in the Grand-Duchy, with regard to these matters, have been replaced by those which were in force in Belgium at the date of the ratification of the treaty. Efforts will be made to ensure that the commercial treaties and economic agreements to which Belgium is a party shall be extended to Luxemburg.

2. *The existence (or abolition) of price discrimination against foreign trade.*

At the same time as the Customs Union, a new system affecting imports and exports has come into force in the Grand-Duchy. This régime was instituted by Grand-Ducal decrees dated April 24th, 1922, and was adapted to the régime existing in Belgium. It includes a provision requiring import licences in respect of certain products of German origin, and also export licences in respect of certain articles necessary for consumption or for the economic life of the country.

3. *The conclusion of: (a) commercial conventions; (b) transport conventions.*

The Grand-Duchy has concluded no commercial or transport conventions since the summer of 1920.

June 16th, 1922.

Netherlands

I. BUDGETARY MEASURES.

It is to be regretted that the budget figures for the year 1923 to be published a month from now are not yet available. The estimated figures for the budget of 1922 must therefore be taken as the latest information.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

	Florins.
It should be noted that the ordinary budgets for the years 1901-1920 inclusive show a surplus of	85,956,808.09
For the year 1921, according to the provisional data, a deficit must be expected of.	39,934,772.45 ½
For 1922 the estimated deficit amounts to.	52,008,316.14 ½
To this should be added the deficit of the Railway Administration for 1921.	32,932,927.52 ½
	124,876,016.12 ½

On the other hand, it is hoped that there will be a surplus, up to 1922 inclusive, on the "Leeningsfonds," a fund which receives annually the income from certain taxes, and which is used to settle the interest and the redemption of the loans raised to cover the deficits of the emergency account (see below).

	90,500,000.—
The expenses relating to the state of war are charged to a special or emergency account which is credited with certain revenues. The deficits on this budget up to 1920 inclusive amount to	1,062,130,297.77
In order to cover this deficit, loans ¹ have been raised to the amount of	1,350,807,000.—

So that a sum remained available of	288,676,702.23
For 1921 the surplus of the emergency budget is estimated at	17,731,821.33
	306,418,523.56

The emergency expenditure for the year 1922, including the deficits on food supplies for the preceding years, is estimated at 230,000,000 florins.

¹ Loans of which the interest and redemption are provided by the "Leeningsfonds".

On the other hand, a sum of Fl. 30,000,000 may be expected as emergency receipts, so that a deficit remains amounting to. Florins 206,000,000.—

Therefore, the emergency account may still dispose of a sum of more than Fl. 100,000,000 for the liquidation of emergency establishments and for certain expenditure relating to the abnormal conditions.

It should be noted that the emergency budget will also be credited with the sums included in the settlement of debts due by foreign Powers on account of cost of internment, amounting to a total of over Fl. 77,000,000 (in this connection see Section I, 11), without including the balance of the Nederlandsche Uitvoermaatschappij (Netherlands Export Company) of Fl. 44,000,000. Moreover, the emergency budget should also receive sums which will probably to a great extent balance such expenditure as may have to be incurred.

2. *Whether expenditure on armaments has been reduced.*

In the following table is set out the expenditure on armaments for the years 1913, 1920, 1921 and 1922 :

(Gulden, 000,s omitted)

Financial year	Account to which the figures in the following columns refer	Expenditure on National Defence, appearing in the					Total
		Budget of Ministry of War	Budget of Ministry of Marine	Air Budget	Colonial Budget	Other Budgets; Special Accounts	
(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1913	Closed Accounts	29,470	13,475	—	68,895	981 (938)	112,821 (111,883)
1920	Budgetary estimates voted by Parliament and including supplementary credits	81,848	34,126	—	161,066 (Closed Accounts)	6,566 (6,492)	283,606 (277,114)
1921	Ditto	73,919	36,397	—	166,084	7,243 (7,176)	283,643 (276,467)
1922	Budgetary estimates, excluding supplementary credits	65,149	34,641	—	186,231	5,859 (5,846)	291,880 (286,034)

The figures in brackets in column (g) show the budgetary figures relating to police and constabulary, whose duty is essentially that of maintaining public order. To obtain the total budgetary figures relating to national defence, therefore, the figures in brackets in column (g) should be subtracted from the figures in column (h). The result of this subtraction is shown in brackets in column (h).

The Air Budget for the home country is included in the figures in columns (c) and (d), and that for the colonies in the figures in column (f).

Expenditure in respect of the navy of the Dutch Indies is included in the figures in column (f).

The total budget expenditure in 1913 was 571 million gulden, and in 1922, 1,892 millions.

The percentage which the armaments expenditure, after deducting cost of police, etc. constituted of the total budgetary expenditure was, therefore, 19.6% and 15.1% in 1913 and 1922 respectively.

3. *The extent of unproductive extraordinary expenditure.*

4. *The extent of productive extraordinary expenditure.*

It is the custom in the Netherlands to distinguish between ordinary and extraordinary expenditure. The total of the ordinary and extraordinary expenditure constitutes what is known as normal expenditure. Since 1914, however, it has been necessary to provide for emergency expenditure, *i.e.*, expenditure arising from the war.

As a rule, that expenditure only which may be considered as giving a direct return and bringing in direct revenue to the Treasury comes under the heading of extraordinary expenditure. Extraordinary expenditure, therefore, chiefly consists of interest-bearing advances and especially of interest-bearing advances made to municipalities to encourage the building of dwelling-houses. It may therefore be stated that expenditure which might be considered as unproductive does not figure in the normal budget.

On the other hand, so-called emergency expenditure is as a rule unproductive. This expenditure, however, is gradually decreasing. The reason why the emergency expenditure for 1922 is so high is to be attributed to the fact that in the budget of 1922 were included the losses experienced by those administrations which, during the war and in the years following the war down to 1920 inclusive, granted subsidies for food supplies which have only lapsed since 1921 (see I. 6). It is therefore a question of the expenditure of the preceding years, especially that of the year 1920.

The same remark applies to a sum of Fl. 33,600,000 which comes under the heading of "Deficit on coal supplies" in the emergency budget of 1922.

If these amounts be excepted, the emergency expenditure would seem to amount to:

78,786,529.07½ florins for 1921
27,000,000. — florins for 1922

against which may be placed the receipts from the tax on war profits:

96,518,350.40½ florins for 1921
30,000,000. — florins for 1922

so that, in effect, since 1920, there has been no emergency expenditure to be covered by loans. In addition, it should be remarked that, as mentioned above, the total deficit on the emergency account is exceeded to the extent of Fl. 100,000,000 by the revenue from the emergency loans

and that the interest and redemption of these loans are charged to a special fund, "Leeningsfonds," on which no deficit is expected in the future.

As a result, expenditure which increases the assets of the State but is not immediately productive comes under the heading of "Ordinary expenditure," *i.e.*, expenditure on buildings, roads and waterways, loans without interest, etc. Without a criterion as to what may be considered productive, it is not possible to quote a figure, but it may be indicated that in this way a very considerable capital accrues on which, owing to the policy outlined above, nothing is written off for depreciation. On the other hand, the capital of the State annually decreases in value to a considerable extent owing to the depreciation of the capital sunk in State railways, and to the increase of pensions, for which increase a reserve fund has not been created. It is not possible, without complicated calculations, to say whether the property of the State thus increases or decreases in value annually.

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

Since 1919, no further bonuses for the high cost of living have been granted to officials.

6. *Subsidies on bread and other foodstuffs, coal and other materials.*

Since 1921, no further subsidies of this nature have been granted.

7. *Charges for unemployment.*

The following sums have been provided for unemployment:

26,000,000	florins	in	1920
24,000,000	»	»	1921
14,000,000	»	»	1922

8. *The financial position of public undertakings.*

The following information may be given on this subject. Under the heading of "Public enterprises," in the literal sense of the words, are:

- (a) The postal administration.
- (b) The State mining administration.
- (c) The administration of fishing ports.
- (d) The Netherlands railways.
- (e) The pilotage.

The administration of the Netherlands railways is carried out in the form of a limited company, of which the State is one of the chief shareholders. The State, when necessary, covers the deficit and guarantees a dividend of 5 %. The State is a shareholder in other enterprises, but these need not be mentioned here, because any deficits which may arise are not charged to the State.

Public enterprises which do not work for individuals, or which only do so exceptionally, may, in conformity with Article V of the resolutions of the Public Finance Committee, be omitted here. These enterprises are, for example, the minting of currency, the ordnance works, and the State printing office.

The following data may be given concerning the financial situation of the above enterprises :

(a) *The Postal Administration.*

Deficit in 1921	fl. 9,000,000.—
Deficit in 1922	fl. 2,800,000.—

The last increase of tariffs dates from March 1921. There is no proposal to increase the tariffs, which certainly cannot be considered to be kept disproportionately low. The budget is expected to balance for 1923.

(b) *The State Mining Administration.*

Profit for 1921	fl. 4,000,000.—
Profit for 1922	fl. 1,000,000.—

(c) *The Administration of Fishing Ports.*

Losses for 1921	fl. 279,333.99½
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The returns for this enterprise are at present affected by the unfavourable economic conditions.

(d) *The Netherlands Railways.*

Deficit for 1921	fl. 33,000,000.—
» » 1922	fl. 26,000,000.—

There is no hope of balancing the budget by increasing tariffs, for it is the general opinion that tariffs (for the transport of passengers and goods) have already reached their maximum. The railways are confronted with the competition of the waterways for goods traffic, where the rates are much lower, so that the maximum railway rates are soon reached.

An attempt is being made to balance the railway budget by decreasing staff and salaries and by lengthening the hours of work.

(e) *The Pilotage.*

Deficit for 1921	fl. 3,078,554.95 ½
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9. *The introduction of new taxation (since the summer of 1920).*

(a) Excise duty on tobacco — Act of May 6th, 1921. Later modified by the Act of February 17th, 1922.

(b) Increase in customs duty on tobacco, cigars, cigarettes and cigarette paper. Law of May 9th, 1921.

(c) Modification of the import duties on fresh and preserved meat. Law of May 19th, 1921.

(d) Increase in the rates of duties to be levied on inheritances and gifts. Law of June 10th, 1921.

(e) Establishment of a stamp duty for warehousing receipts, bills of lading, way-bills and receipts for goods transported. Law of December 24th, 1921, modifying the law of 1917 concerning stamp duties.

No new taxes will be levied to make good the deficit. In order to balance the budget, measures will be taken with a view to effecting economies.

10. *Methods of raising money by loans, whether by: (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation.*

(a) *Long-term loans.* Since 1920 resort has not been had to so-called forced or semi-forced loans. In 1922 an entirely voluntary loan was raised to the amount of Fl. 300,000,000, part of which — Fl. 125,000,000 — was raised in America. The loan was issued in florins.

(b) *Short-term loans on the open market.* Two kinds of issue are resorted to:

1. Treasury bills, the interest on which is discounted on the day of issue.
2. Treasury bonds bearing interest.

1. Treasury bills are disposed of:

By public subscription;
Privately through banks and private establishments.

Treasury bills are drawn for 10 days, 12 days, one month, two months, etc., up to a maximum of one year.

2. Treasury bonds are disposed of:

By public subscription;
By selling over the counter;
In special cases privately to individuals.

As the subscriptions for Treasury bills are yielding satisfactory results, the other methods of disposal are, as a general rule, no longer employed.

Treasury bonds are drawn for one year. For the purpose of financing special advances (to foreign Powers for instance), bonds may be issued for a longer term; the longest term is ten years. No Treasury bonds have yet been issued for a longer term than five years; five-year bonds have only been issued to the amount of Fl. 15,000,000.

(c) *Loans from the bank of issue.* (See II, 2 and 4, Monetary Measures.)

11. *The influence of foreign loans and trade balances.*

A. *Foreign loans.*

It should be pointed out that no loan has been made to the Netherlands by any foreign State. (A portion — Fl. 125,000,000 — of the last State loan was placed on the American market.)

B. *Due from Foreign Governments.*

1. Expenses incurred on account of these Governments for internment:

	Florins
Total.	79,329,887.36
Cash advances not mentioned in the budget . .	2,152,755.09
To emergency budget (see I. 1.)	<hr/> 77,177,132.27

2. Credits granted to these Governments:

(a) Relief Credits.

	Florins.
Austria	16,700,000
Poland	400,000
Repatriation of prisoners	500,000
Paris Office expenses	12,500
	17,612,500

(b) Other credits.

France	52,300,000
Germany	22,400,000
Poland	15,800,000
	90,500,000

Grand total (approx.) of items under head "B":

	Florins.
Total (approx.) of item 1.	79,300,000
" " " " 2.(a)	17,600,000
" " " " 2.(b)	90,500,000
	187,400,000

12. *The effect of local and provincial finance on the budget of the State.*

The normal estimates of the State budget include:

Provinces.

- (a) An annual subsidy of Fl. 627,046.
- (b) Maintenance, upkeep and acquisition of the Royal Commissioner's house, the premises of provincial administration and the buildings in which the meetings of the Provincial Governing Bodies are held.
- (c) The salary, and travelling and subsistence allowances of the Royal Commissioner.

Municipalities.

- (a) Annual subsidy of Fl. 18,350,000.
- (b) A fixed proportion of the salaries of burgomasters and secretaries.
- (c) Assistance to communes which are unable to bear the costs of their own administration.

During the emergency period, the contributions to the expenses incurred by the Municipalities owing to the emergency subsidies met out of the yield of the excess profits tax totalled about Fr. 110,200,000, while in 1921 and 1922, special subsidies charged to the Emergency Budget were made to the municipalities to an amount of Fl. 10,250,000 and Fl. 13,800,000 respectively. The municipalities also receive subsidies, which need not, however, be described here, on account of expenditure incurred in the execution of State laws by the municipal Governments.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

August 2, 1920	Fl.	1,046,619,820
August 21, 1921	»	958,172,865
Decrease	Fl.	88,446,955

2. *The influence of Government expenditure on currency.*

The Nederlandsche Bank acts as Government cashier. In this capacity it is bound by its warrant to advance a maximum of Fl. 15,000,000 to the State, free of interest. The State cannot, therefore, meet its other monetary requirements by direct application to the bank of issue. As a general rule, therefore, these requirements are met by the disposal of Treasury bills to the public (see I. 10). It is only in special cases that a method is employed which is in fact equivalent to the grant of a credit by the bank of issue, e.g. the discounting of Treasury bills by the Nederlandsche Bank through a private banking establishment. This method is only employed when it seems impossible to meet monetary requirements by disposing of Treasury bills to the public, and need not necessarily give rise to inflation. As a rule it is only employed as a provisional measure, not because the public is unwilling to take up more Treasury bills but because it is sometimes impossible to obtain quickly enough from the public the money indispensable for unexpected and important credit requirements.

It may thus happen that the ordinary monthly public subscription does not take place, because about the middle of the month payments are expected from a long-term loan. In order to meet Treasury bills in the hands of the public at the beginning of the month, the temporary assistance of the bank of issue has to be obtained. As these bills, taken over by the bank of issue, cannot be met at a moment's notice, it may happen, whilst Treasury bills are in the hands of the bank of issue, that the bills for public subscription are so far over-subscribed that only a portion of them can be delivered. This proves that the disposal of Treasury bills to the Nederlandsche Bank is not necessarily in the nature of an artificial creation of credit.

It may, therefore, be maintained that State expenditure has no direct influence on the note circulation. Moreover, the amount of Treasury bills which are placed with the bank of issue is generally not very great, and has recently shown a distinct downward tendency. The maximum since 1920 was reached in August, 1921, with Fl. 138,700,000, but since the end of January, 1922, it has seldom exceeded Fl. 50,000,000, and in recent months it has often only been about 6 millions.

3. *The repayment of floating debt and the effects thereof.*

The floating debt of the State was:

	(Florins, 000,000's omitted)	
	Jan. 2nd, 1922.	Aug. 21st, 1922.
Advances of the Nederlandsche Bank bearing no interest.	13.3	14.7
Silver bonds issued.	32.—	29.—
Due to the Postal Cheques service	31.—	54.6
Treasury bills, etc.	781.7	572.—
	<hr/>	<hr/>
Advances to colonies	858.6	670.3
Difference falling on the home country . . .	327.5	265.8
	<hr/>	<hr/>
Decrease	531.1	404.5
		<hr/>
		126,600,000

After January 1922, a State loan was issued, the proceeds of which amounted to Fl. 285,000,000, so that if no loan had been raised the floating debt would have been increased by Fl. 158,400,000.

This increase may be assigned to:

(a) Advances for the construction of dwelling houses, about . . .	82,500,000 florins
(b) Expenditure to meet the 1921 deficit on railways, about . . .	17,500,000 »
Total	<u>100,000,000 florins</u>

4. *Connection between the Government and the central bank of issue.*

The Nederlandsche Bank, which has never had other banks of issue in competition with it, was established by Royal Decree in 1814, and received a Charter for 25 years. This Charter was confirmed by Royal Decree in 1838 and prolonged for a further 25 years. At the end of this period, in 1863, the legal position was regularised for the first time. By the Law of July 25th, 1918, which was the last amendment to the Bank Law, it was laid down that the period for which the Nederlandsche Bank should be authorised to act as a bank of issue would continue until 1934.

The Nederlandsche Bank is a privileged central bank.

The fact that the Bank enjoys a monopoly leads to the following results:

- (a) The State is assured of certain advantages.
- (b) The State draws up regulations to which the Bank is obliged to conform.
- (c) The State retains a certain influence on the direction of the Bank.

(a) Whenever the Minister of Finance considers it necessary provisionally to strengthen the position of the Treasury, the Bank is obliged to make advances to the State without interest, which advances may not exceed the total of Fl. 15,000,000 at any given date.

The Bank is, however, freed from this obligation, if the State itself issues paper money, or if the excess of gold cover available is less than Fl. 10,000,000.

The State has a share in the profits. After paying a certain sum into the Reserve Fund and after the payment of bonuses to directors and employees, the Bank receives one-eighth of the remaining profits and the State seven-eighths.

This share in the profits would be excluded if the State were to accord to any other bank besides the Nederlandsche Bank the right to issue notes or if the State itself were to issue paper money. In accordance with Article 14 of the Bank Law, the Bank must act as cashier for the State and must also give its assistance in case it is decided to carry out any reform in the currency.

(b) Since 1888 the share capital has amounted to Fl. 20,000,000, a sum which may, with the consent of the Bank, be increased by law.

The Royal Decree of 1864 provides that the total amount of banknotes, bank drafts and balances on current account shall be covered to the extent of two-fifths by gold. The Royal Decree of August, 1914, reduced this proportion to one-fifth. On August 21st, 1922, the proportion was more than three-fifths.

Summarised balance sheets are published once a week in the Nederlandsche Staatscourant.

The smallest denomination of banknotes is Fl. 10.

(c) A Commissioner appointed by the Government supervises the operations of the Bank. The President and Secretaries are nominated by the Crown for a period of seven years.

It will thus be seen that the influence of the Government on the bank of issue is limited, and the Bank, as regards the policy it may see fit to pursue in the interest of Dutch finances in

general, is free from the control of the Government, which cannot, except in the case of the advances without interest of Fl. 15,000,000, require that any credits shall be granted to it.

Before the war the Nederlandsche Bank was, by an official undertaking of 1904, under an obligation to make gold deliveries in order to maintain the parity of exchange. In order to prevent the gold reserve leaving the Netherlands, as a result of the exceptional conditions which prevailed, a decree dated July 31st, 1914, forbade the exportation of gold currency or bullion.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

It may be pointed out that the Nederlandsche Bank applies the same conditions to the Treasury as it does to private individuals and firms when discounting paper. It may also be mentioned that the Nederlandsche Bank has progressively brought about a reduction in its rates of interest, as follows:

	From July 1st, 1915. Per cent.	From Oct. 19th, 1920. Per cent.	From June 22nd, 1922. Per cent.	From July 18th, 1922. Per cent.
Discounting of bills.	4 ½			4
Bills payable to order.	5			4 ½
Loans on internal securities	4 ½	5 ½	4 ½	4
Loans on foreign securities.	5	6	5	4 ½
Loans on goods	4 ½			4
Advances on current account.	5 ½	6 ½	5 ½	5

6. *The existence of any artificial control of exchange, with a description of its character and its effects. Are foreign holders of banknotes and credit balances treated differently from native holders ?*

No systematic control of the exchanges is exercised in the Netherlands. As a general rule, no distinction is made between foreigners and nationals.

7. *The causes and effects of deflation.*

In certain respects it may be said that deflation is taking place in the Netherlands in view of the rise in value of the florin as compared with the dollar and in view of the fall in the index number. A few figures are given below:

Dollar Rate :

August 1st, 1920	2.94½ florins
August 1st, 1922	2.58⅞ »

Index Numbers of retail prices in Amsterdam :

1913	100
May 1920	208.5
May 1922	139.7

However, deflation is very difficult to define, and the indications which might point to deflation are too much influenced by inflation among our Eastern neighbours for very definite consequences or causes to be pointed out.

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

(a) Repeal of the regulations to determine the place of origin of imported sugar and abolition of the special duty on sugar imported from countries which grant bounties on the production or export of this product. Royal Decree of June 9th, 1920 (as a result of the repeal of the Sugar Convention).

(b) Entry into force of Article 1c of the law of July 13th, 1914, in accordance with the Royal Decree of March 15th, 1922, which was modified by the decree of April 12th, 1922, in virtue of which, in certain cases, it is necessary to specify the country of origin of wines.

(c) Repeal of export prohibitions, based on the law of August 3rd, 1914, and modified by the law of June 3rd, 1918, except in the case of: gold, Netherlands bronze and nickel currency, trees and shrubs, butter and cheese (not marked with the Government stamp), arms and ammunition.

(d) Entry into force of the law in regard to the control of meat, restricting the import of meat.

(e) Entry into force of the law in regard to cattle which modifies the system of restricting the import and export of cattle and manures, and the control of the export of meat.

(f) Entry into force of the law regarding opium, regulation forbidding the import and export and transit of opium, opium derivatives and cocaine.

(g) Repeal by the law of May 19th, 1922, of the law of May 23rd, 1899, containing the regulations for the campaign against the *Sanfose coccidae*.

(h) Entry into force of a conditional prohibition on the importation or transit of potatoes from Great Britain by Royal Decree of September 7th, 1920 and by Royal Decree of December 9th, 1921.

2. *The existence (or abolition) of price discrimination against foreign trade.*

It may be pointed out that as a general rule no measures in the Netherlands are directed against foreign trade.

3. *The conclusion of: (a) commercial conventions; (b) transport conventions.*

In accordance with Article 18 of the Covenant of the League of Nations, the Netherlands Government has sent various communications to the Secretary-General of the League of Nations concerning the conclusion of treaties and other agreements. As regards commercial conventions and those communications concerning transport and communication, the following may be quoted here in continuation of the list published in the "Oranjeboek," 1920-21 :

1. Exchange of notes with France on July 26th and September 16th, 1920, concerning the putting into force again, between the Netherlands and France, of the International Convention dated October 14th, 1890, relating to the transport of goods by rail.

2. (178)¹. Exchange of notes with Bulgaria, dated September 23rd, October 30th, November 3rd and 13th, 1920, concerning goods of Dutch origin.²

3. (179). Exchange of notes with Spain on March 19th and 24th, 1921, concerning the prolongation for three months of the Declaration of July 12th, 1892, concerning the provisional regulation of commercial relations between the Netherlands and Spain.

4. (180). Exchange of notes with Spain on June 16th and 24th, 1921, concerning the provisional regulation of commercial relations between the Netherlands and Spain.

5. The Postal Convention concluded on October 15th, 1921, between the Netherlands and Belgium. The instruments of ratification of this Convention were exchanged at The Hague on December 16th, 1921.

6. Exchange of notes with Japan on November 12th, 1921, for reciprocal recognition of the rules regarding waterlines.

7. (259). Exchange of notes with Spain on December 30th, 1921, January 5th and 6th, 1922, concerning the putting into force of new regulations governing the commercial relations between the Netherlands and Spain.

8. Exchange of notes with Roumania on January 4th and February 20th, 1922, concerning the restoration, as between the Netherlands and Roumania, of the International Convention of October 14th, 1890, relating to the transport of goods by rail.

9. (260). Exchange of notes with Bulgaria on March 1st and 9th, 1922, concerning the drawing-up of new regulations to replace the agreement referred to in para. 2.

Apart from the Treaties submitted for registration by the Dutch Government, the Secretariat of the League of Nations has also registered the following international Treaties, to which the Netherlands were party:

1. (124). The Convention concluded on December 8th, 1920-January 18th, 1921, between the Netherlands and Great Britain and Ireland, for the modification of that which was concluded on February 13th, 1891-March 13th, 1899, concerning telegraphic communication between the two countries by means of direct submarine cables; the former Convention was ratified on March 26th, 1921.

2. (74-80). The Treaties and Agreements signed on November 30th, 1920 at the Universal Postal Congress in Madrid.

August 28th, 1922.

¹ The figures in brackets show the number under which the Treaty is registered with the Secretariat of the League of Nations, and under which it is mentioned in the Series of Treaties and International Engagements registered by the Secretariat of the League of Nations, a Series which is published by the Secretariat. We may also point out that the Treaties referred to as numbers 5 and 6 in the above-mentioned "Oranjeboek" have since been registered under numbers 97 and 112 respectively.

² The texts of the notes exchanged are published in the "Oranjeboek," 1920-1921, page 16.

New Zealand.

I. BUDGETARY MEASURES.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

All ordinary expenditure, including interest and sinking fund in the public debt, has been covered by ordinary revenue.

2. *Whether expenditure on armaments has been reduced.*

The annual expenditure on defence, armaments, etc., has been reduced by 40 per cent. Extraordinary expenditure for late war purposes is expected to be cleared in 1922-23.

3. *The extent of unproductive extraordinary expenditure.*

About 20 per cent. of loan expenditure is not directly productive, being spent on roads, public buildings, etc.

4. *The extent of productive ordinary expenditure.*

No productive services are provided for out of ordinary expenditure.

5. *The policy of the Governments in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

Between March 31st, 1920, and December 31st, 1921, cost-of-living bonuses to Government officials were granted amounting in the aggregate to £4,500,000. These charges have strained the Ordinary Revenue Account, which has since been adversely affected by the fall in prices and the drying up of taxable resources for revenue. A proportion of the amount of bonus so granted has, since January 1st, 1922, been cut off the remuneration of officials by special Act, entitled the "Public Expenditure Adjustment Act, 1921-22," which provides, also, for further reductions.

6. *The existence of subsidies on bread and other foodstuffs, coal and other materials.*

Flour subsidies amounting to £670,000, and butter subsidies, £550,000, have been paid.

7. *Charges for unemployment.*

No direct State charge has yet been made for unemployment, but expenditure on Government Public Works out of loans has been promoted to obviate this as much as possible. Legal financial provision has also been made to meet unemployment in any volume by promoting special works.

8. *The financial position of public undertakings.*

During the period mentioned, the railways have been unable to maintain their usual financial position, the expenditure having largely increased owing to grants to employees, betterment of working hours, importation of coal, increased cost of material, etc., while the revenue has decreased. Increased fares and freights have caused loss of traffic. Post and telegraph services, including telephones, have had somewhat the same experience, but not to such an extent. Financial assistance has been given to those ports dependent on coal production and exportation for revenue.

9. *The introduction of new taxation.*

At the beginning of 1921 the tariff regulating the customs charges on importations was amended — the first for very many years — and is estimated to produce an increased customs revenue, especially from the importation of luxuries.

10. *Methods of raising money by loans, whether by: (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation.*

Since 1920, loans have been raised by: (a) long-term loans in the London market; (b) short-term loans by the issue within the Dominion of securities at 5 to 10 years' currency.

11. *The influence of foreign loans and trade balances.*

The raising of loans in London has been an economical method of financing, in view of the country's heavy commitments in Great Britain for payment of interest and purchases of material after the war.

12. *The effect of local and provincial finance on the budget of the State.*

The effect of local authorities' finance on the State budget has not been directly felt. The liabilities of the first-named bodies have much increased through borrowing and overdraft accommodation by the banks, the restriction of which is now being dealt with by special legislation.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The notes in circulation of the banks in 1920-21 show as follows:—

Notes in circulation at 31-III-21.	£7,830,206
» » » » 31-III-22.	£7,510,451

2. *The influence of Government expenditure on currency.*

The decrease in Government post-war expenditure has assisted in reducing the outstanding note issue of banks, but otherwise it affects the currency only as any large trading business does.

3. *The repayment of floating debt and the effects thereof.*

The floating debt, as represented by Treasury bills, is repaid out of ordinary revenue, and no bills were outstanding at the close of the year ended March 31st, 1922. The issues are too small to have any effect on financial conditions.

4. *The connection between the Government and the central bank of issue.*

The Government has a considerable interest in the Bank of New Zealand, which is the principal bank of the Dominion and has the following capital:—

4 % Stock guaranteed by Government	£	529,988
Preference "A" Shares issued to the Government.		500,000
Preference "B" Shares issued to the Government		625,000
Ordinary shares held by the public		2,250,000

These preference shares confer no voting powers on the Government.

In addition to its shares, the Government has the right of appointing an auditor and four out of six directors of the Bank.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

The Government has no powers of restricting credit, except in so far as it has the power of restricting the rate of interest at which local bodies may borrow. The banks themselves place their own restrictions on the granting of credit. The Mortgages Extension Act prohibits the withdrawal of moneys held on "deposit" by trading concerns, a measure necessitated by the sensational fall in prices of produce for export and the abnormal accumulation of imports at the close of the war. "Deposits" are not claimed until 1924.

6. *The existence of any artificial control of exchange, with a description of its character and its effects. Are foreign holders of banknotes and credit balances treated differently from foreign holders?*

The exchange with other countries is regulated by the banks. Foreign holders of banknotes and credit balances are not treated differently from native holders.

7. *The causes and effects of deflation.*

Deflation has been operating for the last 18 months, due to the drop in the price of primary products, such as wool, meat, etc., on the London market. This has had the effect of deflating the values of land, which had much appreciated in price during the war owing to the high prices earned for produce under Imperial Government control.

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

During the war, exports of certain products, such as gold and hides, were prohibited, except by permission of the Government. The import or export duties were not affected, except as referred to in the "Budgetary Measures" paragraph.

2. *The existence (or abolition) of price discrimination against foreign trade.*

The price discrimination imposed on foreign trade is governed by the Preferential Customs Tariff in favour of imports from the British Empire.

3. *The conclusion of: (a) commercial conventions; (b) transport conventions.*

A commercial convention is in process of negotiation with Australia.

September 4th, 1922.

Norway.

The following main principles were established by the Brussels Conference:—

1. — *That public revenue and expenditure should be brought to balance.*

The budgets of the Norwegian Government have in all the previous years, except the last one, been made up so as to show, for the services provided for by the budget, a very material surplus. The last budget shows a small deficit, which, however, will be covered from the surplus of the previous years.

2. — *That governmental contributions, viz., to the railways and the post, food subsidies, etc., should be revoked.*

The Norwegian Railways are owned and operated by the Kingdom of Norway. The Post Office has recently shown a deficit, which is now being covered by increased rates. The Government no longer contributes to cheaper provisions, except to the very cheapest sort of flour intended for the poorest classes of the people.

3. — *That inflation in respect of both money and credit should be discontinued.*

A process of deflation has been going on for a long time, resulting in a steady decrease in the circulation of banknotes and in the loans made by the banks.

4. — *That trade should be released from all hampering restrictions.*

The control has gradually been removed. Only the purchase of corn is now placed under control.

May 31st, 1922.

Spain.

I. BUDGETARY MEASURES.

I. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

As the State accounts are made up for the economic year from April 1st to the end of March of the following year, the budget statement given refers to that period, and it is not possible to extract the figures for any shorter period within that year. The following are the figures for the years 1920-1921 and 1921-1922:

1920-1921.		Pesetas.
Total revenue		2,798,520,840.27
Total expenditure under all heads		2,682,089,159.52
Excess of revenue over expenditure		116,431,680.75
But in "total revenue" is included the proceeds from loans which amount to.	Pesetas 808,743,000	
And in "expenditure" are included repayments of Treasury liabilities amounting to	Pesetas 58,743,000	750,000,000.—
Resulting in an actual deficit in the budget of		633,568,319.25
1921-1922.		
Total revenue		4,362,169,961.61
Total expenditure under all heads		3,633,334,924.01
Excess of revenue over expenditure		728,830,037.60
But in "total revenue" is included the proceeds from loans which amount to.	Pesetas 2,026,047,000	
And in "expenditure" are included repayments of Treasury liabilities amounting to	Pesetas 197,064,000	
Which results in a net total of extraordinary receipts from loans amounting to		1,828,983,000.—
Resulting in an actual deficit in the budget of		1,100,152,962.40

2. *Whether expenditure on armaments has been reduced.*

The expenditure on armaments, which is paid out of the budgets of the Ministries of War and Marine, has not been reduced since 1920. The expenditure has, indeed, been considerably increased on account of the operations which are still being conducted in the Spanish zone in Morocco.

3. *The extent of unproductive extraordinary expenditure.*

The extraordinary non-reproductive expenditure is as follows:—

1920-1921.

Ministry of War.

	Pesetas
Increase in normal appropriations	16,843,767.08
Temporary services.	65,971,853.62
Operations in Morocco — increase	33,766,702.74
	<hr/>
	116,582,323.44

Ministry of Marine.

Increase in normal appropriations	23,988,150.00
Temporary services.	30,062,786.95
Operations in Morocco — increase	447,000.00
	<hr/>
	54,497,936.95

1921-1922.

Ministry of War.

Increase in normal appropriations	124,896,149.00
Temporary services.	80,107,342.00
Operations in Morocco — increase	440,474,360.74
	<hr/>
	645,477,851.74

Ministry of Marine.

Increase in normal appropriations	47,108,707.00
Temporary services.	48,579,068.00
Operations in Morocco — increase	333,200.00
	<hr/>
	741,498,826.74

4. *The extent of productive extraordinary expenditure.*

1920-1921.

Ministry of Education.	143,180,762.80
» » Public Works, Commerce, etc.	476,603,381.83
» » Labour.	18,584,558.90
Treasury	252,548,989.83
	<hr/>
	926,433,093.66

1921-1922.

	Pesetas
Ministry of Education.	157,835,413.89
» » Public Works, Commerce, etc.	535,894,387.99
» » Labour.	10,774,113.09
Treasury	50,560,817.02
Cost of collection of taxes	343,738,874.32
	1,098,803,616.31

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

In 1918 a law was passed fixing the new rates of salaries of public servants, in accordance with the increased cost of living. The effects of this law became apparent in the accounts for the year 1919-1920. No change has since taken place in the policy of the Government in this connection.

12. *The effect of local and provincial finance on the budget of the State.*

In the State budgets for the financial years 1920-1921 and 1921-1922, the effects produced by the reorganisation of local taxation as a result of the discontinuance of the payment to the State of its share in the "octroi" on food-stuffs, etc., and the participation of Town Councils in the land, town, industrial and commercial taxes, are as follows:

1920-1921.

	Pesetas
Loss to State on account of its previous share in the "octroi" on food-stuffs, etc.	2,500,000.00
20 % from previous land tax.	6,537,102.37
20 % from industrial tax	7,586,389.30
	16,623,491.67

1921-1922.

Provisional Data.

Minimum loss due to State on account of its previous share in the "octroi" on food-stuffs, etc.	8,500,000.00
20 % from land tax	6,550,000.00
20 % from industrial tax	10,000,000.00
	25,050,000.00

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The fiduciary circulation in June 1920 was 3,872,142,650 pesetas and at the end of April last 4,179,062,250 pesetas, *i.e.*, an increase of 306,919,500 pesetas.

2. *The influence of Government expenditure on currency.*

The budget deficit, that is, the excess of payments made over actual revenue, has necessarily influenced the circulation, and must indeed be recognised as one of the chief causes of the increase therein.

3. *The repayment of floating debt and the effects thereof.*

The loans raised since 1920 remain outstanding in some form or another, with the exception of 129,209,000 pesetas of that of November 4th, 1921, which were covered directly by Treasury funds and never placed on the market.

4. *The connection between the Government and the central bank of issue.*

The relations between the Government and the central bank of issue from January 1st of the current year are governed by the Banking Law of December 28th, 1921, which extended the privilege enjoyed by the Bank of Spain by 25 years, *i.e.*, until December 31st, 1946. This law authorises a note circulation up to a maximum sum of 6,000,000,000 pesetas on certain conditions, and against certain defined metallic reserves. Facilities are given for granting credits for commercial undertakings. The Bank is obliged to make grants to the Treasury up to 350,000,000 pesetas, and the State participates in the Bank's profits.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

In July 1920, the Bank of Spain fixed the discount rate at 5% and the rate for loans at 4 to 5%. At present the discount rate is 5½% and the rate for loans 4½% to 5½%. The increase in rates was imposed with a view to restricting credit operations. This had already been done previously in connection with re-discounts, which, during a certain period, were at the rate of 6%, and now, since May 15th last, have been reduced to 5½%.

6. *The existence of any artificial control of exchange, with a description of its character and its effects. Are foreign holders of bank-notes and credit balances treated differently from native holders?*

The foreign exchanges have not been artificially fixed. Dealings are uncontrolled, except for certain precautionary measures such as, for instance, that quotations for foreign exchange can only be made at certain fixed hours of the day. No distinction is made between foreigners and nationals.

7. *The causes and effects of deflation, if existing.*

As already stated in paragraph (1) the fiduciary circulation has been increased since 1920 up to the present by 306,919,500 pesetas, and consequently no deflation has taken place.

III. COMMERCIAL POLICY.

I. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

The provisions laid down with reference to these measures in the period in question were as follows:—

In 1920:

Royal Decree of August 5th — allows paper for printing to be imported duty free;

Royal Decree of August 5th — re-establishes import duties on zinc in the form of bars, ingots, and slabs, or of objects rendered unserviceable; these were previously duty free;

Royal Decree of August 6th — imposes a duty of 20 pesetas per ton on pine-wood posts for building;

Royal Decree of August 12th — allows sized paper to be imported duty free;

Royal Decree of October 26th — allows cement to be imported duty free, and imposes on it an export duty of 5 pesetas per 100 kilos;

Royal Decree of November 26th — increases the customs duties on the importation of various commodities regarded as luxuries;

Royal Decree of December 16th — reduced the export duty on rice, which was formerly 20 pesetas, to 10 pesetas per 100 kilos.

In 1921:

Royal Decree of January 12th — authorises the export from the Canary Islands of different varieties of English potatoes during the period March-June 1921 to an amount double that imported from November 1920 to March 1921;

Royal Decree of February 12th — abolishes the export duty of 10 pesetas per 100 kilos on rice;

Royal Decree of March 17th — abolishes the duty of 2 pesetas per 100 kilos hitherto imposed on exports of linseed cake and other kinds of oil-cake;

Royal Decree of March 26th — re-imposed import duties on paper, and reduced the duties on paper imported for newspapers and magazines;

Royal Decree of March 30th — re-imposed the customs duty of 60 pesetas per 100 kilos on the importation of sugar, in place of the reduced duty of 35 pesetas on the same quantity which had previously been in force;

Royal Decree of April 6th — re-imposed the customs duties on the importation of wheat and wheat flour, which had previously been duty free;

Royal Decree of April 6th — authorised the export of early potatoes up to the amount of 40,000 tons, on payment of a duty of 10 pesetas per ton;

Royal Decree of April 6th — authorised export of lentils up to 3,000 tons on payment of a duty of 15 pesetas per 100 kilos;

Royal Decree of April 14th — authorises the free export of paper, pasteboard and cardboard, which had previously been prohibited;

Royal Decree of April 20th — authorises the export of 20,000 tons of olive oil, with a duty of 20 or 25 pesetas per 100 kilos (according to whether it is in tins or bottles or in barrels), such export being subject to the system of export licences previously granted to producers;

Royal Decree of April 28th — authorised the export of chick-peas up to an amount of 4,000 tons, on payment of a duty of 2 pesetas per 100 kilos.

Royal Decree of April 28th — authorised the export, on payment of duty, of droves of horses, mules and asses;

Royal Decree of April 28th — authorised the general export, on payment of duty, and with limitations as to quantity, of tanned hides and footwear, the export of which had only been allowed under special permit;

Royal Decree of April 28th — authorised the export of French beans up to an amount of 4,000 tons, on payment of a duty of 3 pesetas per 100 kilos;

Royal Decree of May 3rd — re-imposed customs duties on the import of cement, and authorised the free export of the same up to an amount of 100,000 tons;

Royal Decree of May 17th — approved the tariff which had been in force provisionally up to the previous February;

Royal Decree of June 2nd — authorises the export of sugar to an amount of 25,000 tons for a period of eight months;

Royal Decree of June 17th — re-imposes customs duties on the importation of herds of cattle and on meat, which previously had been free of duty;

Royal Decree of July 2nd — authorised the free export of olive oil up to an amount of 30,000 tons, and abolished the special duty on the 20,000 tons authorised under the licence system;

Royal Decree of July 11th — reduces the export duty on pine-wood building posts to 4 pesetas per ton;

Royal Decree of July 12th — established a new general exports system, modifying that laid down by the Royal Decree on Supplies of January 5th, 1920, removing various articles, chiefly chemical products, from the prohibited list; this Decree allowed other articles, the export of which had been subject to conditions, to be freely exported, and included in a single legal document the various individual provisions previously in force with regard to exports;

Royal Decree of July 14th — permitted the export of English varieties of potatoes from the Canary Islands to be continued after the appointed period, which expired at the end of June.

Royal Decree of July 15th — laid down regulations and extended the scope of the reduced customs duties on paper imported for the press;

Royal Decree of July 16th — re-imposed customs duties on the import of coal, which had previously been duty free;

Royal Decree of October 7th — removed all duties on ships' bunting for a period of six months.

Royal Decree of October 15th — authorised free export of 18,000 tons of olive oil, which could not be exported under the licence system;

Royal Decree of October 22nd — authorised the valuation, under the tariff existing prior to May 17th, of parts of machinery, hand-made goods and tools and utensils ordered before that date;

Royal Decree of October 27th — re-imposed tariffs on the import of the following articles, which had been duty free: rice, live and dead birds and small game, millet, durra or sorghum, maize, cereal flour, vegetables and dried vegetables, potatoes, undressed hemp and dressed hemp, tow, pulp for the manufacture of paper, wood for the manufacture of paper pulp and charcoal, and imposed a duty of 2 pesetas per 100 kilos on the import of barley and other cereals named in Section 625 of the customs tariff, and a duty of 4 pesetas per 100 kilos on chick-peas;

Royal Decree of November 8th — prohibits the import of wheat and wheat-flour;

Royal Decree of December 3rd — allows the export of white cloth made from vegetable fibres, which had previously been prohibited;

Royal Decree of December — allows free export of olive oil;

Royal Decree of December 6th — authorises the export of mineral fuel;

Royal Decree of December 7th — abolishes the export duty on pine-wood building posts.

Royal Decree of December 20th — prohibited the import of goods of French origin into the Canary Islands, Ceuta and Melilla.

In 1922:

Royal Decree of February 12th — introduced the tariff at present in force;

Royal Decree of March 28th — imposes, when the prohibition on the import of wheat has been removed, customs duties of 42 pesetas per 100 kilos for the first column of the tariff and 14 pesetas on the same quantity for the second column of the tariff.

2. The existence (or abolition) of price discrimination against foreign trade.

The method of coefficients to compensate for depreciation of foreign currency has been duly employed by the Spanish Government with a view to protecting national industry from the ruinous competition of countries which, owing to the depreciation of their currency, are able to sell their goods in Spain at excessively low prices. The measure was first adopted by Royal Decree dated June 3rd, 1921; was annulled later by Decree of February 20th, 1922, and was re-enacted by Royal Decree of May 29th last, as the circumstances which had originally justified it still existed, and had indeed assumed an intensified form.

3. The conclusion of: (a) commercial conventions; (b) transport conventions.

A Committee is at present dealing with the conclusion of commercial agreements with various countries. It has already concluded agreements with Italy and Switzerland, and is now negotiating treaties with Norway, the Netherlands, England, Germany and France.

MADRID, *June 3rd, 1922.*

Sweden.

I. BUDGETARY MEASURES.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*
2. *Whether expenditure on armaments has been reduced.*
3. *The extent of unproductive extraordinary expenditure.*
4. *The extent of productive extraordinary expenditure.*

The general development of the budget since 1920 is shown in the following table, which gives some of the chief figures in the budgets and supplementary estimates for the years 1920-22. Under "Revenue" separate figures are given for proceeds of loans and for surplus balances from previous years, while all other sources of revenue have been brought together under the one heading: "Real Revenue." Expenditure, on the other hand, has been divided into two main groups, namely, "Real Expenditure" and "Expenditure for capital purposes." Real Expenditure has been subdivided into "Expenditure for national defence" and expenditure for other purposes.

	Kronor (000,000's omitted)		
	1920	1921	1922
<i>Revenue.</i>			
A. Taxation, etc.	619.3	682.7	652.8
B. Surplus balances from previous years	124.2	206.2	185.5
C. Proceeds of loans.	185.9	229.4	99.6
Total.	929.4	1,118.3	937.9
<i>Expenditure.</i>			
A. Real Expenditure:			
(a) Defence	197.9	199.-	163.6
(b) Other real expenditure	505.5	586.6	572.9
Total real expenditure	703.4	785.6	736.5
B. Expenditure for capital purposes.	225.9	332.6	201.4
Total.	929.3	1,118.2 ¹	937.9

¹ Including 10 million kronor of relief loans granted to distressed countries.

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living and the effects of this policy on budget conditions.*

On account of the rise in prices after the outbreak of the world war, various increments were from time to time granted to Government officials. From 1919 onward, these increases have been based on a different system from that previously employed. Fixed increases were abolished and allowances based on a sliding scale were introduced.

The new system aimed at the periodical and automatic regulation of cost-of-living increments in accordance with fluctuations in the cost of living. The cost-of-living increment is calculated from a so-called "basic figure" (*grundtal*), which is applied integrally in the case of salaries below a certain fixed limit, but for larger salaries is reduced according to a fixed scale. Certain increases in cost-of-living bonuses as a whole were granted by the Riksdag in 1920 and the position of officials supporting families was also improved by an extension of the regulations so as to enable them to obtain bonuses according to the unreduced "basic figure."

As a result of the fall in prices which set in at the end of 1921, considerable reductions were made by the Riksdag in 1921, but the main principles followed in 1919 and 1920 for determining the cost-of-living increment remained unchanged. The main feature of the amendments referred to was a general reduction of the cost-of-living increment itself by the lowering of the "basic figure," and in addition a special reduction in the case of persons not supporting families.

The main principles governing cost-of-living increments in 1922 are based on the Riksdag's decisions of 1921.

The following figures show the obligations assumed by the State on account of increases in salaries. They include the amounts granted by the Riksdag for 1920, 1921 and 1922 for cost-of-living increments to officials of the State and of certain subsidised bodies and to persons receiving pensions.

The amounts do not, however, include the increases granted to persons employed in the public undertakings (Post, Telegraphs, Railways, Waterworks and Public Domain), as these increases are directly charged to those undertakings among other working expenses and do not appear in the general budget.

	Kronor (000,000's omitted)
1920	187.3
1921	184.8
1922	108.0

6. *The existence of subsidies on bread and other food-stuffs, coal and other materials.*

The budgets for 1920 and 1921 include appropriations amounting to 5,000,000 and 2,000,000 kronor respectively for improving the position of poor people. No appropriation for that purpose was included in the budget for 1922.

7. *Charges for unemployment.*

The grants for dealing with unemployment were increased considerably in 1921 and 1922. A part of the grant was applied for the direct relief of unemployment and another part was used to provide emergency relief work. The Government placed orders with private firms in order to diminish unemployment and work was also started by the State telegraphs, railways and waterworks. The total sums granted for unemployment relief in 1921 and 1922 amount to 44.5 and 93.0 million kronor respectively.

8. *The financial position of public undertakings.*

The following table shows for the years 1920 und 1921 the revenue, expenditure and balances for public undertakings and also the average yearly invested capital. The public undertakings include posts, telegraphs and telephones, railways, waterworks, and State domains.

(Kr. 000's omitted)

	Invested capital (Average for the year).	Result of the year's working			Surplus or deficit as % of invested capital
		Receipts	Working expenses	Actual surplus (+) or deficit (-)	
1920					
Post	21,262.3	64,706.7	69,480.7	- 4,774.-	- 22.45
Telegraphs	196,787.2	90,125.2	79,640.7	+ 10,484.5	+ 5.33
Railways	984,297.6	343,017.9	313,434.9	+ 29,583.-	+ 3.01
Waterworks	209,873.5	17,113.2	10,632.6	+ 6,480.6	+ 3.09
State Domains.	447,178.1	69,369.3	42,971.1	+ 26,435.2	+ 5.91
Total.	1,859,398.7	584,369.3	516,160.-	+ 68,209.3	+ 3.67
1921					
Post	20,577.8	76,294.2	65,892.5	+ 10,401.7	+ 50.54
Telegraphs	212,494.6	99,682.5	80,608.7	+ 19,073.8	+ 9.-
Railways	1,036,480.2	257,244.4	250,015.7	+ 7,228.7	+ .70
Waterworks	252,802.3	16,453.5	10,383.2	+ 6,070.3	+ 2.40
State Domains.	452,618.1	28,400.-	35,400.-	- 7,000.-	- 1.55
Total.	1,974,973.-	478,074.6	442,300.1	+ 35,774.5	+ 1.81

9. *The introduction of new taxation.*

The main changes in State taxation since 1920 are as follows:

The income and property taxes, which in 1920 were fixed at 155 % of the established basic tax, were fixed at 175 % for 1921 and 1922.

In the 1921 session of the Riksdag increased customs duties were placed on articles of luxury, and in the following year the tax on coffee was raised. Since 1920 higher taxes have been placed on intoxicating liquor and on tobacco.

10. *Methods of raising money by loans, whether by: (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation.*

(a) *Long-term loans (new loans):*

During the last six months of 1920	2.1 million kronor.
During 1921	158.7 " "

(b) *Short-term loans in the open market (total loans):*

June 30th, 1920	100 million kronor.
December 31st, 1920	93.7 " "
December 31st, 1921	77.6 " "

To the above must be added the State credit in certain private banks for the purpose of financing the war-time commissions, which amounted to 550 million kronor. This credit was definitively closed in August 1921.

(c) The above-mentioned short-term loans in the open market have not been raised by means of further note issues.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The note circulation has considerably decreased since the summer of 1920. The decrease is shown by the figures given in the following table setting forth the average note circulation for the last month of each quarter as from July 1920, and also the corresponding index figure of the circulation calculated according to a method devised by Professor Gustav Cassel. The table also includes the official wholesale price index during the same months.

	Note Circulation		Index for wholesale prices (Kommerskollegium)
	Absolute Kr. (000,000's omitted)	Index (Professor Cassel's method)	
1920			
July	704.1	323.9	376
September	744.3	323.3	370
December	734.6	317.5	306
1921			
March	684.2	304.2	239
June	644.6	285.2	223
September	630.1	271.7	201
December	602.0	258.3	188
1922			
March	579.5	255.7	178
April	583.2	261.3	

3. *The repayment of floating debt and the effects thereof.*

The repayment of the floating debt, which amounts to 168.2 million kronor, has been effected in the following way:

	Kronor (000,000's omitted)
Repayment to private banks of the balance of the so-called State credit of 550,000,000 kronor for the purpose of financing war commissions.	145.6
Payment to the Public Treasury of surplus funds from the State War Insurance Commission and repayment of various loans	9.4
Redeemed Treasury bills	13.2
Total	168.2

The State credit granted by private banks for the financing of war commissions was paid up in full in August 1921. The great reduction of the floating debt betokens the departure of war conditions. The remainder of the floating debt in 1921 consisted of various funds deposited with the Debt Commissioners and also of Treasury bills. The Treasury bills are still issued in order to maintain or extend the circle of financiers who are willing to invest their money in this way and in order to obtain a larger market at home for State loans. By December 31st, 1921, surplus State funds amounting to 355,000,000 kronor had been placed with the Public Debt Commissioners; of these funds there remained on May 31st, 1922, 185,000,000 kronor.

On the credit side the Public Debt Commissioners possessed on December 31st, 1921, a bank account of 317.7 million kronor and also a temporary credit amounting to 100.2 million kronor due to expenditure incurred through various loans.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

The "rationing" of capital, which was carried on under the management of the State Bank, has now been abolished.

6. *The existence of any artificial control of exchange, with a description of its character and its effects. Are foreign holders of bank-notes and credit balances treated differently from native holders?*

No attempt has been made to limit the fluctuations in the rate of exchange by imposing artificial control on exchange operations. Moreover, foreign holders of bank-notes and credit balances have been treated according to the same regulations as those in force for nationals.

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

As regards international trade, the Government has completely restored the conditions of freedom which prevailed before the war. Only for sugar the importation monopoly and the maximum prices fixed by the Government remain in force until June 30th, 1923.

2. *The existence or abolition of price discrimination against foreign trade.*

No artificial restrictions have been imposed in connection with foreign trade nor has there been any discrimination between prices at home and abroad.

3. *The conclusion of (a) commercial conventions; (b) transport conventions.*

(a) *Commercial Conventions.*

1. Agreement with Bulgaria for the establishment of the "most-favoured-nation" treatment between the two nations, from April 14th, 1921, to August 9th, 1921. On September 30th,

1921, it was arranged that this agreement should be extended indefinitely, three months' notice of termination being given on either side.

2. Agreement with Esthonia concerning the measurement of tonnage, dated December 1st, 1920.

3. The commercial treaty with Spain, dated June 27th, 1892, terminated as from March 20th, 1921, was later prolonged until June 20th, 1921. As from this date the treaty was replaced by an agreed *modus vivendi*. It was finally agreed on December 29th, 1921, that the new Spanish tariff should, from the date of its application to other countries, apply equally to merchandise coming from or produced in Sweden.

On December 16th, 1920, the Swedish Government gave notice of its desire to terminate the Swedish-German commercial treaty of May 2nd, 1911.

On April 18th, 1921, the Roumanian Government gave notice of its desire to terminate the Swedish-Roumanian treaty of March 3rd, 1910.

(b) *Transport Conventions.*

1. Agreement with the British Government concerning private and commercial aircraft, dated February 16th, 1921.

2. Exchange of letters with the French, Belgian, Italian and Roumanian Governments renewing the Convention of Berne of October 14th, 1890, concerning the transport of merchandise by rail.

June 1st, 1922.

Switzerland

I. BUDGETARY MEASURES TAKEN BY THE SWISS FEDERATION (EXCLUDING CANTONS AND MUNICIPALITIES).

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

In the 1921 and 1922 budgets, the ordinary expenditure (including the service of interest of the debt) was covered as follows:

	1920 Francs	%	1921 Francs	%
Ordinary expenditure ¹	287,510,759	100	301,439,299	100
Ordinary revenue ¹	165,994,700	57.7	211,288,625	70
Proceeds of loans	121,516,059	42.3	90,150,674	30

2. *Whether expenditure on armaments has been reduced.*

The credits voted for armaments were reduced from 84,580,519 francs in 1921, to 80,930,107 francs in the budget for 1922.

3. *The extent of unproductive extraordinary expenditure.*

1920	1921
Fr. 135,361,168	Fr. 169,579,372

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

The personnel of the Federal Government received the first increases in their salaries on account of the high cost of living in 1916, although prices had risen 20 % by December 1915. Higher increases were granted each year until 1920, from which time they remained almost unvaried until the first half of 1922.

¹ Not including public undertakings.

The allowances granted included certain so-called principal allowances, applied to all officials in varying proportions according to their 1914 salaries, family allowances to married officials, allowances for children under 16 years of age and, finally, residence allowances, a contribution according to a scale based on the population of the district in which the official is stationed.

The principal allowances have been changed from time to time by means of new legislation, but they have not been automatically variable according to any price index numbers. The increases have been very different in different grades. In 1920 and 1921, the lower grades received an increase that was proportionately higher than the rise in the cost of living; the higher grades, on the contrary, did not receive full compensation for the increased cost.

A married official without children, living in Berne, whose salary in 1914 amounted to 1,400 francs received in 1921 3,900 francs or an increase of 178.6 %, while such an official whose salary in 1914 was 10,300 francs received 15,800 francs or an increase of only 53.4 %.

On May 16th, 1922, the Federal Council made a proposal for the revision of the cost-of-living allowances, according to which the increases granted to all officials for the second half of 1922 will be diminished. The normal increases will be 70 % or about the same as the increase in the retail price level. For salaries lower than 3,000 francs a year the increase is somewhat greater (up to 140 %), and for salaries above 4,000 francs a year somewhat lower. But even so, the new scale corresponds more closely to the proportion between the salaries of different grades prevailing before the war than did the previous systems.

6. *The existence of subsidies on bread and other food-stuffs, coal and other raw materials.*

Milk.— During and after the war the Federal Council endeavoured to provide the population at reasonable prices with the fresh milk and milk products (cheese and butter) which were necessary for its subsistence. In 1916 the Federation concluded an agreement with the associations of milk producers, under which it gave them subsidies intended to cover their additional expenditure (general subsidy for milk consumed, subsidy for milk supplied from the territory of one association to the territory of another, special allowance for milk supplied to large towns and for certain transport charges, etc.). The sums needed for this purpose were taken from the export duties on milk products and from the State share in the profits of the Swiss Union of Cheese Exporters, a semi-official body formed with the support of the Federal Council. This relief work of the Federation has not yet entirely ceased.

We will not enumerate here all the Decrees of the Federal Council, nor all the Departmental decisions in connection with the question of the price of milk and milk products, but reference may be made to Reports Nos. XIV, XV, XVI, XVII and XVIII of the Federal Council on the measures taken by virtue of plenary powers. We will confine ourselves to noting that the Federal subsidies were adjusted to the fluctuations of the market and that they varied on an average between 1 and 4 centimes per kilo.

The following table shows the amounts of the monthly Federal subsidies paid since May 1920:

1920	Francs
May	448,641.95
June	442,807.85
July	431,540.35
August	423,873.05
September	407,330.80
October	603,426.70
November	527,525.—
December	642,551.25

3,927,696.95

From January 1st to April 30th, 1920, the subsidies amounted to 9,452,062.75 francs.

1921	Francs
January	632,642.50
February	568,063.45
March	628,632.70
April	675,699.90
	2,505,038.55

In April of this year, subsidies of 1 centime per litre of fresh milk supplied for consumption were discontinued, save in certain large towns in which it was difficult to maintain the milk supply. The following subsidies were granted from May 1st to December 31st, 1921: Basle, Fr. 253,849.25; Zurich, Fr. 312,927.80; Winterthur, Fr. 64,471.35; Schaffhausen, Fr. 43,599; Coire, Fr. 19,251.75; a total of Fr. 694,098.15. The necessary funds were derived from the profits made in the butter trade.

On the other hand, by a Decree of April 7th, 1922, Parliament gave the Federal Council a credit of 20 million francs for the carrying out of relief work in favour of Swiss milk producers. The Federal Council was instructed to place this sum at the disposal of the milk producers' organisations, in order to allow of a further decrease in cheese prices corresponding to the fall in the price of milk, while placing these organisations in a position to take delivery, under conditions previously agreed upon, and to provide for the utilisation of cheese manufactured before the coming into force of the new reductions. Under the same Decree, the Federal Council is authorised to collect duties on exported milk and cheese, in order to cover the sums voted by the Federation for this relief work in so far as they might exceed 5 million francs. Under an Agreement concluded on January 20th, 1922, with the Central Union of Milk Producers, the Federation had already consented to grant a subsidy of 12,338,482 francs — representing that part of the profits which the State had previously received from the Swiss Union of Cheese Exporters. For further details reference may be made to the report of the Federal Council to the Federal Assembly of February 2nd, 1922, on the country's supplies of milk and milk products from February 1st to April 30th, 1922, and also to the message of the Federal Council to the Federal Assembly dated March 24th, 1922, and to the Federal Decree of April 7th, 1922, referring thereto, concerning the relief work in favour of Swiss producers of milk.

Lastly, the Federation has granted monthly subsidies direct to the Cantons until the last few months, in order to enable persons of small income to obtain fresh milk cheap (milk at a reduced price). The maximum amount of the Federation's contribution to this relief work was fixed at 6 centimes per litre from April 1st, 1920. Furthermore, reduced prices were granted for the following quantities of milk: children less than 7 years of age 1 litre, adults 5 decilitres per day.

The expenditure on relief work amounted to the following sums from the month of June 1920:

1920	Persons benefiting (round figures)	State Subsidies Francs
June	292,000	293,556.31
July	257,000	259,725.97
August	192,000	196,085.71
September.	183,000	147,362.91
October.	134,000	138,709.51
November.	131,000	134,957.37
December.	128,000	133,872.34

1921	Persons benefiting (round figures)	State Subsidies Francs
January	126,000	135,274.38
February	116,000	129,855.69
March	124,000	133,630.69
April	55,000	56,986.18
May	52,000	53,753.98
June	51,000	51,098.68
July	41,000	43,561.12
August	36,000	40,042.28
September	37,000	38,570.96
October	36,000	38,702.10
November	36,000	37,500.69
December	37,000	38,161.85

Since August 1921, this relief work has only been continued in a few Cantons. In view of the fall in milk prices, the maximum amount of the Federal subsidy was reduced in January 1922 from 6 to 3 centimes per litre. At the same time, the duration of this measure was limited to April 30th, after which date the State subsidies were to cease.

Bread. — During and after the war one of the chief tasks of the State in the economic sphere was to provide for the country's supply of cereals. The Federal Council's Decree of January 9th, 1915, created for that purpose the cereal monopoly, which is still in existence. In order to prevent too high a rise in the price of bread, the Federation made great sacrifices by supplying cereals for bread-making to Swiss producers at less than cost price. The amount spent for this purpose from June 30th, 1920, to June 30th, 1922, was approximately 82 million francs.

The Federation has also given financial assistance to the Cantons in respect of the supply of bread at reduced prices to the poor. For this purpose it granted monthly subsidies, the rate of which was 9 centimes per kilogramme of bread, from June 1st, 1920. The daily ration was 250 grammes, but the Cantons had the option of granting only 125 grammes for each child under two years of age. The following table gives some information as to relief work since June 1920:

1920	Persons benefiting (round figures)	State Subsidies Francs
June	334,000	209,181.01
July	280,000	172,090.17
August	219,000	137,325.89
September	163,000	99,549.02
October	144,000	88,768.07
November	143,000	88,462.86
December	136,000	84,231.95
1921		
January	135,000	83,818.65
February	126,000	82,214.54
March	134,000	85,491.24
April	63,000	40,374.09
May	58,351	37,181.27
June	57,000	37,432.47

The supply of bread at reduced prices was abolished as from June 30th, 1921.

11. *The influence of foreign loans and trade balances.*

On July 1st, 1920, the Federation floated a loan in America of 25 million dollars. This operation has certainly exercised an influence on the exchange with New York, the dollars borrowed having for the most part been used for payment of goods bought in America.

12. *The effect of local and provincial finance on the budget of the State.*

The finances of the Municipalities and Cantons have no *direct* influence on the budget of the Federation, but the Federation must nevertheless, in its measures to restore the balance of its budget, take into account the very weak financial position of the Municipalities and Cantons.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The total of the notes of the central bank in circulation decreased from:

1,023,712,430	francs	at the end of 1920, to
1,009,363,735	»	at the end of 1921, and to
781,791,360	»	at the end of May 1922.

2. *The influence of Government expenditure on currency.*

3. *The repayment of floating debt and the effects thereof.*

The progressive repayment of three-month Government Bonds has resulted in the diminution of the bank-note circulation.

4. *The connection between the Government and the central bank of issue.*

The connection between the Government and the central bank of issue is regulated by the Law of April 7th, 1921, regarding the Swiss National Bank.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

The rate of discount of the central bank was fixed during the whole of 1920 and until April 7th, 1921, at 5 %; on the latter date it was reduced to 4½ %. On August 12th, 1921, the rate underwent a further reduction and fell to 4 %, and on March 3rd of this year it was fixed at 3½ %.

6. *The existence of any artificial control of exchange, with a description of its character and its effects.*

There is no artificial control of exchange in Switzerland; and no difference in the treatment of foreigners and Swiss subjects.

III. COMMERCIAL POLICY.

I. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

A. *Prohibitions and Restrictions of Imports.*

(a) In order to prevent unemployment and to protect home production at a time when it was gravely menaced, Parliament, in a Decree dated February 18th, 1921, authorised the Federal Council, as an exceptional and temporary measure, to limit or subject to a permit the import of goods. For further details reference may be made to the messages of the Federal Council to the Federal Assembly of January 24th and September 23rd, 1921, and May 19th, 1922.

In Decrees dated March 14th, April 5th, April 29th, May 24th, July 15th, July 19th, September 16th, November 16th and December 5th, 1921, and February 14th, 1922, the Federal Council made use of the powers granted by Parliament and made the importation of the goods specified in these decrees subject to obtaining a permit.

Reference should be made also to the eight reports presented by the Federal Council to the Federal Assembly dated April 5th, April 8th, May 13th, June 20th, September 12th, September 20th and December 19th, 1921, and March 3rd, 1922, on the measures taken by virtue of the Federal Decree of February 18th, 1921, concerning the restriction of imports.

The majority of the restrictions apply only to the Swiss-German and Swiss-Austrian frontiers. In order to reduce to a minimum the restrictions which it has been necessary to place on the entry of goods into Switzerland, a large number of general authorisations for importation have been decreed as regards goods entering by the Franco-Swiss and Swiss-Italian frontiers. A list of commodities the importation of which is subject to special authorisation was drawn up by decision of the Federal Department of Public Economy, dated June 3rd, 1922. This list sets out the commodities and frontiers to which the general authorisation for importation applies.

The restriction on the importation of wine decreed on April 8th, 1921, ceased to be applied as from July 1st, 1922.

The importation of gwyniads (fish) from the Lake of Constance was only restricted between September 16th and December 15th, 1921. Finally, a general authorisation for importation over the Swiss-German and Swiss-Austrian frontiers was granted on June 3rd, 1922, in respect of gloves and machine-made stockings. These articles can, until further notice, be freely imported into Switzerland.

(b) By a Decree dated October 4th, 1920, the importation of five-franc pieces of the *Latin Union* was forbidden. This measure was rendered necessary by the considerable influx of silver which was taking place and which could be described as a systematic importation of minted silver. This exceptional importation of five-franc pieces threatened to become harmful to the country. In accordance with the liquidation clauses of the Monetary Convention, the contracting Governments are only bound to exchange the crown pieces struck in their respective countries for gold up to a certain sum. Another reason for which the importation of these five-franc pieces was considered undesirable was that they were for the most part extremely soiled and damaged. Finally, it was considered that the Swiss market was sufficiently supplied with five-franc silver pieces. (See Report XV of the Federal Council on the measures taken by virtue of plenary powers.)

For the same reasons, the entry into Swiss territory of the *small Belgian silver coins of two*

francs, one franc and fifty centimes was also prohibited by the Decree of the Federal Council dated November 2nd, 1920.

(c) The importation of *butter, cream and cheese* is subject to a permit. The importation of single consignments not exceeding 50 kilogrammes (formerly 5 kilogrammes) is, however, free at present.

(d) The free importation of coal was re-established on May 2nd, 1921. The importation of gas coke, of waste coke and of all kinds of waste products derived from the combustion of gas coke, which was provisionally subject to a permit, has also been free since the end of last year.

(e) The majority of the import monopolies, created as a result of the war, have been suppressed since the summer of 1920.

1. The import monopoly on *forage*, including barley, oats and maize, was gradually removed in the winter of 1920-1921. It ceased altogether to exist after the month of August 1921.

2. The import monopoly on *rice* came to an end on September 12th, 1921.

3. The import monopoly on *benzine and petrol* was removed on March 1st, 1922.

4. The import monopoly on *copper sulphate* came to an end on June 15th, 1922.

5. A Decree of the Federal Council of March 17th, 1922, removes the import monopoly on *sugar* as from September 30th at the latest.

Among the war-time import monopolies, the only one remaining is that on *cereals for bread making* (wheat, rye, hard wheat). (See the reports of the Federal Council to the Federal Assembly on the measures adopted by virtue of plenary powers.)

B. Prohibitions and Restrictions of Exports.

Since the summer of 1920 and even before, there has been a gradual abolition of all prohibitions on exports decreed by Switzerland during the war to ensure her supplies of foodstuffs, raw materials, semi-manufactured and manufactured goods, and to fulfil her international engagements.

At the end of 1920 the number of articles in the Swiss customs tariff coming within the competence of the Exports Bureau was estimated at 230. As regards 132 of these articles, exportation was completely free; as regards 26 it was partially free, while of 68 articles exportation was entirely prohibited. At present only the following goods are subject to export prohibition: waste products derived from iron works (Tariff No. 708); iron filings and old iron (Tariff No. 711); unwrought gold, silver and platinum (Tariff Nos. 869 a-c); minted gold (Tariff No. 869 d). Out of 1,164 customs items, three whole items and part of a fourth are still subject to export prohibition. In addition to minted gold, these consist of raw products indispensable to Swiss industry.

As regards foodstuffs, the only remaining restrictions on exportation are those in respect of fresh milk and hard cheeses in quantities exceeding 50 kilogrammes.

(For further details, see the decisions of the Federal Office for Food Supplies and 7th Department of Public Economy of June 12th, July 5th, July 24th, August 28th, September the, September 14th, September 23rd and November 1st, 1920, and January 7th, January 15th, February 24th, April 25th, June 25th and September 12th, 1921. These decisions relate to the restrictions on exportation which have been suppressed since the middle of the year 1920. See also the reports of the Federal Council on the measures taken by virtue of plenary powers.)

C. Abolition or Reduction of Import or Export Duties.

The import and export duties at present in force in Switzerland are fixed by the revised tariff of June 8th, 1921, which has replaced the general tariff of October 10th, 1920. The aim of

this new tariff, which is only provisional, has been to adapt the customs duties to the present economic situation.

In this connection it may be found interesting to compare the message of the Federal Council to the Federal Assembly of January 24th, 1921, concerning the provisional modification of the customs tariff and the restrictions on importation, and also the report of the Federal Council to the Federal Assembly dated July 15th, 1921, concerning the provisional revision of the customs tariff, in accordance with the Federal Decree of February 18th, 1921.

The duties figuring in the tariff of June 8th, 1921, have so far undergone only a few modifications. Some of them have, however, been reduced or even abolished by Decrees of the Federal Council dated October 10th and December 15th, 1921, and March 27th, 1922.

2. *The existence (or abolition) of price discrimination against foreign trade.*

There are no regulations in Switzerland allowing of discriminations in price.

3. *The conclusion of: (a) commercial conventions; (b) transport conventions.*

Switzerland concluded, in the month of April 1922, a commercial treaty with Spain replacing that of September 1st, 1906. (See the report of the Federal Council of May 12th, 1922, to the Federal Assembly concerning the new commercial treaty concluded between Switzerland and Spain.)

In addition, a commercial convention has been concluded recently between Switzerland and Poland. This convention is limited to general prescriptions and does not contain any tariff regulations. (See the message of the Federal Council to the Federal Assembly of June 27th, 1922, concerning the treaty of commerce concluded between Switzerland and Poland.)

Switzerland has not at present renewed its pre-war commercial conventions with other countries, and has not concluded any new ones.

No transport conventions have been concluded.

July 17th, 1922.

Union of South Africa.

I. BUDGETARY MEASURES

(Excluding Railways and Harbours).

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

<i>Ordinary Revenue.</i>	1920-21.	<i>Ordinary Expenditure.</i>
£ 29,676,185		£ 30,075,715
	1921-22.	
£ 28,863,169		
460,000 ¹		
<hr/>		
£ 29,323,169		£ 30,225,276

2. *Whether expenditure on armaments has been reduced.*

The expenditure on defence in 1920-21 from ordinary revenue was £1,264,710; in 1921-22, £1,340,049.

The 1921-22 figure would have been reduced by some £250,000 had it not been for the disturbances on the Witwatersrand in March 1922.

In 1920-21 a sum of £638,000. was spent by the Department of Defence from the Loan Account, of which £260,000 was for the purpose of increasing the capital of the Stores Account; the balance was largely expenditure in connection with returned soldiers.

In 1921-1922 this expenditure fell to £101,000.

3. *The extent of unproductive extraordinary expenditure.*

There is no unproductive extraordinary expenditure.

¹ Portion of surplus revenues for the year 1919-20 taken to assist the revenues of this year.

4. *The extent of productive ordinary expenditure.*

The only head of expenditure from ordinary revenue which might be regarded as productive is Posts, Telegraphs and Telephones. The expenditure (exclusive of interest on capital expenditure and certain free services) in 1920-1921 was £3,345,225 and in 1921-1922 £3,234,000. The revenues in these years were £2,785,138 and £2,892,225 respectively (excluding free postal services to other Government Departments).

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

The cost-of-living allowance to officials ceased on December 31st, 1921. In 1920-1921 the expenditure on this service was £1,770,000 and in 1921-1922 provision was made for £755,000.

6. *The existence of subsidies on bread and other food-stuffs, coal and other raw materials.*

During 1920-1921 the Union Government incurred net expenditure from Loan Account of £1,069,000 in the purchase and distribution of flour. Recoveries in respect of this expenditure to the extent of £430,000 were received in 1921-1922. It is estimated that a loss of £600,000 will result from this transaction.

7. *Charges for unemployment.*

In 1920-1921, £153,000 was provided for this service and £417,000 in 1921-1922.

8. *The financial position of public undertakings.*

(a) *Posts, Telegraphs and Telephones.* — The Post Office is not conducted as a separate entity. Taking free services rendered to and by other Government Departments, the year's working for 1920-1921 resulted in a loss of £634,000. Figures are not yet available for 1921-1922, but the result for that year is not likely to be materially different from 1920-1921.

(b) *Railways and Harbours, 1920-1921.* — The working for this year resulted in a net loss of £901,210; after providing £48,480 for pension funds and £100,000 for betterment and adding the debit balance brought forward from the previous year, the accumulated debit balance on the Revenue Account amounted to £2,598,833. Figures are not yet available for 1921-1922.

9. *The introduction of new taxation.*

1920-1921: *Customs Duties.* — Increased duty on sugar 1s. per 100 lb., from 5s. to 6s. Increased duty on tea 1d. per lb., from 5d. to 6d. *Excise.* — Sugar 1s. per 100 lb. On the other hand, the customs duty on apparel, woollen and cotton goods was decreased from 25 % *ad valorem* to 20 %.

Postal Revenue.

Increased postage on letters from 1d. per $\frac{1}{2}$ oz. to 1 $\frac{1}{2}$ d. per oz.
" rate for telegrams from 1s. per 12 words to 1s. 3d. per 12 words.
" rates and tariff for telephones.

1921-1922: *Customs and Excise:*

Imported Spirits. — Increased by 7s. 6d. per proof gallon.

Union Spirits. — Increase of 2s. 6d. per proof gallon.

Beer. — Increase of 2d. per gallon on standard gravity beer.

» — Increase of 1d. per gallon on beer below standard.

Tobacco (including cigarettes). — 1s. per lb. increase.

Cigars. — 2s. 6d. per lb. increase.

Postal Revenue:

Letters. — Increased to 2d. per oz.

Newspapers. — Excess weight over 2 lb. charged at parcel rate.

Income Tax. — There have been various amendments to abatements productive of increased revenue. The normal tax on companies has been increased from 1s. to 1s. 6d. in the £. Private companies are now taxed as individuals without any primary abatement.

Super Tax. — This tax has been increased from 1s. and as many 2,000ths of a penny as there are pounds in the taxable amount, to 1s. in the £ and as many 500ths of a penny, with an increase of the maximum tax from 3s. to 5s. in the £. The abatement of £2,500 to slide off £ for £ of the excess above £2,500 instead of 10s. for each £.

Stamp duties on various documents have also been increased to a small extent.

10. *Methods of raising money by loans, whether by: (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation.*

The Union Government employs all three methods of raising money by loan as the moment and occasion may demand.

(a) Long-term loans are raised both in London and in South Africa. It has been usual for some years past to have a local loan "on top" to absorb the money available for investment in South Africa.

(b) Treasury bills are also sold both in London and South Africa. The former are disposed of at the market price ruling at the time and the latter are available at any time at fixed rates for 6, 9 and 12 months.

(c) Since the establishment of the South African Reserve Bank in June 1921, the Union Government has, from time to time, borrowed various amounts direct from this bank.

11. *The influence of foreign loans and trade balances.*

The amounts borrowed outside the Union in the years 1920-1921 and 1921-1922 were respectively £3,000,000 and £8,000,000.

12. *The effect of local and provincial finance on the budget of the State.*

The provincial administrations, up to March 31st, 1922, received subsidies from the Union Government practically equal to £ for £ of their expenditure; thus any increase in provincial expenditure out of provincial revenues meant an increased subsidy. Amending legislation has been passed since March 31st, 1922, restricting the Union Government's contribution to the Provinces by way of subsidy to an increase of 3 % over the previous year's subsidy.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The following figures give the note circulation and deposits in the Union of the South African Banks on the dates specified:

	Note Circulation.	Deposits.
	£	£
March 31st, 1920	9,011,222	94,647,758
» » 1921	8,870,416	76,014,805
» » 1922	8,296,839	70,167,456

2. *The influence of Government expenditure on currency.*

The increased Government expenditure on services met out of loans and the deficits on operation of the railways and harbours have doubtless contributed to prevent a greater reduction in credit and currency.

3. *The repayment of floating debt and the effects thereof.*

The floating debt at the close of each of the last three financial years was:—

	£
March 31st, 1920	15,417,858
» » 1921	20,248,397
» » 1922	16,322,012

These figures are comparatively large, but, owing to high interest rates and scarcity of capital available for fixed investment, it has not been deemed prudent to repay the sums.

4. *The connection between the Government and the central bank of issue.*

Since June 1921, the central bank has held the cash balances of the other banks. It did not commence to issue notes until April 1922. The Government owes the bank £2,200,000 at the present time (May 9th). This sum represents the bank's only asset in the form of discount, loan or investment.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

It is understood that the banks have exercised greater discrimination in granting credit in consequence of the requirements of the Currency and Banking Act, 1920, as regards minimum cash reserves. The ratio of cash to liabilities in the Union has improved from 7.3 per cent. on March 31st, 1920, to 17.9 per cent at March 31st, 1922. The first figure includes only coin and bullion; the second figure includes £7,118,011 bankers' deposits in the central bank. The latter's ratio of cash to liabilities on March 31st, 1922, was 72.5 per cent. The embargo on the export of gold and the inconvertibility of gold certificates continue in force; consequently the rate of exchange has not operated to restrict the grant of credit.

6. *The existence of any artificial control of exchange, with a description of its character and its effects.*

The embargo on gold exports and the inconvertibility of gold certificates are the only artificial forms of control.

7. *The causes and effects of deflation.*

The deflation which has taken place in currency and credit is attributable to a large extent to the fall in prices and to a smaller extent to the necessity for improving cash reserves.

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition of lowering or import or export duties, etc.*

Imports. — Under the powers conferred under the Public Welfare and Moratorium Act 1914 (as amended by Act 37 of 1917 and Act 38 of 1920), which remains in operation until July 1st, 1922, the Government prohibits the importation, except under licence, of:

(a) Second-hand boots and shoes¹;

(b) Sugar, except that grown in the Portuguese province of Mozambique, that is imported into the Transvaal Province of the Union¹.

(c) Boots and shoes (new). Under the Proclamation No. 84 of May, 1921, the importation of boots, shoes and slippers made of leather, or of which leather is the chief constituent part, is prohibited except under licence, and the action taken thereunder is as set out in Government Notice No. 868 of October 1921.

Exports. — The export of:

(a) Scrap metal²; and

(b) Sugar, and all other goods the price of which is regulated, is prohibited except under licence².

(c) Gold coin³, gold bullion and gold jewellery; permits are only granted to the banks to export gold bullion (gold as received from the mines). Gold coin is now dealt with under the Currency and Banking Act, 1920.

(d) Silver coin; permits are given to export in small quantities.

¹ No permits are given to import second-hand boots and shoes, and as regards sugar, permits are limited to small quantities of special kinds of sugar. In the year ended December 31st, 1921, the total quantity imported other than Mozambique sugar was 350,000 lb., value £8,000.

² Permits are not given for the export of scrap metal, and as regards (b) permits to export sugar are only given to the Natal Sugar Association, a combination of sugar growers, millers, refiners and distributors. As regards other articles of which the price is controlled, permits are freely given.

³ No permits are given to export gold coin that is still in private hands in the Union.

As already pointed out, the Moratorium Act expires on July 1st, 1922, but as the Government has announced its intention of controlling the importation of boots and shoes, and as it may determine to control the importation of sugar, steps must be taken before that date to obtain the necessary powers.

2. *The existence (or abolition) of price discrimination against foreign trade.*

No price discriminations exist in the Union, unless the powers conferred under Section 9 of Act 26 of 1914 can be held to be such a discrimination.

The section reads as follows:—

“Whenever goods are imported into the Union under such circumstances or conditions as render it difficult to determine the value thereof for purposes of duty because:

“(a) those goods are not sold for use or consumption in the country of origin or production; or

“(b) a hiring of those goods or the right of using the same, but not the right of property therein, is sold or given; or

“(c) any royalty imposed on those goods is uncertain or is not from other causes a reliable means of estimating the value of the goods; or

“(d) those goods are usually or exclusively sold by or to agents or by subscription; or

“(e) those goods are sold or imported in or under any other unusual or peculiar manner or conditions;

the Commissioner may determine the value of those goods for purposes of duty, and the value so determined shall, unless otherwise provided, and subject always to the right of appeal to the Minister, be the value upon which the duty on those goods shall be computed and levied.”

3. *The conclusion of: (a) commercial conventions; (b) transport conventions.*

(a) A customs agreement exists between the Union and Rhodesia which declares that there shall be free trade in goods grown, produced or manufactured in the territories of the contracting parties, and that as regards imported goods each party to the agreement is entitled to the customs duties on such goods consumed in its respective territory. The payment of these duties is arrived at on an agreed basis.

The Transvaal-Mozambique Convention of 1909 contains provisions dealing with:

(a) railway rates;

(b) native labourers;

(c) commerce, etc.

Likewise, as regards transport conventions, provision exists in the Customs Tariff Act 26 of 1914 for the transit of imported goods through the Union.

June 1st, 1922.

United Kingdom.

I. BUDGETARY MEASURES.

The statement given on pages 182-184 shows the results of the budgetary year ending March 31st, 1922, and the budget estimates for the current year ending March 31st, 1923.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

The budget of the United Kingdom makes no distinction between capital or other expenditure or between ordinary and extraordinary expenditure, although for purely statistical purposes certain items of temporary war revenue and expenditure have been classified under the heads of "ordinary" and "special". The out-turn of the years 1920-21 and 1921-22, after allowing for inclusion in the budget of considerable statutory sinking funds, left a cash surplus applied to the further reduction of debt of £230,556,778 in 1920-21, and £45,693,000 in 1921-22. It is anticipated that there will be a small surplus in the current year.

No borrowing has been incurred since 1920 for fresh expenditure, the debt operations dealing solely with the re-borrowing in certain cases of maturing debt.

2. *Whether expenditure on armaments has been reduced.*

The net expenditure on the fighting forces was:

	Army	Navy	Air Force	Total
	£	£	£	£
Estimate 1920-21	165,901,459	92,505,290	20,699,268	279,106,017
Estimate 1921-22	95,983,250	83,444,000	18,411,477	197,838,727
Estimate 1922-23	63,875,500	64,883,700	10,895,000	139,654,200

Of these totals, £80,500,000, £11,000,000 and £8,900,000 in the three years respectively are due to terminal charges arising out of the war.

	Receipts in 1921-22	Estimated Receipts for 1922-23	Estimates for 1922-23 more (+) or less (-) than Receipts in 1921-22
	£	£	£
Customs	130,052,000	112,250,000	— 17,802,000
Excise	194,291,000	160,750,000	— 33,541,000
	324,343,000	273,000,000	— 51,343,000
Motor Vehicle Duties .	11,096,000	10,600,000	— 496,000
Estate, etc., Duties. . .	52,191,000	48,000,000	— 4,191,000
Stamps.	19,638,000	18,250,000	— 1,388,000
Land Tax, House Duty and Mineral Rights Duty ¹	2,590,000	3,000,000	+ 410,000
Income Tax (including Super-Tax)	398,887,000	329,000,000	— 69,887,000
Excess Profits Duty, etc.	30,452,000	27,800,000	— 2,652,000
Corporation Profits Tax.	17,516,000	19,750,000	+ 2,234,000
	521,274,000	445,800,000	— 75,474,000
<i>Total Receipts from Taxes</i>	856,713,000	729,400,000	— 127,313,000
Postal Service	40,000,000	35,667,000	— 4,333,000
Telegraph Service . . .	5,900,000	5,230,000	— 670,000
Telephone Service . . .	10,500,000	13,728,000	+ 3,228,000
	56,400,000	54,625,000	— 1,775,000
Crown Lands	820,000	750,000	— 70,000
Interest on Sundry Loans	13,807,000	14,000,000	+ 193,000
Miscellaneous:			
Ordinary Receipts . .	26,334,000	22,000,000	— 4,334,000
Special Receipts . . .	170,806,000	90,000,000	— 80,806,000
<i>Total Receipts from Non- Tax Revenue</i>	268,167,000	181,375,000	— 86,792,000
TOTAL REVENUE . . .	1,124,880,000	910,775,000	— 214,105,000
Borrowings to meet Ex- penditure chargeable against Capital	8,045,000	10,050,000	+ 2,005,000
Borrowings for Advances under Unemployment Insurance Acts, 1921 and 1922	13,950,000	—	— 13,950,000

¹ Included with Income Tax in 1921-22.

Service	Estimated Expenditure 1921-22	Estimated Expenditure 1922-23	Estimate for 1922-23 more (+) or less (-) than Expenditure in 1921-22
	£	£	£
<i>Consolidated Fund Services:</i>			
National Debt Services	345,000,000	335,000,000	— 10,000,000
Payments for Northern Ireland Residuary Share, etc.	—	2,500,000	+ 2,500,000
Road Fund	8,400,000	10,000,000	+ 1,600,000
Payments to Local Taxa- tion Accounts, etc.	11,115,000	9,788,000	— 1,327,000
Land Settlement.	5,000,000	3,500,000	— 1,500,000
Other Consolidated Fund Services	1,757,000	2,650,000	+ 893,000
Total Consolidated Fund Services	371,272,000	363,438,000	— 7,834,000
<i>Supply Services:</i>			
Army (including Ord- nance Factories)	106,665,000	62,300,000	— 44,365,000
Navy.	82,479,000	64,884,000	— 17,595,000
Air Force	18,411,000	10,895,000	— 7,516,000
Civil Services ¹	379,035,000	317,455,000	— 61,580,000
Customs and Excise, and Inland Revenue De- partments	14,701,000	12,275,000	— 2,426,000
Post Office Services.	67,165,000	53,822,000	— 13,343,000
Provision for Supplemen- tary Estimates.	97,000,000	25,000,000	— 72,000,000
Total Supply Services.	765,456,000	546,631,000	— 218,825,000
TOTAL EXPENDITURE	1,136,728,000	910,069,000	— 226,659,000
Estimated Expenditure ² chargeable against Capital	10,472,000	10,050,000	— 422,000

¹ See A, page 184.

² See B, page 184.

B

	1921-22	1922-23
Expenditure chargeable against Capital:—	£	£
Telegraph (Money) Acts, 1913 and 1920	9,032,000	9,500,000
Post Office (London) Railway Act, 1913	34,500	—
Housing Act, 1914	156,000	50,000
Electricity Supply Act, 1919	1,250,000	500,000
	10,472,500	10,050,000

Note. Advances under the Unemployment Insurance Acts, 1921 and 1922, are estimated to amount to £14,500,000 in 1922-23, compared with £14,470,000 in 1921-22.

A

	1921-22 Budget Estimate	1922-23
Civil Services:—	£	£
Public Education	63,518,000	51,613,000
Old Age Pensions	26,150,000	22,615,000
Ministry of Pensions	111,557,000	89,991,000
Ministry of Health, etc., Insurance, etc.	31,220,000	24,793,000
Ministry of Labour, Civil Demobilisation and Resettlement, etc.	18,325,000	14,448,000
Loans to Dominions and Allies	5,000,000	—
Railway Agreements, Transport, etc.	30,673,000	33,697,000
Ministry of Munitions	13,046,000 ¹	7,186,000
Ministry of Shipping	3,000,000	5,000,000
Coal Mines Deficiency	76,546,000	68,112,000
Other Civil Services	379,935,000	317,455,000

¹ Liquidation Votes.

The personnel of the three services has been reduced as follows:

	Army	Navy	Air Force	Total
1920-21	525,000	124,009	29,730	678,739
1921-22	341,000	123,700	40,880	505,580
1922-23	215,000	121,400 ¹	31,176	367,576

5. *The policy of the Government in the case of remuneration to officials by reason of variations in the cost of living and the effects of this policy on budget conditions.*

In the spring of 1920 the British Government approved a scheme for the automatic adjustment of the remuneration of the *permanent* staff of the Civil Service in accordance with variations in the cost of living. The scheme, which was introduced on March 1st, 1920, provided on that date for a bonus or cost-of-living addition, in which similar additions previously given were absorbed, to the level of wages or salaries, under pre-war conditions, of:

130 % increase on ordinary remuneration (*i.e.*, remuneration under pre-war conditions) not exceeding 35/- per week (£91 5s. a year);

60 % on ordinary remuneration in excess of 35/- a week but not exceeding £200 per annum;

45 % on ordinary remuneration in excess of £ 200 per annum.

The scheme provided for a periodical revision of bonus at intervals of four months during the first year of operation, and six months thereafter, on the basis of an increase or reduction of 1/26th of bonus for every five full points rise or fall in the average cost-of-living figure above or below 130 %. The average cost-of-living figure to be used for those periods is the mean of the cost-of-living figures announced by the Ministry of Labour for the four or six months respectively immediately preceding the date of revision.

It may be observed:

(a) That the scheme was applied generally to all permanent staff with the exception of heads of departments and certain other highly placed officers. It has not been applied to *temporary* staff recruited during or since the Great War, in whose case it is deemed more appropriate to prescribe inclusive rates of remuneration which can be reviewed from time to time with regard to all relevant factors and with particular reference to the rates of remuneration obtaining for comparable work in outside employment as well as to fluctuations in the cost of living ;

(b) That, in the case of the higher grades of permanent officers, the scheme was originally applied with a proviso that in no case should the bonus exceed £ 750 a year. As from September 1st, 1921, the bonus of officers receiving salaries exceeding £ 500 per year (exclusive of bonus) has been reduced, not only in accordance with the automatic operation of the scheme, but also by a super-cut graduated according to salary. The result of this super-cut is that the highest rate of bonus now payable to any officer is approximately £ 330; that no officer on a salary of £ 2,000 a year or over receives any bonus at all; and that bonus is not payable so as to bring total remuneration in any case above £ 2,000 a year ;

(c) That the scheme provides for a reduction in bonus proportionate with the fall in the cost of living ;

(d) That the adjustment of bonus is made at intervals of some months in order to lessen clerical labour, and is based not on the figures for a particular month but on figures averaged over a number of months;

(e) That the cost-of-living figure rose steeply between March 1920 and November 1920, and provision had to be made by a Supplementary Estimate for a part of the additional cost thrown on the Exchequer during the year 1920-21. Since November 1920, the cost-of-living figure

¹ This figure will be further reduced during the year to about 101,500.

has progressively declined, apart from a slight upward tendency in the autumn of 1921, and this fall was reflected in a reduction in the rate of bonus as from September 1st, 1921, and in a further reduction from March 1st, 1922.

Bonus is at the present moment related to an average cost-of-living figure of 85 % increase on pre-war cost and represents a percentage increase on pre-war remuneration of 85 % in the case of wages not exceeding 35/- a week, of 74 % on pre-war salaries of £ 200, 51.5 % on pre-war salaries of £ 500, and 30.7 % on pre-war salaries of £ 1,000.

6. *The existence of subsidies on bread and other food stuffs, coal and other materials.*

The bread subsidy ceased in 1920-21. There are no other food subsidies on foodstuffs or materials.

Payments in respect of the loss on Housing Schemes will continue to be made for many years but only in respect of schemes already approved. No further such schemes are now being sanctioned.

There is no subsidy in respect of coal, though a remanet payment may be made this year towards a subvention to the wages of coal-miners in respect of the period ending March 1922.

7. *Charges for unemployment.*

The main expenditure in connection with unemployment is in the form of contributory insurance schemes to which the employer, the employee, and the State contribute. Certain emergency schemes have been supported by the State to assist unemployment. The expenditure on these heads (excluding certain temporary increases in the State's contributions to insurance schemes) is as follows:—

1920-21	Special grants and loans for roads, drainage works, light railways and loans to Poor Law Authorities	nil
1921-22	do.	£ 12,000,000 (estimate)
1922-23	do.	£ 3,870,000 (estimate)

The above figures include contributions towards loan charges on loans raised by Local Authorities for relief works in respect of which the State has assumed a liability to contribute over a maximum period of 15 years.

In addition, the State has undertaken to guarantee the principal and interest on loans raised by outside bodies under the Trade Facilities Act, 1921, for orders placed in this country for capital works or their equipment, e.g., rolling-stock.

8. *The financial position of public undertakings.*

The State does not control railways or ports; the payments appearing in the budget to Railway Companies represent remanet payments under agreements made with the Railway Companies for their services to the State during the war.

The telegraph and telephone service is carried on as part of the Post Office Administration. The expenditure is included in the Post Office Votes as part of the ordinary budget, and the revenue is brought in as part of the budget revenue (under the head "Post Office").

Steps have been taken to make Post Office services as a whole pay their way, and it has even been possible in 1922-23 to reduce the letter post from 2d. to 1½d. and to make reductions in the charges for telephones.

9. *The introduction of new taxation.*

No new taxation of importance has been introduced. In 1922-23 it has been possible to reduce the basic rate of income tax from 6/- to 5/- in the £ and to reduce the customs duty on tea from 1/- in the £ to 8d. in the £, with consequential reductions in the duty on cocoa, coffee and chicory.

10. *Methods of raising money by loans, whether by: (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation.*

Statements showing the position of the external debt on March 31st last and the development of the total national debt year by year since 1911 are given in Annexes A and B. It must be borne in mind that the figures in the second return represent the face value of the debt and are complicated by the issue of Conversion Loans at a lower rate of interest, which, while decreasing the burden of interest on the taxpayer, increase the nominal value of the debt.

No long-term loan has been issued except the 3½ % Conversion Loan in April 1921. This was purely a funding operation.

Shorter-term loans have been issued in the form of Treasury bonds; the proceeds have been applied in the redemption of unfunded debt.

Floating Debt. — The floating debt (Treasury bills and ways and means advances) has been reduced as follows:

March 31st, 1921	£1,275,330,000
March 31st, 1922	£1,029,515,000
August 26th, 1922	£867,933,500

The loans direct from the Bank of England were¹ :

March 31st, 1921	nil.
March 31st, 1922	nil.
August 26th, 1922	nil.

11. *The influence of foreign loans and trade balances.*

No special comment is needed on this point. No foreign loans have been raised by the United Kingdom since the Conference of Brussels (1920).

12. *The effect of local and provincial finance on the budget of the State.*

The finance of local authorities is essentially separate from that of the State. The State makes grants to local authorities towards the cost of certain expenditure; e.g., education, police, housing. In many of these cases, the amount of the State grant is a percentage of the expenditure of the local authorities. This system is now under revision. As part of the general tendency towards more economical administration, the expenditure of local authorities is tending to fall and the amount of rates raised by the rating authorities to drop.

¹ At intervening periods there have been temporary advances for short periods — the highest amount in 1920-21 was £107,000,000, in 1921-22 £73,750,000 and in 1922-23 £40,000,000.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The net circulation of the Bank of England and the other issuing banks was as follows:

	End of December 1920	End of December 1921	End of June 1922
	£	£	£
Bank of England	113,401,000 ¹	107,070,000 ¹	103,398,000 ¹
Scottish and Irish Banks . . .	56,017,000	45,570,000	42,838,000
Private and Joint-Stock Banks	133,000	—	—
Total	169,551,000	152,640,000	146,236,000

The amount of currency notes outstanding was:

£364,925,000	£323,839,000	£293,774,000
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The whole of this issue is covered by gold, Bank of England notes or Government securities.

The amount of the fiduciary issue, *i.e.*, the total, less gold and Bank of England notes, has been as follows:

£316,975,000	£275,889,000	£245,624,000
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2. *The influence of Government expenditure on currency.*

The fact that the budget has balanced and Government expenditure has thus been met out of revenue has been one of the reasons for the fall in currency circulation.

3. *The repayment of floating debt and the effects thereof.*

For repayment of floating debt, see Section I, 10.

4. *The connection between the Government and the central bank of issue.*

There has been no change in the relations between the Government and the Bank of England.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

There is no Government restriction on the granting of credit, which is a matter for the judgment of the money market.

¹ Excluding notes in Currency Note Redemption Account.

6. *The existence of any artificial control of exchange, with a description of its character and its effects.*

There is no control over the purchase of exchange and no difference is made between foreign holders of banknotes and credit balances and native holders. The export of gold or bullion is prohibited except under licence.

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

The only import restrictions imposed since July 1st, 1920, are:

- (a) On plumage, under the Importation of Plumage (Prohibition) Act, 1921;
- (b) On hops, by the Hops (Prohibition of Import) Order, 1920, dated December 11th, 1920, previously prohibited under a Defence of the Realm Act;
- (c) On dyestuffs, by the Dyestuffs (Import Regulation) Act, 1920, on January 15th, 1921;
- (d) Restrictions on goods infected or likely to be infected with anthrax, imposed by Order in Council of March 9th, 1921, under the Anthrax Prevention Act, 1919.

Note. — There may have been variations in the Orders regarding the importation of cattle feeding-stuffs, etc., under the Diseases of Animals Acts and the Destructive Insects and Pests Acts, and slight variations in the restrictions on fire-arms, ammunition, etc.

CHANGES IN EXPORT PROHIBITION SINCE JULY 1ST, 1920.

(a) *Removed:*

Animals, living, for food of all kinds	8. 7.20
Live game and live poultry	8. 7.20
Guanos	22. 7.20
Phosphate rock: namely apatites, phosphates of lime and alumina	22. 7.20
Confectionery manufactured wholly or partly of sugar	29. 7.20
Game, dead	5. 8.20
Imported frozen poultry	5. 8.20
Husk meal	12. 8.20
Offals of corn, the following: bran, middlings, mill dust and screenings, pollard and sharps	12. 8.20
Calf skins	19. 8.20
Hides, British and Irish cattle	19. 8.20
Linseed	9. 9.20
Ergot of rye and the liquid extract of ergot	16. 9.20

Tea	23. 9.20
Arms, not being fire-arms, and their component parts (except bayonets)	14. 10.20
Raw flax	21. 10.20
Air-gun pellets	21. 10.20
Milk, sweetened, condensed or preserved	11. 11.20
Fruit pulp	18. 11.20
Bread	16. 12.20
Cheese	16. 12.20
Fish of all kinds, except tinned red salmon	16. 12.20
Fruit preserved or bottled in water: pineapple	16. 12.20
Fruit canned or bottled in syrup	16. 12.20
Jam and marmalade	16. 12.20
Meat, home-produced of all kinds, except suet	16. 12.20
Onions	16. 12.20
Sausages, pork	16. 12.20
Semolina	16. 12.20
Wheat, wheat flour and wheat meal, and articles and mixtures containing seed potatoes	16. 12.20
Seed potatoes	17. 12.20
Docks, floating, and their component parts	23. 12.20
Potash muriate, sulphate and crude manurial potash, salts and mixtures containing any of these substances	30. 12.20
Potassium permanganate	30. 12.20
Sugar, cane and beet	30. 12.20
Vessels of 15 tons gross and over	30. 12.20
Salmon, tinned, red	30. 12.20
Yeast	13. 1.21
Eggs in shells	20. 1.21
Poultry, dead	20. 1.21
Butter	27. 1.21
Coal-tar products and derivatives, etc. }	1. 2.21
Dyes and dyestuffs, etc.	
Indigo, synthetic	
Silver bullion	7. 2.21
Potatoes	7. 2.21
Potash manures	7. 2.21
Lard	1. 3.21
Suet	17. 3.21
Aeroplane engines and their component parts	24. 3.21
Aircraft (other than balloons) of all kinds and their component parts, together with accessories and articles suitable for use in connection with aircraft	24. 3.21
Apparatus which can be used for the storage or projection of compressed or liquefied gases, flame acids or other destructive agents capable of use in warlike operations, and their component parts	24. 3.21
Armour plates, armour quality castings, and similar protective material	24. 3.21
Armoured motor-cars	24. 3.21
Bayonets and their component parts	24. 3.21
Tools, appurtenances and accessories for the filling and repair of rifle and shot-gun cartridges	24. 3.21
Implements and apparatus designed exclusively for the manufacture of munitions of war or for the manufacture or repair of arms or of war materials for use on land or sea	24. 3.21

Whisky	24. 3.2I
Bacon and Ham (including tinned bacon and ham).	3I. 3.2I
Notes of the Bank of France	28. 4.2I
Potash caustic and articles containing potash	28. 4.2I
Potassium carbonate and mixtures containing potassium carbonate	28. 4.2I
Coal, coke, and manufactured fuel	4. 7.2I
Nicotine and its compounds	I. 9.2I
Super-Cliffite No. 1	} 13.12.2I
Super-Cliffite No. 2	
Super Rippite and Tonite or cotton powder No. 1	
Rockite	13.12.2I

The special restrictions on all exports to Soviet Russia were removed on April 1st, 1921.

(b) *Imposed:*

Suet ¹	18.11.20
Gold and silver coin and gold bullion (previously restricted under war-time regulations)	7. 2.2I
Sulphate of ammonia	} 7. 2.2I
Basic slag	
Super-phosphate of lime and compound manures containing any of these substances (previously restricted under war-time regulations)	
Machine-gun interrupter gears	24. 3.2I
Depth charges and component parts thereof	24. 3.2I
Bombs, bombing apparatus and component parts thereof	24. 3.2I
Flame-throwers and component parts thereof	24. 3.2I
Fuses (other than safety fuses) and component parts thereof	24. 3.2I

All the export restrictions relating to fire-arms, ammunition and the like were made applicable to shipment of those goods as ship's stores on vessels proceeding to foreign ports, on December 13th, 1921.

2. *The existence (or abolition) of price discrimination against foreign trade.*

There are no instances in the United Kingdom of the existence or abolition of price discrimination against foreign trade.

3. *The conclusion of: (a) commercial conventions; (b) transport conventions.*

The following conventions, to which Great Britain has been a party, have been concluded since July 1920:

- (a) Russia — Trade Agreement of March 1921.
- (b) Esthonia — Exchange of Notes signed July 1921.
- (c) Lithuania — Exchange of Notes signed May 6th, 1922.

¹ Removed March 17th, 1921; see preceding list.

Negotiations are at present taking place with the following countries for the conclusion of commercial agreements or the revision of existing conventions:

Finland,
Latvia,
Spain,
Poland,
Czechoslovakia,
Egypt,
Siam.

The Commercial Treaty of 1905 with Roumania has now terminated, and the suggestion has been made to the Roumanian Government that negotiations should be opened for the conclusion of a new Treaty.

The Anglo-Japanese Commercial Treaty of 1911 terminates next year and informal discussions have already taken place with Japanese representatives regarding its renewal or supersession by a new Treaty.

The following transport conventions have been concluded by His Majesty's Government:

(1) The Barcelona Conventions, which it does not appear to be necessary to enumerate in detail, as they were concluded directly under the auspices of the League of Nations.

(2) The Convention for the Danube, which has been drawn up in pursuance of Article 348 of the Treaty of Versailles.

(3) The Convention for the Elbe, which has been drawn up in pursuance of Article 343 of the Treaty of Versailles.

(4) There may be other conventions, such as that of March 1921 between Great Britain and Belgium with a view to facilitating Belgian traffic through the territories of East Africa, which relate more particularly to British Colonies.

The Resolution of the Brussels Conference which is referred to in this connection deals with the repair, improvement, and economical use of transport systems, and it is the agreements respecting railway rolling-stock and railway working, arrived at at Porto Rosa in November 1921, which primarily deal with these matters. This country was not signatory to any of these agreements, but that for the Regulation of International Railway Traffic was endorsed by the Resolutions on Transport adopted at Genoa in May 1922.

September 2nd, 1922.

United Kingdom.

ANNEXES

EXTERNAL

RETURN showing, as on 31st March, 1919, 31st March, 1920, 31st March, 1921, and 31st March, 1922, respectively,

Country in which payable	Date Due	31st March, 1919		31st March, 1920	
		Amount of Debt in Currency in which payable	Sterling equivalent at par, or Value of Collateral given	Amount of Debt in Currency in which payable	Sterling equivalent at par, or Value of Collateral given
U.S.A.: Anglo-French Loan. Moiety of a Loan of \$500,000,000 for which Great Britain and France are jointly and severally liable.	15 Oct. 1920 } 15 Oct. 1940 }	\$ 250,000,000	£ 51,370,000	\$ 250,000,000	£ 51,370,000
U.S.A. Government	On demand	4,092,000,000	840,822,000	4,212,836,000	865,652,000
10-year Bonds	1 Aug. 1929	—	—	148,379,100	30,489,000
3-year Notes	1 Nov. 1922	—	—	101,620,900	20,881,000
3-year Notes	1 Nov. 1919	130,471,000	26,809,000	—	—
5-year Notes	1 Nov. 1921	129,046,000	26,516,000	129,046,000	26,516,000
20-year Bonds	1 Feb. 1937	143,587,000	29,504,000	143,587,000	29,504,000
Dollar Treasury Bills issued to Dutch Petroleum Co.	1 Feb. 1937	—	—	—	—
Rifle & Co., Notes	Various dates	32,820,000	6,744,000	—	—
Messrs. J. P. Morgan's Loan	On demand	72,500,000	14,896,000	—	—
Dollar Treasury Bills	Various dates	93,295,000	19,170,000	45,165,000	9,280,000
Sterling Treasury Bills issued to Japan with option of repayment in U.S.A.	24 July 1922	47,650,000	10,000,000	47,650,000	10,000,000
Central Argentine Railway Co. The Company raised dollars and lent them to H. M. Government, who purchased and cancelled Company's Sterling Bonds. Govern. are liable to repay dollars and Company to repay sterling.	1 Feb. 1927	15,000,000	3,082,000	15,000,000	3,082,000
Danish Government Dollar Loan	31 March 1920	25,000,000	5,500,000	—	—
Canada: — Canadian Government	On demand	446,799,000	91,808,000	181,510,000	37,297,000
Bank of Montreal Dollar Treasury Bills	5 July 1920	4,300,000	883,000	—	—
Bankers' Loans for Munitions	Various dates	100,000,000	20,549,000	100,000,000	20,549,000
Bankers' Loans for Wheat	Various dates	100,000,000	22,248,000	70,000,000	15,573,000
Japan: — Yen Exchequer Bonds	15 Dec. 1919	100,000,000	10,242,000	—	—
Yen Treasury Bills	Various dates	85,800,000	8,788,000	70,000,000	7,170,000
Argentina: — Government	14 Jan. 1921	\$ 95,112,000	19,200,000	\$ 95,112,000	19,200,000
Uruguay: — Government	6 Dec. 1920	18,403,000	4,600,000	23,818,000	5,954,000
Holland: — Government	31 Dec. 1923	17,732,000	1,478,000	—	—
Treasury Bills	20 Sept. 1919	700,000	58,000	—	—
Government, for Prisoners of War expenditure.	—	7,940,000	662,000	—	—
5 per cent. Sugar Bonds	7 Nov. 1920	13,830,000	1,152,000	8,913,600	743,000

Annex A

EXTERNAL

Country in which payable	Date Due	31st March, 1919		31st March, 1920	
		Amount of Debt in Currency in which payable	Sterling equivalent at par, or Value of Collateral given	Amount of Debt in Currency in which payable	Sterling equivalent at par, or Value of Collateral given
<i>Switzerland: — Bills of Exchange . . .</i>	<i>Various dates</i>	Fcs. 84,460,000	3,349,000	—	—
<i>Norway: — Various Banks</i>	<i>Various dates</i>	Kr. 20,000,000	1,250,000	—	—
<i>Norges Bank</i>		113,938,000	6,710,000	—	—
<i>Central Bank</i>		51,500,000	3,175,000	—	—
<i>Promissory Notes</i>		22,770,000	1,352,000	—	—
<i>Sweden: — 1 and 3-year Notes . . .</i>	<i>30 June 1919 and 31 July 1921</i>	£ 2,693,000	2,693,000	—	—
		Kr. 31,250,000	2,065,000	12,500,000	826,000
<i>Spain: — Peseta Loan by Rio Tinto Co. secured by Treasury Bills.</i>	<i>Oct. 1928 or previously on giving 6 months' notice.</i>	Pesetas. 50,000,000	2,500,000	50,000,000	2,500,000
<i>Fiji</i>	<i>8 July 1920</i>	£ 440,000	440,000	£ 434,000	434,000
<i>Straits Settlements</i>	<i>1919-1934</i>	Rs. 8,280,000	8,280,000	7,656,000	7,656,000
<i>Mauritius</i>	<i>Dec. 1922</i>	8,024,600	535,000	8,071,300	538,000
<i>Loans from certain Allied Governments</i>	—	£ 113,500,000	113,500,000	£ 113,500,000	113,500,000
		—	1,364,850,000	—	1,278,714,000
				Net decrease in 1919-20	

(continued).

DEBT

31st March, 1921		31st March, 1922		Increase in 1921-22 at par of Exchange	Decrease in 1921-22 at par of Exchange	Arrangements for Repayment
Amount of Debt in Currency in which payable	Sterling equivalent at par, or Value of Collateral given	Amount of Debt in Currency in which payable	Sterling equivalent at par, or Value of Collateral given			
—	—	—	—	—	—	All repaid.
—	—	—	—	—	—	All repaid.
—	—	—	—	—	—	All repaid.
—	—	—	—	—	—	All repaid.
—	—	—	—	—	—	All repaid.
Kr. 12,500,000	826,000	—	—	—	826,000	All repaid.
—	—	—	—	—	—	All repaid.
—	—	—	—	—	—	All repaid.
£ 7,656,000	7,656,000	£ 7,656,000	7,656,000	—	—	All repaid.
Rs. 8,071,300	538,000	Rs. 8,071,300	538,000	—	—	
£ 126,500,000	£ 126,500,000	£ 128,000,000	£ 128,000,000	1,500,000	—	
—	1,161,563,000	—	1,090,184,000	1,500,000	72,879,000	These may be regarded as available to be set off against debts owed by the same Governments to the United Kingdom. Total net decrease in three years ended 31 March 1922, £274,666,000.
and 1921-22 £203,287,000				Net decrease in 1921-22 £71,379,000		

DEAD-WEIGHT DEBT

I. STATEMENT OF THE TOTAL AMOUNT OF DEAD-WEIGHT DEBT outstanding on the 1st April, for each Financial Year from 1911 to 1921 inclusive; the Amounts which were made available in each year to 1920-1921 inclusive for Reduction of Debt, distinguishing the Sum expressly provided for the service of the Debt, the Old Sinking Fund, and Miscellaneous Receipts; the Gross Amount of Debt Redeemed; the Amount of Debt Created; and the Net Increase or Decrease of Debt in the year.

Financial Year	Total Amount of the Dead-Weight Debt on the 1st April of each Year	Total Debt provision for the Year	Amount of Debt provision issued in the Year		Amount applicable to reduction of Debt out of Fund of previous Year, (b) Depreciation Fund	Miscellaneous Receipts and Sums taken out of Exchequer Balance applied to reduction of Debt in the Year	Total Amount applicable to reduction of Debt in the Year (Cols. 4, 5 and 6)	Gross Amount of Debt redeemed in the Year	Debt created in the Year	Net Increase (+) or Decrease (-) of Debt in the Year
			Interest and Management	Repayment of Principal						
	1	2	3	4	5	6	7	8	9	10
1911-1912	£ 685,232,459	£ 24,500,000	£ 17,454,982	£ 7,045,018	£ 2,356,766	£ 414,618	£ 9,816,402	£ 10,487,978	£ —	£ 10,487,978
1912-1913	£ 674,744,481	£ 24,500,000	£ 17,220,797	£ 7,279,233	£ 5,000,000	£ 444,787	£ 12,724,020	£ 13,270,716	£ —	£ 13,270,716
1913-1914	£ 661,473,765	£ 24,500,000	£ 16,894,120	£ 7,605,880	£ 180,069	£ 891,792	£ 8,677,741	£ 10,203,674	£ —	£ 10,203,674
1914-1915	£ 651,270,091	£ 22,668,896	£ 19,512,539	£ 3,156,357	£ 95,115	£ 680,878	£ 3,932,350	£ 8,953,015	£ 466,500,000	£ 457,546,985
1915-1916	£ 1,108,817,076	£ 60,249,311	£ 58,080,105	£ 2,169,206	—	£ 187,192,886	£ 189,362,092	£ 599,598,339	£ 1,631,529,907	£ 1,031,931,568
1916-1917	£ 2,140,748,644	£ 127,250,493	£ 125,068,977	£ 2,181,516	—	£ 137,518,460	£ 139,699,976	£ 1,295,573,616	£ 3,166,270,880	£ 1,870,697,264
1917-1918	£ 4,011,445,908	£ 189,851,066	£ 187,665,554	£ 2,185,512	(b) 34,607,269	£ 164,822,255	£ 201,615,036	£ 201,509,133	£ 2,061,913,862	£ 1,860,404,729
1918-1919	£ 5,871,850,637	£ 269,964,650	£ 267,969,204	£ 1,995,446	(b) 29,406,025	£ 259,893,992	£ 291,295,463	£ 384,325,886	£ 1,947,424,678	£ 1,563,098,792
1919-1920	£ 7,434,949,429	£ 332,033,798	£ 326,603,498	£ 5,430,210	(b) 26,917,094	£ 661,094,111	£ 693,441,415	£ 987,946,296	£ 1,384,741,167	£ 396,794,871
1920-1921	£ 8,783,744,300	£ 349,598,616	£ 328,331,757	£ 21,266,859	(b) 32,306,322	£ 939,333,833	£ 362,907,014	£ 352,320,328	£ 105,985,718	£ 246,334,610
1921-1922	£ 8,585,409,690									

¹ Includes £ 170,143,313 issued under section 1 (5) of the War Loan Act, 1915.

² Includes £ 177,113,529 cancelled under section 1 (5) of the War Loan Act, 1915, and £ 401,904,599 cancelled on conversion into 4½ per cent. War Loan under Section 1 (3) of that Act, of which £ 35,795,490 was exchanged on account of Savings Banks Funds.

³ Includes £ 313,635,273 4½ per cent. War Loan created in respect of conversions under the War Loan Act, 1915, of which £ 23,863,660 was in exchange for Stock cancelled on account of Savings Banks Funds.

⁴ Includes £ 1,075,300,128 cancelled on conversion into 5 per cent. and 4 per cent. War Loans under the War Loan Act, 1916.

⁵ Includes £ 1,130,319,134 5 per cent. and 4 per cent. War Loans created in respect of the foregoing conversion.

⁶ Includes £ 83,288,686 in 1918-1919, £ 82,601,955 in 1919-1920 and £ 6,116,024 in 1920-1921 in respect of Canadian Government dollar advances set off against corresponding sums due to the Imperial Government.

⁷ This item includes instalments of the 5 per cent. and 4 per cent. War Loan not due until after March 31st, 1917, as well as approximately £ 157,000,000 Ways and Means Advances borrowed before that date in anticipation of those instalments. Further, it treats conversions connected with those Loans as having been carried through by March 31st, 1917, although they were not actually completed until after that date.

⁸ Includes from 1920-1921 onwards Funding Loan and Victory Bonds tendered for Death Duties under 9 and 10 Geo. V, c. 37, and held by the National Debt Commissioners until drawn or paid off. The amount so held on April 1st, 1921, was £ 11,051,204.

⁹ The surplus revenue of 1920-1921 was applied in redeeming debt during the same year, and, under the provisions of section 58 of the Finance Act, 1920, did not constitute the old Sinking Fund for the following year.

NOTE. — The amount applicable in any year to the reduction of debt is not always fully applied within the year, as the National Debt Commissioners may not be able to effect purchases of Stock, etc., immediately on receipt of the money. The balance of cash in their hands at the end of the year is applied in the following year, except in the case of the Depreciation Fund, which is applied as directed by section 32 of the Finance Act, 1917.

Annex B (continued).

OTHER CAPITAL LIABILITIES

II. STATEMENT showing the TOTAL AMOUNT of OTHER CAPITAL LIABILITIES outstanding on the 1st April in each year from 1911 to 1921 inclusive; the Amounts which were made available in each year to 1920-1921 inclusive for Reduction of those Liabilities, distinguishing the sums expressly provided for that service, the Old Sinking Fund, and Miscellaneous Receipts; the Gross Amount of Liabilities Redeemed; the Amount of Liabilities Created; and the Net Increase or Decrease of Liabilities in the year.

Financial Year	1	2	Amount of Provision issued in the Year for Other Capital Liabilities.		3	4	5	6	7	8	9	10
			Total Provision for the Year	Interest								
1911-1912	£ 47,840,151	£ 3,694,591	£ 1,380,937	£ 2,313,654	—	—	£ 145,712	£ 2,459,366	£ 2,230,204	£ 4,452,000	£ +2,221,796	
1912-1913	50,061,947	4,797,790	1,687,466	3,086,324	—	—	182,323	3,262,647	3,735,291	8,488,000	+4,752,709	
1913-1914	54,814,656	4,720,634	1,795,359	2,925,275	—	—	146,669	3,071,944	2,856,886	4,426,249	+1,569,363	
1914-1915	56,384,019	4,815,546	1,691,304	3,124,242	—	—	147,169	3,271,411	2,773,393	3,374,000	+ 600,607	
1915-1916	56,984,626	5,070,300	1,728,996	3,341,304	—	—	147,683	3,488,987	2,863,025	2,599,000	— 294,025	
1916-1917	56,690,601	5,359,537	1,774,535	3,585,002	—	—	233,588	3,818,590	5,143,752	652,224	—4,491,528	
1917-1918	52,199,073	5,322,970	1,684,888	3,638,082	—	—	161,551	3,799,633	3,669,791	715,900	—2,953,891	
1918-1919	49,245,182	5,397,441	1,638,869	3,668,572	—	—	183,633	3,852,295	3,700,169	556,000	—3,144,169	
1919-1920	46,101,013	5,292,409	1,556,938	3,736,371	—	—	466,012	4,196,383	4,061,147	4,823,000	+ 761,853	
1920-1921	46,862,866	5,387,253	1,550,727	3,836,526	—	—	502,488	4,339,014	4,211,224	6,087,000	+1,875,776	
1921-1922	48,738,642											

* The amounts provided for repayment of capital are not in all cases applied within the year. The sums included in Army and Navy Votes for Redemption of the Exchequer Bonds issued under the Capital Expenditure (Money) Act, 1904, are paid to the National Debt Commissioners, and are invested and accumulated pending their application to the redemption of the Bonds on maturity. Accumulated sums were so applied in 1909-1910, 1912-1913, and 1916-1917. The sums included in the Post Office Vote for the redemption of Exchequer Bonds issued under the Telephone Transfer Act, 1911, are likewise paid to the National Debt Commissioners and applied by them in the purchasing and paying off of Bonds. Until so applied the sums are invested and accumulated. The debt created under the Anglo-Persian Oil Company (Acquisition of Capital) Amendment Act, 1919, in connection with the purchase of further shares in the Anglo-Persian Oil Company, is to be repaid by the application of the balance of dividends received on the holding after paying the interest on the debt outstanding. The issues on this account are included in column 6 above.

Annex B (continued).

AGGREGATE GROSS LIABILITIES

III. STATEMENT showing the TOTAL AGGREGATE GROSS LIABILITIES of the State outstanding on the 1st April in each year from 1911 to 1921 inclusive; the Amounts which were made available in each year to 1920-1921 inclusive for Reduction of those Liabilities, distinguishing the sums expressly provided for that service, the Old Sinking Fund, and Miscellaneous Receipts; the Gross Amount of Liabilities Redeemed; the Amount of Liabilities Created; and the Net Increase or Decrease of Aggregate Gross Liabilities in the year.

Financial Year	Total Aggregate Gross Liabilities on the 1st April of each Year	Amount of Provision issued in the Year		Amount applicable to reduction of Liabilities out of (a) Old Sinking Fund of previous Year, (b) Depreciation Fund	Miscellaneous Receipts and Sums taken out of Exchequer Balance applied to reduction of Liabilities in the Year	Total Amount applicable to reduction of Liabilities in the Year. (Columns 4, 5, and 6)	Gross Amount of Liabilities redeemed in the Year	Liabilities created in the Year	Net Increase (+) or Decrease (-) of Aggregate Gross Liabilities in the Year
		Interest and Management	Repayment of Principal						
	1.	2.	3.	4.	5.	7.	8.	9.	10.
1911-1912	£ 733,072,610	£ 28,194,591	£ 18,835,919	£ 9,358,672	£ 2,356,766	£ 12,275,768	£ 12,718,182	£ 4,452,000	£ —
1912-1913	724,806,428	29,267,790	18,998,233	10,359,557	(a) 5,000,000	15,986,667	17,006,007	8,488,000	—
1913-1914	716,288,421	29,220,634	18,689,479	10,531,155	(a) 180,069	11,749,685	13,060,560	4,426,249	—
1914-1915	707,654,110	27,484,442	21,203,843	6,289,599	(a) 95,115	7,203,761	11,726,408	469,874,000	+
1915-1916	1,165,801,702	65,319,611	59,809,101	5,510,510	—	192,851,079	² 602,461,364	21,634,098,907	+
1916-1917	2,197,439,245	132,610,030	126,843,512	5,766,518	—	143,518,566	³ 1,300,717,368	³ 3,166,923,104	+
1917-1918	4,063,644,981	195,174,036	189,359,442	5,823,594	(b) 34,607,269	205,414,669	205,178,924	2,062,629,762	+
1918-1919	5,921,095,819	275,272,091	269,608,073	5,664,018	(b) 29,406,025	295,147,668	388,026,055	1,947,980,678	+
1919-1920	7,481,050,442	337,326,117	328,159,536	9,166,581	(b) 26,917,094	697,637,798	⁵ 992,007,443	1,389,594,167	+
1920-1921	7,878,607,166	354,985,869	329,882,484	25,103,385	(b) 32,306,322	367,246,028	⁶ 356,531,552	112,072,718	—
1921-1922	17,634,148,332								244,458,834

¹ See note 1 on page 198. ² See notes 2 and 3 on page 198. ³ See notes 4 and 5 on page 198. ⁴ See note 7 on page 198. ⁵ See note 6 on page 198. ⁶ See note 9 on page 198. ⁷ See note 8 on page 198.

United States of America.¹

I. BUDGETARY MEASURES.

1. *How far ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

Ordinary revenues, as shown by the following table, have exceeded ordinary expenditures, including interest on the public debt and debt redemptions chargeable against ordinary receipts, during the fiscal years ending June 30th, 1920 and 1921, and, according to latest estimates, for the fiscal year 1922, revenues will again exceed expenditures.

(On the basis of daily Treasury statements.)

	Fiscal year 1920	Fiscal year 1921	Fiscal year 1922 estimated March 1922
Total ordinary receipts	\$ 6,694,565,389	\$ 5,624,932,961	\$ 3,994,000,000
Total ordinary expenditures, including interest on the Public Debt	6,482,077,241	5,538,040,689	3,947,000,000
Excess of receipts over expenditures	212,488,148	86,892,272	47,000,000

2. *Whether expenditure on armaments has been reduced.*

The reduction of expense for armaments is indicated by the following table showing annual disbursements for this purpose by the Army and Navy Departments for the fiscal years 1920 and 1921, with estimates for 1922.

¹ Report submitted by Mr. R. W. Boyden, delegate at the Brussels Conference.

(On the basis of warrants issued.)

Department	Fiscal year 1920	Fiscal year 1921	Fiscal year 1922 estimated
	\$	\$	\$
War	1,053,012,976	504,846,580	358,635,500
Navy	632,690,268	647,870,645	458,332,000

3 and 4. *The extent of unproductive and productive extraordinary expenditure.*

Any expenditures which might come under these headings are included with ordinary disbursements, there being no supplementary budget. It will be noted from section 1 that expenditures, whether they may be classified as ordinary or extraordinary, have been met by ordinary revenues.

5. *Policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living and the effects of this policy on budget conditions.*

Increased compensation was granted during the war to most civilian employees of the Government (exclusive of those in the postal service) whose annual compensation was less than \$2,740, and has been continued, pending a contemplated reclassification of civil service positions. The additional compensation paid to postal employees during the fiscal year 1920 was discontinued when a readjustment of compensation was made throughout that service beginning with July 1st, 1920. The expenditure due to additional compensation granted to civilian and postal employees is shown below:

(On the basis of warrants issued.)

Fiscal Year	Increased compensation paid civilian employees	Additional compensation paid postal employees
	\$	\$
1920	51,307,807	35,698,400
1921	68,900,176	1,374,015
1922 (estimated) . .	35,000,000	—

6. *The existence of subsidies on bread and other foodstuffs, coal and other materials.*

During the war and for a period thereafter the Government regulated the price of certain commodities, including wheat, and, in order to stimulate wheat production, guaranteed to the farmers a minimum price for the 1918 and 1919 wheat crops. No payments were necessary under this guarantee, however, and the period of the guarantee ended on June 1st, 1920.

7. *Charges for unemployment.*

The United States has not, during or since the war, granted unemployment "doles". Unemployment relief, when furnished, is usually under the direction of the local communities or philanthropic agencies.

8. *The financial position of public undertakings.*

(a) *Railways.*

The Transportation Act, 1920, provided for the return of railways to their owners as from March 1st, 1920, and guaranteed a certain operating income for the six-months period from March 1st, 1920, to September 1st, 1920. Since March 1st, 1920, therefore, the expenditures on account of the railways have been in the nature of settlements of claims arising during the period of Federal control and the consequent six months of guaranteed income. In addition to these payments, under the Transportation Act, a revolving fund of \$ 300,000,000 was appropriated for the purpose of making loans to the railroads to cover capital expenditures. Expenditures by the Government under the Transportation Act between March 1st, 1920, and December 31st, 1921, have amounted to over \$ 500,000,000, while on the latter date there remained due on claims already filed about \$ 240,000,000. In addition to these expenditures there had been loaned on bonds and notes, \$ 130,000,000, and about \$ 350,000,000 on equipment trust notes, up to December 31st, 1921, almost half of which had been sold to investors.

(b) *Shipping.*

The United States Shipping Board is now greatly curtailing its operations and disposing of its assets. Net expenditures for this undertaking follow:

Fiscal Year:	\$
1920	467,238,136.59
1921	92,886,738.88
1922 (estimated)	73,911,081.—

(c) *Other undertakings.*

Government operations of other utilities ceased prior to July 1st, 1920.

9. *The introduction of new taxation.*

By a new revenue act, which was approved November 23rd, 1921, surtaxes have been reduced to a maximum of 50 per cent, effective January 1st, 1922, and, at the same time, have been readjusted in the various income groups. The excess-profits tax has been repealed, effective at the close of the calendar year 1921, and a flat additional tax of 2 ½ per cent on the net income of corporations has been substituted, with the repeal of the \$ 2,000 exemption for corporations with incomes of over \$ 25,000. The new law also limits the tax upon capital gains and embodies administrative provisions which permit business reorganisations and readjustments to go forward without premature taxation of paper profits or deduction for unreal losses. It allows net losses sustained by trade or business in one year to be deducted from the profits of the two succeeding years, and authorizes final settlement of tax claims and assessments,

It contains many other provisions which are designed to simplify the law and improve its administration. Taken all in all, the effect of these changes is to give substantial relief to business and industry and to restore in some measure the freedom of business transactions. It is estimated, moreover, that the result is a net reduction of the tax burden on account of income and profits taxes alone of about \$ 410,000,000 a year. Reductions in other taxes, amounting to about \$ 425,000,000, are also made by the Revenue Act of 1921. The transportation and insurance taxes imposed by Title V of the old law, the nuisance tax on toilet and medicinal articles, and the specific sales taxes on musical instruments, sporting goods, motion-picture films, articles made of fur, toilet soaps, and other articles, are repealed, while the taxes on soft drinks, candy,

so-called luxuries and works of art are markedly reduced or restricted. On this basis it is estimated the new law reduces the aggregate tax burden by about \$ 835,000,000 for the first full fiscal year of its operation, the year 1923.

10. *Methods of raising money by loans,*
whether by:

- (a) *long-term loans ;*
- (b) *short-term loans in the open market ;*
- (c) *loans direct from the central banks leading to further new inflation,*

(a) There have been no long-term loans placed by the Government since 1918, when the Fourth Liberty Loan was successfully floated.

(b) Since the issue of Four-year Victory notes in May 1919, Government borrowings have taken the form of Treasury Certificates of Indebtedness with a maturity of one year or less, Treasury notes maturing in from three to four years and War Savings Certificates maturing in five years. As these obligations have become due they have been paid either from current tax receipts or from the proceeds of new loans.

For the past two or three years the Treasury has, generally speaking, been floating a constantly decreasing volume of securities, and its operations have accordingly not taken new money or absorbed funds that would otherwise go into business. On the contrary, a considerable volume of funds has been freed for ordinary commercial uses, and the Treasury has been slowly but surely paying its debts. This reduction in the total public debt since the high point was reached in August, 1919, has amounted to about 3.6 billion dollars up to date.

It became clear early in this administration, however, that this gradual reduction of the debt could not be expected to provide before the maturity of the Victory Liberty Loan for the retirement of all short-dated debt, and that much of the $7\frac{1}{2}$ billions of debt maturing within two years which was then outstanding would have to be refunded. Immediate steps accordingly had to be taken in order to make the short-dated debt more manageable and to facilitate the refunding operations incident to the maturity of the Victory notes. Long term operations at that time were not to be considered, and it was clear that the first refunding to be undertaken should be for a fairly short term. Over a year ago, therefore, on April 30th, 1921, Secretary Mellon announced that it would be the Treasury's policy to vary its offerings of short-term certificates of indebtedness from time to time with offerings of short-term notes in moderate amounts at convenient intervals, with maturities of from three to five years. The object was to distribute the short-dated debt over a longer period of years and to provide more convenient maturities. Four public offerings of these notes have already been made, and almost two billion dollars of them are outstanding, while subscriptions are now being received to the fifth offering. Through these operations the Treasury has been able to transfer about 2 billion dollars of the short-dated public debt, including all the $3\frac{3}{4}$ per cent Victory notes, to somewhat later maturities, and at the same time it has made further reductions in the debt and improved the distribution of what remains. Since March, 1921, the short-dated debt has been reduced over \$ 800,000,000. With this better distribution of the debt and with lower rates for money, the market prices of outstanding Liberty bonds and Victory notes have shown marked improvement during the last twelve months. Victory notes are above par and all issues of Liberty bonds are consistently quoted at or about par, or on an average about 12 points higher than a year ago. Treasury certificates of indebtedness, which a year or so ago the Government was selling at interest rates of $5\frac{1}{2}$ and $5\frac{3}{4}$ per cent, have recently been sold at $3\frac{1}{2}$ and $3\frac{3}{4}$ per cent, and all issues outstanding are quoted at par or above. These developments in respect

of the public debt are most encouraging and indicate that the Treasury should be able to proceed in an orderly way and without undue disturbance to business with the great refunding operations that are still necessary in connection with the Victory Liberty Loan and other short-dated debt outstanding.

The following table shows the distribution of the interest-bearing debt on the dates indicated.

(000,000's omitted)

	Liberty Bonds	Other Bonds	Short-dated Debt	Total
	\$	\$	\$	\$
Aug. 31st, 1919 (maximum)	16,219	883	9,247	26,349
June 30th, 1921	15,335	884	7,842	24,061
June 30th, 1921	15,235	884	7,618	23,737
Mar. 31st, 1922	15,177	884	6,843	22,904

(c) Apart from occasional one- and two-day loans pending the collection of tax checks or withdrawals from depository banks, the Treasury has not resorted to the Federal reserve banks for direct loans.

11. *The influence of foreign loans and of the balance of foreign trade.*

The United States has no foreign debt, and no effect on the budget by foreign loans floated in this country or by foreign balances has been noted.

12. *The effect of local and provincial finance on the budget of the State.*

There is no evidence that local and provincial finance has any adverse effect on the Federal budget in the United States.

II. MONETARY MEASURES.

1. *Increase or decrease of the note circulation.*

The total paper money in circulation in the United States outside of the Treasury and the Federal reserve banks decreased between July 1st, 1920, and June 1st, 1922, from \$4,641,005,955 to \$3,707,908,952, or 20 per cent. Federal reserve notes in circulation, which compose the largest element of the paper currency, decreased during the same period from \$3,121,241,747 to \$2,156,819,224, or 31 per cent. This represents a decrease of 37 per cent from the maximum in circulation—\$3,404,931,000, on December 23rd, 1920.

2. *The influence of Government expenditure on the currency.*

Government expenditures are having no noticeable influence on the currency.

3. *The repayment of floating debt and effects thereof.*

This has been discussed in Section 10 under "Budgetary Measures". It is barely possible that the reduction in the floating debt has been a small factor in the reduction of the volume of currency in circulation, although the relationship cannot be demonstrated.

4. *Connection between the Government and the central bank of issue.*

The Federal reserve banks are fiscal agents of the Government, but do not make advances to the Government except an occasional one- or two-day loan as previously mentioned. The Government floats its securities squarely on an investment basis, and Treasury operations do not interfere with either the currency policy or the discount policy of the Federal reserve banks

5. *The restriction of granting credits either by means of the rate of interest or in other ways.*

There are no Governmental restrictions on the granting of credits, and the only control is the influence of interest and discount rates.

6. *The existence of any artificial control of exchange, with a description of its character and its effects.*

The United States does not attempt to control exchange artificially. Foreign holders of banknotes and credit balances are not treated differently from native holders.

7. *The causes and effects of deflation.*

An idea of the causes and effects of deflation may be obtained from the following extracts from Part II of the Report of the Commission of Agricultural Enquiry of the Sixty-Seventh Congress:

"The greatest expansion of loans and discounts of all banks occurred in the period from November, 1914, when the Federal reserve banks were organized, and our entrance into the war. During this period, loans and discounts of all banks in the country expanded 40 per cent., and in the same period prices increased 75 per cent. During the war period, loans and discounts expanded 14 per cent and prices increased 17 per cent. In the post-war period, loans and discounts expanded 30 per cent and prices increased 33 per cent.

"In the early part of 1919, following a short period of price deflation and business contraction, the question of increasing the discount rates of the Federal reserve banks in the direction of the sounder policy of maintaining these rates above the going rates for commercial paper and above rates on Government bonds and certificates of indebtedness, arose. At this time the Government was considering the flotation of the Victory Loan, which it was then thought would involve \$6,000,000,000. The Treasury Department was unwilling to undertake the flotation of the Victory Loan at a rate of interest comparable with commercial rates on account of the possible effect which that action would have upon existing issues of private securities and its possible effect in requiring the refunding of the issues of Government bonds already floated.

"The discount policy of the Federal reserve banks was again subordinated to the Treasury policy in securing its credit requirements, although at this time the tendency toward expansion, speculation, and extravagance was beginning to be apparent.

.

"No action in the direction of restriction of expansion, inflation, and speculation by increases in discount rates was taken by the Federal reserve banks or the Federal Reserve Board until December, 1919, when slight advances were made in discount rates, followed in January by more radical advances and by further increases during the remainder of 1920.

"In the meantime there began and continued a period of expansion, extravagance, and speculation, the like of which has never before been seen in this country or perhaps in the world.

"This era of expansion, speculation, and extravagance resulted in the making of a large volume of debts, which was reflected in large increases in the borrowings of the member banks from Federal reserve banks. When finally the Federal reserve banks and the Federal Reserve Board adopted the policy of restriction of expansion of loans and discounts and of speculation and extravagance, loans and discounts, currency and prices had reached such a point that deflation was a process accompanied by perpendicular and very material declines of prices accompanied by great losses and hardship upon banks, communities, and individuals alike.

"The reserves of individual reserve banks and of the system as a whole began to dwindle rapidly. In some of the reserve banks the reserves fell as low as 9 per cent., and at one time it is said that the reserves of one of the banks were entirely exhausted. The tremendous drain upon the credit resources of the country brought about the over-extension of many of the banks of the country, and with some of these banks, loans and discounts had advanced to a point where the banks were utterly unable to loan additional funds to their customers without rendering themselves in great danger of insolvency.

"From 1915 to 1920 the ratio of loans and discounts of national banks to capital and surplus had increased from 3.8 to 1 to 5.5 to 1, and in many instances capital and surplus would not permit of further expansion of loans and discounts of banks without endangering the interests of depositors and stockholders alike. The policy of the Federal reserve banks, therefore, during this period underwent a change. Discount rates were raised, particularly upon certificates of indebtedness and Government bonds, resulting in the liquidation of this class of paper by the member banks and the freeing of the funds invested in them for other purposes.

"With the exhaustion of the credits of European Governments in this country, the purchasing power of Europe in our markets began to fail. This resulted in a sharp decline in exports, particularly of farm products. The exhaustion of credit and capital, coupled with the decline in exports, gave the first impetus to the decline in prices. With the beginning of this decline the forces of reaction and depression began to operate. Goods were thrown on the market, orders were cancelled, the buyer's strike developed, unemployment ensued, and complete industrial depression followed.

"As the purchasing power of the domestic population diminished and unemployment began, more and more goods began to congest the channels of commerce and more and more credit was required to carry these goods until they could be marketed. It was necessary, by a high level of discount rates, to keep these credit requirements in such a relation to the prices of goods that bank failures would not result and a financial crash increase the inevitable industrial depression resulting from declining prices.

"As the pressure of liquidation developed, there began to be demands on the part of the public for amelioration of the policy of the Federal reserve banks with respect to discount rates, based upon the assumption that lower discount rates and freer money would arrest the tide of liquidation and reduce the hardships of those who are compelled to sell in a declining market.

.....
"About one-third of the banks at this period were greatly over-extended, and it was the position of the Federal Reserve Board that a policy of cheap money at this time, coupled with an invitation to them to further extend themselves and the ratio of loans and discounts to capital, might have resulted in bank failure involving the industrial and commercial institutions and

that the Federal Reserve Board and the Federal reserve banks were confronted with a choice between continuing the high discount rates and the consequent pressure and hardship upon the commercial and agricultural industries of the country on the one hand and a policy of lower discount rates involving a possible financial crisis in the midst of an industrial crisis. The Federal reserve banks, with the approval of the Federal Reserve Board, took the first choice, and discount rates were continued upon practically the same level as before.

"It seems probable that a change in the policy of the Federal reserve system with reference to discount rates would have accomplished a reversal in part of the psychological and economic factors which at this time were moving in the direction of lower prices, and at the same time would have tended to induce on the part of banks a more liberal attitude towards furnishing additional credit.

.....
"The pressure of the forces of liquidation and depression, however, may be indicated as well by a reduction in deposits as by a reduction in loans and discounts. This pressure in the agricultural sections of the country is exhibited by the fact that the reduction of total deposits (time and demand) in agricultural counties was 11.1 per cent. as compared with 5.2 per cent. in semi-agricultural counties and 4.4 per cent. in industrial counties.

"Considering demand deposits alone, the reduction was 20.02 per cent. in agricultural counties, 13.14 per cent. in semi-agricultural counties and 10.07 per cent. in industrial counties.

.....
"Beginning with November, 1919, and continuously throughout 1920 and the first half of 1921, the loans of New York banks made on the stock exchange for out-of-town correspondents, as well as the balances of country banks with New York banks, continuously declined, and an examination of the clearings of the Federal Reserve Bank of New York through the gold settlement fund shows a continuous flow of money on ordinary transactions from the Federal Reserve Bank of New York to other Federal reserve banks during this period. The very great demands for money by industry and agriculture resulted in withdrawal of funds from New York, causing higher interest rates instead of the demands of the stock exchange resulting in a withdrawal of funds from the banks serving industry and agriculture.

"The position of Federal reserve banks and the Federal Reserve Board during the period of the war and throughout the business cycle of expansion, extravagance, speculation, deflation, and depression which followed it was extremely difficult. The banks were the fiscal agents of the Government. Through them and their auxiliary organisations the enormous issues of war bonds were floated. Their policy was not only interwoven with the policy of the Treasury Department but subordinated to it.

.....
"Toward the end of 1919 the demands of the consuming public reached such proportions as to develop on the part of the retailers a kind of buyers' panic. A supply of goods adequate to supply this extravagant demand was not forthcoming. Then the wholesalers and merchants began to experience a sudden and marked increase in their orders out of all proportion to even very prosperous conditions. This was the direct result of duplication. Many large firms finding themselves unable to supply their customers had adopted a policy of allocation, giving to the buyers only a percentage of their orders and endeavouring to distribute the supply as equitably as possible. This forced or led many retailers to place orders with a number of different firms, where perhaps they had dealt with but one hitherto. By placing two, three or four orders for the same amount of goods, they were able then to obtain, perhaps, in this way the full amount of the supply they desired.

"This led to a runaway market, a purely sellers' market, and gave a wholly fictitious impression of the probable demands of the coming year. As the mills running overtime began to catch up with these orders and to complete deliveries, the retailers suddenly found themselves with far larger stocks than they had anticipated, while on the other hand the rapid rise in retail prices had brought about a distinct, though probably at the time grossly exaggerated, curtailment of the buying power of the public. It was inevitable that this bubble of inflated prices must burst at some time, and the first warning that it was coming was found in the cancellation of these duplicated orders. These cancellations, moderate at first, soon became, as the fall in prices progressed, simply an avalanche, and so far as the most careful investigation discovers, it was this wave of cancellation, the fright which accompanied it, and the exhaustion of credit which preceded it which were the main or precipitating causes which carried prices down in such a headlong fashion. While there were probably many to anticipate a fairly drastic reaction from the unexampled boom of 1919-20, there were few probably, and possibly none, really to anticipate the tremendous decline which actually took place. Records of price changes run back now to the beginning of the nineteenth century. In this period of 120 years the debacle of 1920-21 was without parallel.

"All of these conditions contributed to forcing upward the loans and discounts of State and National banks and the deposit and currency liabilities of the Federal reserve banks. By November, 1920, loans and discounts of national banks had reached the total of \$13,764,721,000; the total bills discounted and bills bought by Federal reserve banks had reached the total of \$2,983,103,000, and Federal reserve notes \$3,325,538,000.

"This period was characterised by the passing of conditions which influenced the adoption of the policy of fixing discount rates at the Federal reserve bank at a point below the rates upon the paper to which they applied.

"During all of the period following the armistice, the position of the Federal Reserve Board and the Federal reserve banks was exceedingly difficult. On the one hand it was the duty of the board and banks to see that the essential credit requirements of the commercial, manufacturing, and agricultural industry of the country were met as far as they could be. On the other hand, it was necessary that credit for non-essential and speculative purposes would be limited as much as possible, and that the banks were not allowed to extend themselves so that failure would precipitate a financial crash. In other words, it was the job of the Federal reserve system to extend credit without encouraging dangerous expansion of banking liabilities.

"The balance between these two positions was extremely delicate, and it is probable that the board and some of the Federal reserve banks, having in mind the preservation of the integrity of the banking system and the prevention of a financial panic, imposed excessive pressure in the direction of reduction, or at least the prevention of expansion of loans and discounts of the member banks. The policy inaugurated during all of this period, and increasingly during the latter half of 1920, was one of restriction of credit.

"The alternative of such a policy was the extension of all the credit desired for any purposes. Such a policy would have involved the following dangers: First, the extension of loans and discounts by banks to a point which might later result in a large number of failures; second, the reduction of the reserves of the Federal reserve banks below what Bagehot so expressively calls the "apprehension point"; third, excessive currency issues resulting in depreciated currency; and, fourth, the loss of public confidence in the banking system, runs on the banks, and demands for the redemption of Federal reserve notes in gold.

"Whatever the policy of the Federal Reserve Board or Federal reserve banks in the direction of loan restrictions, it could only be effective to the extent that member banks were unable to meet the demands of customers with their own resources and were compelled to borrow at the Federal reserve banks. In other words, discount rates could only be made effective in the

restriction of loans and discounts against the bank which was borrowing from its Federal reserve bank.

“Neither the Federal Reserve Board nor the Federal reserve banks could directly control or supervise the loan policy of member banks. They had no power to require a bank to make a loan or to prohibit it from making one. Obviously, they could in no way directly control the loan policies of about 20,000 State banks and trust companies, representing 35 or 40 per cent. of the banking resources of the country, that were not members of the Federal reserve system.

“Whatever restraining influence was exercised could be exercised only against member banks, and could be exercised only by restriction of credit, either through refusing loans to member banks in individual cases or by pressure of discount rates applied to those member banks whose necessities required them to borrow from the Federal reserve banks. Restraint was exercised in both ways, and there were cases where restraint resulted in hardship not only upon the member banks but upon the member banks’ customers.

“While loans and discounts both of banks and of Federal reserve banks continued to increase until October, 1920, and currency issues until January, 1921, the net result of the period as reflected in loans and discounts and currency issues was a decline.

“In this period, loans and discounts of all banks, State and National, excluding savings banks, declined from \$27,368,231 to \$24,761,929, a decline of \$2,606,302, or 9.5 per cent. Loans and discounts of National banks for the same period decreased from \$13,611,416,000 to \$12,004,515,000, a decrease of \$1,606,901,000, or 11.8 per cent. In the same period, total bills discounted and bills bought by Federal reserve banks declined from \$2,830,979,000 to \$1,803,163,000, a decrease of \$1,027,816,000, or 36.3 per cent. Federal reserve notes in circulation declined during the same period from \$3,116,718,000 to \$2,537,617,000, a decline of \$579,101,000 or 18.5 per cent.

“The general stock of money in the United States in the same period increased from \$7,804,528,000 to \$8,073,737,000, an increase of \$269,209,000, or 3.4 per cent.

“In general, loans and discounts decreased during this period 18 per cent., while prices of all commodities decreased 44.9 per cent., and prices of farm products declined 53.9 per cent., as indicated by the Bureau of Labor Statistics index.

“The ratio of Federal reserve total cash reserves to net deposits and Federal reserve note liabilities rose from 43.6 during this period to 60.8. This increase in the reserve ratio was partially due to the liquidation of the borrowings of member banks from the Federal reserve banks, and in part to the net importations of gold, which, during the fiscal year ending June 30, 1921, amounted to \$511,309,539.”

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

The following is the list of the laws and administrative decisions believed to have a bearing upon this question and effective since the beginning of the time specified. The earliest one, it will be noted, antedates the summer of 1920.

1. Act of April 23rd, 1920, to amend Section 600 of the Act of September 8th, 1916, entitled "An Act to increase the revenue, and for other purposes", relating to the import duties on printing paper.

2. Treasury Decision 38486, relating to the quarantine governing the importation of broom corn. August 19th, 1920.

3. Treasury Decision 38500, relating to the quarantine governing the importation of potatoes. September 20th, 1920.

4. Treasury Decision 38600, relating to regulations under the Seed-importation Act of August 24th, 1912, as amended August 11th, 1916. January 7th, 1921.

5. Joint Resolution declaring that certain Acts of Congress, joint resolutions, and proclamations shall be construed as if the war had ended and the present or existing emergency expired. Approved March 3rd, 1921.

6. Treasury Decision 38655, relating to the quarantine governing the importation of citrus fruits from certain countries, on account of the prevalence of the citrus black fly. March 12th, 1921.

7. Treasury Decision 38675 relating to passports and seamen's identification cards. April 5th, 1921.

Collectors informed that this Government no longer requires American citizens entering or leaving the United States or aliens departing from the United States to present passports or permits, nor requires the issuance of identification cards to alien seamen leaving the United States. All instructions in conflict rescinded.

8. Treasury Decision 38695, relating to the quarantine governing the importation of potatoes. April 28th, 1921.

9. Act of May 27th, 1921. Title I, Emergency Tariff. Title II, Anti-dumping (See Annex). Title III, Assessment of *ad valorem* duties. Title IV, General Provisions. Title V, Dyes and Chemicals.

10. Treasury Decision 38716, relating to dye and chemical control under the Act of May 27th, 1921. May 31st, 1921.

11. Treasury Decision 38755, relating to the import duty upon certain wheat products from Canada. June 13th, 1921.

Products of wheat not specially provided for imported from Canada are dutiable at the rate of 10 per cent *ad valorem* under paragraph 644, Tariff Act of 1913.

12. Treasury Decision 38907, relating to an Act of November 16th, 1921, extending the time of Titles I and V of the Act of May 27th, 1921. November 19th, 1921.

13. Treasury Decision 38908, revoking the authorisation of a countervailing duty on certain printing paper from Italy. November 19th, 1921.

14. Treasury Decision 39014, waiving certificates of inspection for matches manufactured in Finland. February 18th, 1922.

15. Treasury Decision 39026, relating to the requirement for permits to import certain biologic products under the Act of May 27th, 1921. February 28th, 1922.

Importation of arsphenamine and neoarsphenamine (salvarsan and neosalvarsan) by unlicensed firms prohibited. Permits to import necessary under Dye and Chemical Contract Act.

16. Treasury Decision 39028. Finding as to peeled tomatoes in tins from Italy, under Act of May 27th, 1921 (Anti-dumping). March 4th, 1922.

17. Treasury Decision 39034. Embargo on arms and munitions of war to Mexico. March 9th, 1922.

18. Treasury Decision 39037. Revocation of embargo on arms and munitions of war to the Dominican Republic. March 20th, 1922.

19. Proclamation of the President of the United States, No. 1621, dated March 4th, 1922, declaring it unlawful to export arms or munitions of war to China. Joint Resolution of January 31st, 1922, referred to in the Proclamation. Treasury Decision 39058, April 8th, 1922, instructing Collectors of Custom to refuse to permit such exports except on licence issued by the Secretary of State.

20. Proclamation of the President of the United States, No. 1623, dated March 22nd, 1922, discontinuing discriminating tonnage duties and imposts in the case of German vessels and their cargoes.

21. Decision of the Supreme Court of the United States in the cases of *Grogan, Collector of Internal Revenue, versus Walker and Sons* and *the Anchor Line, Limited, versus Aldridge, Collector of Internal Revenue*, decided May 15th, 1922, holding that the transportation of intoxicating liquors from a foreign port through some part of the United States to another foreign port is forbidden under the Constitution and the Volstead Act.

22. Act of May 26th, 1922, to amend the Act entitled "An Act to prohibit the importation and use of opium for other than medicinal purposes", approved February 8th, 1909, as amended. Treasury Decision 39154, setting forth emergency regulations under this Act. June 12th, 1922.

2. *The existence (or abolition) of price discrimination against foreign trade.*

It is not believed that any known regulations or practices such as would be properly classifiable under this head have existed in the United States during the period named.

3. *The conclusion of (a) commercial conventions (b) transport conventions.*

The following treaties appear to be properly classified as commercial conventions. The list contains all of those included in the Treaty Series, published by the State Department, which were in effect on July 20th, 1922, and which have been signed, proclaimed, or of which ratifications have been exchanged, since June 1st, 1920. The list does not contain parcel post conventions or any arrangements not appearing in the Treaty Series. The United States has become a party to no agreement properly classifiable as a transport convention within the period covered.

1. Treaty of Commerce with Ethiopia. Signed June 27th, 1914. Proclaimed August 9th, 1920.
2. Convention with Venezuela facilitating the work of travelling salesmen. Signed July 3rd, 1919. Ratifications exchanged August 18th, 1920. Proclaimed October 15th, 1920.
3. Agreement with France modifying the provisions of Article VII of the Convention of Navigation and Commerce of June 24th, 1822. Signed July 17th, 1919. Ratifications exchanged January 10th, 1921. Proclaimed January 12th, 1921.
4. Convention with El Salvador facilitating the work of travelling salesmen. Signed January 28th, 1919. Ratifications exchanged January 18th, 1921. Proclaimed January 22nd, 1921.
5. Treaty and Protocol with Siam revising treaties hitherto existing. Signed December 16th, 1920. Ratifications exchanged September 1st, 1921. Proclaimed October 12th, 1921.
6. Treaty with China confirming the application of a five per cent *ad valorem* rate of duty to importation of goods into China by citizens of the United States. Signed October 20th, 1920. Ratifications exchanged November 5th, 1921. Proclaimed November 7th, 1921.
7. Convention with Paraguay facilitating the work of travelling salesmen. Signed October 20th, 1919. Ratifications exchanged March 22nd, 1922. Proclaimed April 28th, 1922.

September 15th, 1922.

ANNEX

(Public-No. 10-67th Congress.)
(H. R. 2435.)

An Act..... to prevent dumping of foreign merchandise on the markets of the United States; to regulate the value of foreign money; and for other purposes.

Be it enacted by the Senate and the House of Representatives of the United States of America in Congress assembled,

.....

TITLE II. — ANTIDUMPING.

Dumping investigation.

Sec. 201. (a) That whenever the Secretary of the Treasury (hereinafter in this Act called the "Secretary"), after such investigation as he deems necessary, finds that an industry in the United States is being or is likely to be injured, or is prevented from being established, by reason of the importation into the United States of a class or kind of foreign merchandise, and that merchandise of such class or kind is being sold or is likely to be sold in the United States or elsewhere at less than its fair value, then he shall make such finding public to the extent he deems necessary, together with a description of the class or kind of merchandise to which it applies in such detail as may be necessary for the guidance of the appraising officers.

(b) Whenever, in the case of any imported merchandise of a class or kind as to which the Secretary has not so made public a finding, the appraiser or person acting as appraiser has reason to believe or suspect, from the invoice or other papers or from information presented to him, that the purchase price is less, or that the exporter's sales price is less or likely to be less, than the foreign market value (or, in the absence of such value, than the cost of production), he shall forthwith, under regulations prescribed by the Secretary, notify the Secretary of such fact and withhold his appraisal report to the collector as to such merchandise until the further order of the Secretary, or until the Secretary has made public a finding as provided in subdivision (a) in regard to such merchandise.

Special dumping duty.

Sec. 202. (a) That in the case of all imported merchandise, whether dutiable or free of duty, of a class or kind as to which the Secretary has made public a finding as provided in Section 201, and as to which the appraiser or person acting as appraiser has made no appraisal report to the collector before such finding has been so made public, if the purchase price or the exporter's sales price is less than the foreign market value (or, in the absence of such value, than the cost of production), there shall be levied, collected, and paid, in addition to the duties imposed thereon by law, a special dumping duty in an amount equal to such difference.

(b) If it is established to the satisfaction of the appraising officers that the amount of such difference between the purchase price and the foreign market value is wholly or partly due to the fact that the wholesale quantities, in which such or similar merchandise is sold or freely offered for sale to all purchasers for exportation to the United States in the ordinary course of trade,

are greater than the wholesale quantities in which such or similar merchandise is sold or freely offered for sale to all purchasers in the principal markets of the country of exportation in the ordinary course of trade for home consumption (or, if not so sold or offered for sale for home consumption, then for exportation to countries other than the United States), then due allowance shall be made therefore in determining the foreign market value for the purposes of this section.

(c) If it is established to the satisfaction of the appraising officers that the amount of such difference between the exporter's sales price and the foreign market value is wholly or partly due to the fact that the wholesale quantities, in which such or similar merchandise is sold or freely offered for sale to all purchasers in the principal markets of the United States in the ordinary course of trade, are greater than the wholesale quantities in which such or similar merchandise is sold or freely offered for sale to all purchasers in the principal markets of the country of exportation in the ordinary course of trade for home consumption (or, if not so sold or offered for sale for home consumption, then for exportation to countries other than the United States), then due allowance shall be made therefore in determining the foreign market value for the purposes of this section.

Purchase price.

Sec. 203. That for the purposes of this title, the purchase price of imported merchandise shall be the price at which such merchandise has been purchased or agreed to be purchased, prior to the time of exportation, by the person by whom or for whose account the merchandise is imported, plus, when not included in such price, the cost of all containers and coverings and all other costs, charges, and expenses incident to placing the merchandise in condition, packed ready for shipment to the United States, less the amount, if any, included in such price, attributable to any additional costs, charges, and expenses, and United States import duties, incident to bringing the merchandise from the place of shipment in the country of exportation to the place of delivery in the United States; and plus the amount, if not included in such price, of any export tax imposed by the country of exportation on the exportation of the merchandise to the United States; and plus the amount of any import duties imposed by the country of exportation which have been rebated, or which have not been collected, by reason of the exportation of the merchandise to the United States; and plus the amount of any taxes imposed in the country of exportation upon the manufacturer, producer, or seller, in respect to the manufacture, production or sale of the merchandise, which have been rebated, or which have not been collected, by reason of the exportation of the merchandise to the United States.

Exporter's sales price.

Sec. 204. That for the purpose of this title the exporter's sales price of imported merchandise shall be the price at which such merchandise is sold or agreed to be sold in the United States, before or after the time of importation, by or for the account of the exporter, plus, when not included in such price, the cost all containers and covering and all other costs, charges, and expenses incident to placing the merchandise in condition, packed ready for shipment to the United States, less (1) the amount, if any, included in such price, attributable to any additional costs, charges and expenses, and United States import duties, incident to bringing the merchandise from the place of shipment in the country of exportation to the place of delivery in the United States; (2) the amount of the commissions, if any, for selling in the United States the particular merchandise under consideration; (3) an amount equal to the expenses, if any, generally incurred by or for the account of the exporter in the United States in selling identical or

substantially identical merchandise; and (4) the amount of any export tax imposed by the country of exportation on the exportation of the merchandise to the United States; and plus the amount of any import duties imposed by the country of exportation which have been rebated, or which have not been collected, by reason of the exportation of the merchandise to the United States; and plus the amount of any taxes imposed in the country of exportation upon the manufacturer, producer, or seller in respect to the manufacture, production, or sale of the merchandise, which have been rebated, or which have not been collected, by reason of the exportation of the merchandise to the United States.

Foreign market value.

Sec. 205. That for the purposes of this title the foreign market value of imported merchandise shall be the price, at the time of exportation of such merchandise to the United States, at which such or similar merchandise is sold or freely offered for sale to all purchasers in the principal markets of the country from which exported, in the usual wholesale quantities and in the ordinary course of trade for home consumption (or, if not so sold or offered for sale for home consumption, then for exportation to countries other than the United States), plus, when not included in such price, the cost of all containers and coverings and all other costs, charges, and expenses incident to placing the merchandise in condition packed ready for shipment to the United States, except that in the case of merchandise purchased or agreed to be purchased by the person by whom or for whose account the merchandise is imported, prior to the time of exportation, the foreign market value shall be ascertained as of the date of such purchase or agreement to purchase. In the ascertainment of foreign market value for the purposes of this title, no pretended sale or offer for sale, and no sale or offer for sale intended to establish a fictitious market, shall be taken into account.

Cost of production.

Sec. 206. That for the purposes of this title the cost of production of imported merchandise shall be the sum of—

(1) The cost of materials of, and of fabrication, manipulation, or other process employed in manufacturing or producing, identical or substantially identical merchandise, at a time preceding the date of shipment of the particular merchandise under consideration which would ordinarily permit the manufacture or production of the particular merchandise under consideration in the usual course or business;

(2) The usual general expenses (not less than 10 per centum of such cost) in the case of identical or substantially identical merchandise;

(3) The cost of all containers and coverings, and all other costs, charges, and expenses incident to placing the particular merchandise under consideration in condition, packed ready for shipment to the United States; and

(4) An addition for profit (not less than 8 per centum of the sum of the amounts found under paragraphs (1) and (2) equal to the profit which is ordinarily added, in the case of merchandise of the same general character as the particular merchandise under consideration, by manufacturers or producers in the country of manufacture or production who are engaged in the same general trade as the manufacturer or producer of the particular merchandise under consideration.

Exporter.

Sec. 207. That for the purposes of this title the exporter of imported merchandise shall be the person by whom or for whose account the merchandise is imported into the United States:

- (1) If such person is the agent or principal of the exporter, manufacturer, or producer; or
- (2) If such person owns or controls, directly or indirectly, through stock ownership or control or otherwise, any interest in the business of the exporter, manufacturer, or producer; or
- (3) If the exporter, manufacturer, or producer owns or controls, directly or indirectly, through stock ownership or control or otherwise, any interest in any business conducted by such person; or
- (4) If any person or persons, jointly or severally, directly or indirectly, through stock ownership or control or otherwise, own or control in the aggregate 20 per centum or more of the voting power or control in the business carried on by the person by whom or for whose account the merchandise is imported into the United States, and also 20 per centum or more of such power or control in the business of the exporter, manufacturer, or producer.

Oaths and bonds on entry.

Sec. 208. That in the case of all imported merchandise, whether dutiable or free of duty, of a class or kind as to which the Secretary has made public a finding as provided in Section 201, and delivery of which has not been made by the collector before such finding has been so made public, unless the person by whom or for whose account such merchandise is imported makes oath before the collector, under regulations prescribed by the Secretary, that he is not an exporter, or unless such person declares under oath at the time of entry, under regulations prescribed by the Secretary, the exporter's sales price of such merchandise, it shall be unlawful for the collector to deliver the merchandise until such person has made oath before the collector, under regulations prescribed by the Secretary, that the merchandise has not been sold or agreed to be sold by such person, and has given bond to the collector, under regulations prescribed by the Secretary, with sureties approved by the collector, in an amount equal to the estimated value of the merchandise, conditioned: (1) that he will report to the collector the exporter's sales price of the merchandise within 30 days after such merchandise has been sold or agreed to be sold in the United States, (2) that he will pay on demand from the collector the amount of special dumping duty, if any, imposed by this title upon such merchandise, and (3) that he will furnish to the collector such information as may be in his possession and as may be necessary for the ascertainment of such duty, and will keep such records as to the sale of such merchandise as the Secretary may by regulation prescribe.

Duties of appraisers.

Sec. 209. That in the case of all imported merchandise, whether dutiable or free of duty, of a class or kind as to which the Secretary has made public a finding as provided in Section 201, and as to which the appraiser or person acting as appraiser has made no appraisement report to the collector before such finding has been so made public, it shall be the duty of each appraiser or person acting as appraiser, by all reasonable ways and means to ascertain, estimate, and appraise (any invoice or affidavit thereto or statement of cost of production to the contrary notwithstanding) and report to the collector the foreign market value or the cost of production, as the case may be, the purchase price, and the exporter's sales price, and any other facts which the Secretary may deem necessary for the purposes of this title.

Appeals and protests.

Sec. 210. That for the purposes of this title the determination of the appraiser or person acting as appraiser as to the foreign market value or the cost of production, as the case may be,

the purchase price, and the exporter's sales price, and the action of the collector in assessing special dumping duty, shall have the same force and effect and be subject to the same right of appeal and protest, under the same conditions and subject to the same limitations; and the general appraisers, the Board of General Appraisers, and the Court of Customs Appeals shall have the same jurisdiction, powers, and duties in connection with such appeals and protests as in the case of appeals and protests relating to customs duties under existing law.

Drawbacks.

Sec. 211. That the special dumping duty imposed by this title shall be treated in all respects as regular customs duties within the meaning of all laws relating to the drawback of customs duties.

Short title.

Sec. 212. That this title may be cited as the "Antidumping Act, 1921."

Uruguay

I. BUDGETARY MEASURES.

The Government has pursued an economic policy of strict economy and has limited public expenditure to the barest necessities.

Nevertheless, the decrease in revenue and particularly in customs receipts and the increase in the cost of public services and of goods supplied to the Government have inevitably led to a considerable adverse margin in the budget. The various deficits have been partly met by funds obtained by means of the issue of Government bonds.

The present budget system is the same as that which was in force in 1921.

On April 24th of this year the National Administrative Council submitted to the Legislature the draft of a new budget for the financial year 1922-1923. It demands the imposition of taxes, especially on the consumption of articles falling more or less under the head of luxuries. The duties on tobacco, perfumery, and toilet requisites and on inheritances are to be increased and a tax of 10 per cent. is to be added to various taxes already in existence. A luxury tax is being imposed and also a tax on horse-racing. In all, an increase on present revenue amounting to \$6,340,000 is anticipated.

Moreover, everything is being done to avoid any increase in the charges falling on the State, and the principle has been accepted that no new salaried post should be created, and even for the time being that vacancies which may occur should not be filled except in the case of urgent and indispensable services.

In this way the Government will be able to balance its revenue and expenditure accounts.

From the above it follows that the remuneration of officials has not been raised in spite of the difficulties created by the rise in the cost of living; only a few salaries have been partially modified on this account.

II. MONETARY SITUATION.

The financial situation of the principal public enterprises is in general very prosperous.

The Republican Bank, which has made steady progress during its 25 years of existence, is at present the most powerful economic and financial force in the country. During 1921 the actual profits made by the State Bank reached the sum of \$2,810,000. At this period its capital was fixed at \$21,230,000.

The Mortgage Bank of Uruguay is also a State institution and has aided the development of credit secured on land in the country by issuing shares quoted on the Stock Exchange; its balance sheet on March 31st of this year shows a total profit of \$484,604.36, which at the present rate of exchange is equivalent to nearly 5 million francs.

The State Insurance Bank, which rendered considerable service during and after the war, showed profits amounting on December 31st, 1921, to \$902,285.

The Electric Power Stations also belong to the Government. During the financial year 1919-1920 they brought in \$1,268,453.

In regard to Posts and Telegraphs, the results of the past year, in spite of some increase in the charges, have not been favourable. This is no doubt due to the decrease in the volume of correspondence which has been one of the consequences of the world war. A deficit of about \$200,000 is anticipated.

The system of the inconvertibility of bank-notes which was established in 1914 at the outbreak of war should have terminated on June 17th of this year; but a new law, postponing until December 31st, 1922, the repayment of the loan of 15 million piastres granted to France, also lays down that the system of inconvertibility will be maintained until six months after the payment of this loan — that is to say, until June 30th, 1923. The notes of the Republican Bank will therefore be convertible into gold as from July 1st, 1923.

On the same date the prohibition on the exportation of gold, established in 1914, will also come to an end.

In spite of these departures from the normal monetary system, the currency of the country continues to be perfectly stable. The Uruguayan piastre is at a strong premium in European markets. At the present moment it is quoted at about 10 francs per piastre.

The cover for the paper money in circulation is largely in excess of the amount stipulated by law. During 1921 the Bank was authorised to issue bank-notes to the value of \$81,000,000 (without counting small notes). It only availed itself of this authorisation to the extent of 70 per cent. On December 31st, 1921, the notes of large denomination in circulation amounted to barely \$57,000,000, or 1½ million piastres more than on the same date in the previous year.

The metallic reserves of the Bank on December 31st, 1921, amounted to \$57,552,447.65. It may be noted that in the course of the year the Government authorised the exportation of gold to the value of \$171,660. Otherwise the stock of gold would have increased, as compared with 1920, by \$106,569.

The proportion which must be maintained between gold reserves and the issue of notes and sight liabilities is fixed by law at 40 per cent. This proportion has been maintained with a large margin and on the above date it was 61.94 %, or more than 20 % more than the law demands.

III. INTERNATIONAL TRADE.

The progress of foreign trade in the Republic is shown by the following figures:

	Imports	Exports
1920	\$132,547,958	\$80,751,735
1921	\$ 95,348,537	\$70,265,252

The balances, therefore, amounted to

\$51,795,323 in 1920
\$25,083,285 in 1921.

The commercial crisis from which the world is suffering at the present time has seriously affected the principal sources of national production. The fall in prices in our staple industries (meat and wool) has caused a substantial decrease in the export trade. Since 1914 a scale of values corresponding to the world economic situation arising out of the war had been created and business has been carried on for some years on this basis. The present crisis, therefore, immediately made itself felt on the value and rent of land. Moreover, the precarious situation of the foreign exchange markets has contributed largely to the disturbance of business.

We are in fact traversing a period of liquidation, which will put an end to the abnormal commercial conditions prevailing during the war and the years immediately following it.

BRUSSELS, *June 30th*, 1922.

ANNEX I.

INTERNATIONAL FINANCIAL CONFERENCE, BRUSSELS (1920).

RESOLUTIONS

I. — RESOLUTIONS PROPOSED BY THE COMMISSION ON PUBLIC FINANCE AND ADOPTED UNANIMOUSLY BY THE CONFERENCE

I.

Thirty-nine nations have in turn placed before the International Financial Conference a statement of their financial position. The examination of these statements brings out the extreme gravity of the general situation of public finance throughout the world, and particularly in Europe. Their import may be summed up in the statement that three out of every four of the countries represented at this Conference, and eleven out of twelve of the European countries, anticipate a Budget deficit in the present year. Public opinion is largely responsible for this situation. The close connection between these Budget deficits and the cost of living, which is causing such suffering and unrest throughout the world, is far from being grasped. Nearly every Government is being pressed to incur fresh expenditure; largely on palliatives which aggravate the very evils against which they are directed. The first step is to bring public opinion in every country to realise the essential facts of the situation and particularly the need for re-establishing public finances on a sound basis as a preliminary to the execution of those social reforms which the world demands.

II.

Public attention should be especially drawn to the fact that the reduction of prices and the restoration of prosperity is dependent on the increase of production, and that the continual excess of Government expenditure over revenue represented by Budget deficits is one of the most serious obstacles to such increase of production, as it must sooner or later involve the following consequences:

- (a) Further inflation of credit and currency.
- (b) A further depreciation in the purchasing power of the domestic currency, and a still greater instability of the foreign exchanges.
- (c) A further rise in prices and in the cost of living.

The country which accepts the policy of Budget deficits is treading the slippery path which leads to general ruin; to escape from that path no sacrifice is too great.

III.

It is therefore imperative that every Government should, as the first social and financial reform, on which all others depend:

- (a) Restrict its ordinary recurrent expenditure, including the service of the debt to such an amount as can be covered by its ordinary revenue.

- (b) Rigidly reducing all expenditure on armaments in so far as such reduction is compatible with the preservation of national security.
- (c) Abandon all unproductive extraordinary expenditure.
- (d) Restrict even productive extraordinary expenditure to the lowest possible amount.

IV.

The Supreme Council of the Allied Powers in its pronouncement on March 8th declared that "Armies should everywhere be reduced to a peace footing, that armaments should be limited to the lowest possible figure compatible with national security and that the League of Nations should be invited to consider, as soon as possible, proposals to this end." The statements presented to the Conference show that, on an average, some 20 per cent, of the national expenditure is still being devoted to the maintenance of armaments and the preparations for war. The Conference desires to affirm with the utmost emphasis that the world cannot afford this expenditure. Only by a frank policy of mutual co-operation can the nations hope to regain their old prosperity; and in order to secure that result the whole resources of each country must be devoted to strictly productive purposes.

The Conference accordingly recommends most earnestly to the Council of the League of Nations the desirability of conferring at once with the several Governments concerned, with a view to securing a general and agreed reduction of the crushing burden which, on their existing scale, armaments still impose on the impoverished peoples of the world, sapping their resources and imperilling their recovery from the ravages of war. The Conference hopes that the Assembly of the League which is about to meet will take energetic action to this end.

V.

While recognising the practical difficulties in the way of immediate action in all cases, the Conference considers that every Government should abandon at the earliest practicable date all uneconomical and artificial measures which conceal from the people the true economic situation; such measures include:

(a) The artificial cheapening of bread and other foodstuffs, and of coal and other materials by selling them below cost price to the public, and the provision of unemployment doles of such a character as to demoralise instead of encouraging industry.

(b) The maintenance of railway fares, postal rates and charges for other government services on a basis which is insufficient to cover the cost of the services given, including annual charges on capital account.

VI.

In so far as, after every effort has been made, it is impossible to cut down expenditure within the limits of existing revenues, fresh taxation must be imposed to meet the deficit and this process must be ruthlessly continued until the revenue is at least sufficient to meet the full amount of the recurrent ordinary expenditure. The Conference considers that the relative advantages of the various possible means of increasing the national revenue, whether by direct or indirect taxation or by a capital levy (to be devoted to the repayment of debt), depend upon the special economic conditions obtaining in each country, and that in consequence each country must decide for itself on the methods which are best suited to its own internal economy.

VII.

If the above principles are accepted and applied, loans will not be required for recurrent ordinary expenditure; borrowing for that purpose must cease. In a number of countries, however, although the ordinary charges can be met from revenue, heavy extraordinary expenditure must at the present time be undertaken on capital account. This applies more especially in the case of those countries devastated during the war, whose reconstruction charges cannot possibly be met from ordinary receipts. The restoration of the devastated areas is of capital importance for the re-establishment of normal economic conditions; and loans for this purpose are not only unavoidable but justifiable. But in view of the shortage of capital it will be difficult to secure the sums required even for this purpose, and only the most urgent schemes should be pressed forward immediately.

VIII.

The means by which loans are raised are no less important than the purposes for which they are destined. In future the loans which are required for urgent capital purposes must be met out of the real savings of the

people. But those savings have, as it were, been pledged for many years ahead by the credits created during the war, and the first step to raising fresh money must be to fund the undigested floating obligations with which the markets are burdened. These principles apply both to internal and to external borrowing, and in regard to the latter we suggest that it would be in the general interest for the creditor countries to give such facilities as may be possible to the debtor countries to fund their floating obligations at the earliest possible date.

IX.

In order to enlist public interest, it is essential to give the greatest publicity possible to the situation of the public finances of each State.

The Conference is, therefore, of the opinion that the work already accomplished by the Secretariat in its comparative study of public finances should be continued, and it suggests that the Council of the League of Nations should request all its Members and all the nations represented at this Conference to furnish it regularly not only with Budget estimates and final Budget figures, but also with a half-yearly account of actual receipts and expenditure. At the same time, countries should be urged to supply as complete information as is possible on the existing system of taxation, and any suggestions which may appear to each State to be useful for the financial education of the public opinion of the world.

With the aid of the information thus obtained, the League of Nations would be enabled to prepare pamphlets for periodical publication setting out the comparative financial position of the countries of the world, and making clear the various systems of taxation in force.

X.

The Conference is of opinion that the strict application of the principles outlined above is the necessary condition for the re-establishment of public finances on a sound basis. A country which does not contrive as soon as possible to attain the execution of these principles is doomed beyond hope of recovery. To enable Governments, however, to give effect to these principles, all classes of the community must contribute their share. Industry must be so organised as to encourage the maximum production on the part of capital and labour, as by such production alone will labour be able to obtain those improved conditions of life which it is the aim of every country to secure for its people. All classes of the population, and particularly the wealthy, must be prepared willingly to accept the charges necessary to remedy the present situation. Above all, to fill up the gap between the supply of and the demand for commodities, it is the duty of every patriotic citizen to practise the strictest possible economy and so to contribute his maximum effort to the common weal. Such private action is the indispensable basis for the fiscal measures required to restore public finances.

II. — RESOLUTIONS PROPOSED BY THE COMMISSION ON CURRENCY AND EXCHANGE AND ADOPTED UNANIMOUSLY BY THE CONFERENCE.

The currency of a country, in the sense of the immediate purchasing power of the community, includes (a) the actual legal tender money in existence, and (b) any promises to pay legal tender, *e.g.*, as Bank balances — which are available for ordinary daily transactions.

The currencies of all belligerent, and of many other, countries, though in greatly varying degrees, have since the beginning of the war been expanded artificially, regardless of the usual restraints upon such expansion (to which we refer later) and without any corresponding increase in the real wealth upon which their purchasing power was based; indeed in most cases in spite of a serious reduction in such wealth.

It should be clearly understood that this artificial and unrestrained expansion, or "inflation" as it is called; of the currency or of the titles to immediate purchasing power, does not and cannot add to the total real purchasing power in existence, so that its effect must be to reduce the purchasing power of each unit of the currency. It is, in fact, a form of debasing the currency.

The effect of it has been to intensify, in terms of the *inflated* currencies, the general rise in prices, so that a greater amount of such currency is needed to procure the accustomed supply of goods and services. Where this additional currency was procured by further "inflation" (*i.e.* by printing more paper money or creating fresh credit) there arose what has been called a "vicious spiral" of constantly rising prices and wages and constantly increasing inflation, with the resulting disorganisation of all business, dislocation of the exchanges, a progressive increase in the cost of living, and consequent labour unrest.

I.

Therefore:

It is of the utmost importance that the growth of inflation should be stopped, and this, although no doubt very difficult to do immediately in some countries, could quickly be accomplished by (1) abstaining from increasing the currency (in its broadest sense as defined above), and (2) by increasing the real wealth upon which such currency is based.

The cessation of increase in the currency should not be achieved merely by restricting the issue of legal tender. Such a step, if unaccompanied by other measures, would be apt to aggravate the situation by causing a monetary crisis. It is necessary to attack the causes which lead to the necessity for the additional currency.

The chief cause in most countries is that the Governments, finding themselves unable to meet their expenditures out of revenue, have been tempted to resort to the artificial creation of fresh purchasing power, either by the direct issue of additional legal tender money, or more frequently by obtaining — especially from the Banks of Issue, which in some cases are unable and in others unwilling to refuse them — credits which must themselves be satisfied in legal tender money. We say, therefore, that —

II.

Governments must limit their expenditure to their revenue. (We are not considering here the finance of reconstructing devastated areas.)

III.

Banks, and especially Banks of Issue, should be freed from political pressure and should be conducted solely on the lines of prudent finance.

But the Governments are not the only offenders in this respect; other parties, and especially in some countries the municipalities and other local authorities, have raised excessive credits which in the same way multiply the titles to purchasing power.

Nor will it be sufficient, for the purpose of checking further inflation, that additional issues of legal tender or the granting of additional credits should cease; since the floating debts of Governments and other authorities constitute in themselves a form of potential currency, in that, except in so far as they are constantly renewed, their amount will come to swell the total currency in existence. Consequently —

IV.

The creation of additional credit should cease and Governments and municipalities should not only not increase their floating debts, but should begin to repay or fund them by degrees.

In normal times the natural and most effective regulator of the volume and distribution of credit is the rate of interest which the Central Banks of Issue are compelled, in self-preservation and in duty to the community, to raise when credit is unduly expanding. It is true that high money rates would be expensive to Governments which have large floating debts, but we see no reason why the community in its collective capacity (*i.e.*, the Government) should be less subject to the normal measure for restricting credit than the individual members of the community. In some countries, however, the financial machinery has become so abnormal that it may be difficult for such corrective measure to be immediately applied. We recommend, therefore, that :—

V.

Until credit can be controlled merely by the normal influence of the rate of interest, it should only be granted for real economic needs.

It is impossible to lay down any rule as to the "proper rates" of discount or interest for different countries. These rates will depend not only on the supply and demand at different times but also on other factors often of a psychological nature. It may, indeed, confidently be said that when once the arbitrary increase of inflation ceases and when the Banks of Issue are able successfully to perform their normal functions, rates will find their own proper level.

The complementary steps for arresting the increase of inflation by increasing the wealth on which the currency is based may be summed up in the words: increased production and decreased consumption.

The most intensive production possible is required in order to make good the waste of war and arrest inflation and thus to reduce the cost of living; yet we are witnessing in many countries production below the normal, together with those frequent strikes which aggravate instead of help to cure the present shortage and

dearness of commodities. When diminution in the Governments' demands frees more credits for trade and for the recuperation of the world, when inflation has ceased and prices cease to rise, and when the general unsettlement caused by the war subsides, it is probable that great improvement will be seen in productive activity. Yet, in our opinion, the production of wealth is in many countries suffering from a cause which it is more directly in the power of Governments to remove, viz., the control in various forms which was often imposed by them as a war measure and has not yet been completely relaxed. In some cases, business has even been taken by Governments out of the hands of the private trader, whose enterprise and experience are a far more potent instrument for the recuperation of the country.

Another urgent need is the freest possible international exchange of commodities. With this another Commission will deal, but we feel that our recommendations here on inflation would not be complete without adding that —

VI.

Commerce should as soon as possible be freed from control, and impediments to international trade removed.

Equally urgent is the necessity for decreased consumption in an impoverished world where so much has been impaired. It is therefore specially important at present that both on public and private account and not only in impoverished countries, but in every part of the world —

VII.

All superfluous expenditure should be avoided.

To attain this end, the enlightenment of public opinion is the most powerful lever. If the wise control of credit brings dear money, this result will in itself help to promote economy.

We pass now from inflation and its remedies to the other points submitted to us.

Without entering into the question whether gold is or is not the ideal common standard of value, we consider it most important that the world should have some common standard, and that, as gold is to-day the nominal standard of the civilised world —

VIII.

It is highly desirable that the countries which have lapsed from an effective gold standard should return thereto.

It is impossible to say how or when all the older countries would be able to return to their former measure of effective gold standard or how long it would take the newly formed countries to establish such a standard. But in our opinion —

IX.

It is useless to attempt to fix the ratio of existing fiduciary currencies to their nominal gold value; as, unless the condition of the country concerned were sufficiently favourable to make the fixing of such ratio unnecessary, it could not be maintained.

The reversion to, or establishment of, an effective gold standard would in many cases demand enormous deflation and it is certain that such —

X.

Deflation, if and when undertaken, must be carried out gradually and with great caution; otherwise the disturbance to trade and credit might prove disastrous.

XI.

We cannot recommend any attempt to stabilise the value of gold and we gravely doubt whether such attempt could succeed; but this question might well be submitted to the Committee to which we refer later, if it should be appointed.

XII.

We believe that neither an International Currency nor an International Unit of Account would serve any useful purpose or remove any of the difficulties from which international exchange suffers to-day.

XIII.

We can find no justification for supporting the idea that foreign holders of Bank notes or Bank balances should be treated differently from native holders.

XIV.

In countries where there is no Central Bank of Issue, one should be established, and if the assistance of foreign capital were required for the promotion of such a Bank, some form of international control might be required.

XV.

Attempts to limit fluctuations in exchange by imposing artificial control on exchange operations are futile and mischievous. In so far as they are effective they falsify the market, tend to remove natural correctives to such fluctuations and interfere with free dealings in forward exchange which are so necessary to enable traders to eliminate from their calculations a margin to cover risk of exchange, which would otherwise contribute to the rise in prices. Moreover, all Government interference with trade, including exchange, tends to impede that improvement of the economic conditions of a country by which alone a healthy and stable exchange can be secured.

We support the suggestion that —

XVI.

A Committee should be set up both for continuing the collection of the valuable financial statistics that have been furnished for this Conference and also for the further investigation of currency policy.

III. — RESOLUTIONS PROPOSED BY THE COMMISSION ON INTERNATIONAL TRADE AND ADOPTED UNANIMOUSLY BY THE CONFERENCE.

I.

The International Financial Conference affirms that the first condition for the resumption of international trade is the restoration of real peace, the conclusion of the wars which are still being waged, and the assured maintenance of peace for the future. The continuance of the atmosphere of war and of preparations for war is fatal to the development of that mutual trust which is essential to the resumption of normal trading relations. The security of internal conditions is scarcely less important, as foreign trade cannot prosper in a country whose internal conditions do not inspire confidence. The Conference trusts that the League of Nations will lose no opportunity to secure the full restoration and continued maintenance of peace.

II.

The International Financial Conference affirms that the improvement of the financial position largely depends on the general restoration as soon as possible of good-will between the various nations; and in particular it endorses the declaration of the Supreme Council of the 8th March last "that the States which have been created or enlarged as a result of the war should at once re-establish full and friendly co-operation, and arrange for the unrestricted interchange of commodities in order that the essential unity of European economic life may not be impaired by the erection of artificial economic barriers."

III.

The Conference recommends that, within such limits and at such time as may appear possible, each country should aim at the progressive restoration of that freedom of commerce which prevailed before the war, including the withdrawal of artificial restrictions on, and discriminations of price against, external trade.

IV.

The International Financial Conference expresses its conviction that the instability of the exchanges constitutes a great hindrance to the resumption of normal international trade.

V.

The International Financial Conference would welcome any action which can be taken by the League of Nations to enable the countries which under present conditions cannot purchase the necessary supplies for their reconstruction temporarily to obtain commercial credits on an approved basis for this purpose.

VI.

The International Financial Conference expresses the conviction that the repair, improvement, and economical use of the transport systems of the world, and particularly of countries affected by the war, are of vital importance to the restoration of international trade.

IV. — RESOLUTIONS PROPOSED BY THE COMMISSION ON INTERNATIONAL CREDITS AND ADOPTED UNANIMOUSLY BY THE CONFERENCE.

I.

The Conference recognises in the first place that the difficulties which at present lie in the way of international credit operations arise almost exclusively out of the disturbance caused by the war, and that the normal working of financial markets cannot be completely re-established unless peaceful relations are restored between all peoples and the outstanding financial questions resulting from the war are made the subject of a definite settlement which is put into execution.

II.

The Conference is moreover of opinion that the revival of credit requires as primary conditions the restoration of order in public finance, the cessation of inflation, the purging of currencies, and the freedom of commercial transactions. The resolutions of the Commission on International Credits are therefore based on the resolutions of the other Commissions.

III.

The Conference recognises, however, that this general improvement in the situation requires a considerable period of time, and that in present circumstances it is not possible for certain countries to restore their economic activity without assistance from abroad. This assistance is required for periods which exceed the normal term of commercial operations.

IV.

The Conference is of opinion that in principle the resources out of which this assistance is to be provided should be found from the savings of the lending countries and must not result in undue increase of the fiduciary circulation --- that is to say, in the creation or extension of a disproportion between means of payment and the genuine requirements of business.

V.

The Conference believes, on the other hand, that this assistance can only be effectively accorded to countries which are prepared to assist one another in the restoration of economic life, and to make every effort to bring about within their own frontiers the sincere collaboration of all groups of citizens and to secure conditions which give to work and thrift liberty to produce their full results.

VI.

The Conference does not believe that, apart from particular decisions dictated by national interests or by considerations of humanity, credits should be accorded directly by Governments.

VII.

It appears to the Conference that one of the chief obstacles to the granting of credits is the absence in borrowing countries of sufficient security for ultimate repayment. The Conference therefore studied with attention in the light of the general considerations enumerated above, all the proposals presented with a view to creating guarantees which would provide satisfactory security for exporters.

The Conference has been forced to recognise that no single system could by itself suffice to provide for the many different needs of the various countries, and that it is necessary to indicate a series of measures sufficiently elastic to be adapted afterwards to every variety of circumstances.

For these reasons the Conference decided to make the following recommendations:

VIII.

An international organisation should be formed and placed at the disposal of States desiring to have resort to credit for the purpose of paying for their essential imports. These States would then notify the assets which they are prepared to pledge as security for the sake of obtaining credit, and would come to an understanding with the international organisation as to the conditions under which these assets would be administered.

The bonds issued against this guarantee would be used as collateral for credits intended to cover the cost of commodities.

A plan based upon these principles is developed in the Annex. It has been devised to enable States to facilitate the obtaining of commercial credits by their nationals. It is easy to see that the scheme is susceptible of development in various directions, and that some of its provisions might be adapted so as to facilitate the extension of credit direct to public corporations.

A Committee of financiers and business men should be nominated forthwith by the Council of the League of Nations for the purpose of defining the measures necessary to give practical effect to this proposal.

IX.

It has been represented to the Conference that more complete results might be achieved if the bonds used as collateral were to carry some international guarantee.

The Conference sees no objection to the further consideration of this proposal. The Committee referred to in paragraph VIII above might usefully consider the conditions under which it could be applied.

X.

It has also been represented to the Conference that an extension on international lines of the existing system of export credit insurance would in many instances be of great value in developing trade with countries where political and social conditions give rise to an anxiety which is often exaggerated by exporters. The Conference believes that an extension of this kind is worthy of consideration, and that it should be examined in detail by experts.

XI.

The attention of the Conference has been called to the present system of "finishing credits," that is to say, of credits under which a lien in favour of the exporter or a banker is maintained on the raw material in all its different stages and upon the proceeds of the manufactured article. This system has suffered greatly owing to the lack, in many countries, of sufficient legal protection for the exporter throughout the various stages of importation, manufacture, re-exportation and sale. The Conference would suggest that the Council be recommended to draw the attention of the different Governments to this question, and to summon an advisory body of legal experts and business men to specify the legislative action which it would be desirable to take in order to attain the desired object in each of the countries concerned.

XII.

Apart from the above-mentioned proposals which the Conference recommends the League of Nations to adopt and if possible to apply in practice, the Conference believes that the activities of the League might usefully be directed towards promoting certain reforms, and collecting the relevant information required to facilitate credit operations. In this connection the Conference considers it well to draw attention to the advantages of making progress under each of the following heads:

- (1) Unification of the laws relating to bills of exchange and bills of lading;
- (2) The reciprocal treatment of the branches of foreign banks in different countries;
- (3) The publication of financial information in a clear, comparative form;
- (4) The examination of claims by the holders of bonds the interest on which is in arrear;
- (5) An international understanding on the subject of lost, stolen or destroyed securities;
- (6) The establishment of an international clearing house;
- (7) An international understanding which, while ensuring the due payment by everyone of his full share of taxation, would avoid the imposition of double taxation which is at present an obstacle to the placing of investments abroad.

XIII.

During the course of its deliberations the Conference could not fail to be impressed by the fact that all, or almost all, of the many proposals submitted for its consideration require at some stage the active intervention of the League of Nations. The Conference is unanimously in sympathy with this tendency and believes that it is desirable to extend to the problems of finance that international co-operation which the League of Nations has inaugurated and which it is attempting to promote in order to improve the general situation and maintain the peace of the world.

APPENDIX.

1. In order that impoverished nations, which under present circumstances are unable to obtain accommodation on reasonable terms in the open market, may be able to command the confidence necessary to attract funds for the financing of their essential imports, an international commission shall be constituted under the auspices of the League of Nations.

2. The commission shall consist of bankers and business men of international repute, appointed by the Council of the League of Nations.

3. The commission shall have the power to appoint sub-commissions and to devolve upon them the exercise of its authority in participating countries or in groups of participating countries.

4. The Governments of countries desiring to participate shall notify to the commission what specific assets they are prepared to assign as security for commercial credits to be granted by the nationals of exporting countries.

5. The commission, after examination of these assets, shall of its own authority determine the gold value of the credits which it would approve against the security of these assets.

6. The participating Government shall then be authorised to prepare bonds to the gold value approved by the commission, each in one specific currency to be determined on the issue of the bond.

7. The date of maturity and the rate of interest to be borne by these bonds shall be determined by the participating Government in agreement with the commission.

8. The service of these bonds shall be secured out of the revenue of the assigned assets.

9. The assigned assets shall in the first instance be administered by the participating Government or by the international commission as that commission may in each case determine.

10. The commission shall at any time have the right of making direct representations to the Council of the League of Nations as to the desirability of transferring the administration of the assigned assets either from the commission to the participating Government or from the participating Government to the commission.

11. The decision of the Council of the League of Nations on this question shall be binding.

12. After the preparation of these bonds, the participating Government shall have the right to loan the bonds to its own nationals, for use by them as collateral security for importations.

13. The bonds shall be made out in such currencies and in such denominations as are applicable to the particular transaction in respect of which they are issued.

14. The participating Government shall be free to take or not to take security for the loan of these bonds from the nationals to whom they are lent.

15. The maturity and the rate of interest of the loan of the bonds shall be fixed by agreement between the participating Government and the borrower of the bonds; they need not be the same as the maturity and the rate of interest of the bonds themselves.

16. When making application to his Government for a loan of these bonds, the importer must furnish proof that he has previously obtained from the international commission express permission to enter into the transaction for which the bonds are to be given as collateral.

17. Each bond, before it is handed over by the participating Government to the importer, shall be countersigned by the commission in proof of registration.

18. Having obtained the consent of the commission and received from them the countersigned bonds, the importer will pledge these bonds to the exporter in a foreign country for the period of the transaction.

19. The exporter will return to him on their due dates the coupons of the pledged bonds, and the bonds themselves on the completion of the transaction.

20. On receipt of the coupons and the bonds respectively, the importer will return them to his Government.

21. Bonds returned to the participating Government shall be cancelled and may subsequently be replaced by other bonds, either in the same or in a different currency, up to an equivalent amount.

22. The exporter, or if he has pledged the bonds the institution with which he has repledged them acting on his behalf, would be free, in the event of the importer not fulfilling the terms of his contract, to hold until maturity the bonds given as collateral by the importer, or to sell them in accordance with the custom in his country in case of default.

23. In the second alternative, an option of repurchasing the bonds direct must first be given for a short period to the Government which issued them.

24. If a sale is resorted to and results in a surplus beyond what is necessary to cover the claims of the exporter upon the importer, the exporter shall be held accountable for that surplus to the Government which issues the bonds.

25. The revenues from the assigned assets shall be applied as follows to the service of the bonds.

26. Out of these revenues, the commission or the participating Government, as the case may be, shall purchase foreign currencies sufficient to meet at their due date the coupons on all bonds any time outstanding in the different foreign currencies.

27. In addition they shall establish abroad in the appropriate currencies a sinking fund calculated to redeem at maturity 10 % of the bonds outstanding in each of the different countries.

28. Further, in addition to the amounts provided for payment of coupons and for the endowment of the sinking fund, they shall establish out of the assigned revenues a special reserve in one or more foreign currencies for the redemption of bonds sold in accordance with paragraph 22.

29. The amount to be set aside for the special reserve shall in each case be determined by the commission.

30. Any surplus remaining at the end of each year after the provision of these services shall be at the free disposal of the participating Government.

31. A participating Government shall have the right to offer its own bonds as collateral for credits obtained for the purpose of importations on Government account. The previous assent of the commission will in these cases also be required for the particular importations desired by the participating Government.

32. If a participating Government which has been in control of its assigned revenues should fail to fulfil its obligations, the exporter concerned will notify the commission and the commission will apply to the Council of the League of Nations for the transfer of the management of the assigned revenues to the commission.

33. The consent of the commission is necessary whenever bonds secured on the assigned assets are given as collateral and shall as a rule be accorded only for the import of raw materials and primary necessities.

34. The commission may, however, at its discretion, sanction in advance the importation of specified quantities of such goods.

35. Even in the case of imports under such a general sanction, a notification of the particular transaction must be registered with the commission.

36. The assent of the commission must also be obtained in every case to the term of the credit which it is proposed to open.

ANNEX 2.

Circular Letter and Appendix sent to the Various Governments.

GENEVA, March 20th, 1922.

Sir,

The Second Assembly of the League of Nations passed the following Resolution:—

“The Assembly, having had brought to its notice the continuing gravity of the exchange crisis and its dangerous effects upon the economic position and the conditions of labour of the working classes, invites the Provisional Economic and Financial Committee to carry on urgently its enquiries from various Governments as to the measures taken to ensure the application of the resolutions of the Brussels Conference. The Assembly further invites the Committee to investigate, in accordance with the Governments’ suggestions and as speedily as may be, all practical proposals which may be made for the completest possible application of these resolutions.”

The Financial Committee, which was given the task of putting this decision into force, ventures to apply to you, in view of the especial knowledge that you have of the conditions of, and has the honour to ask you if you would be so good as to collect the information required to meet the wishes of the Assembly. A note is attached (see pages 232 and 233) describing the scope of the enquiry with a view to defining the extent of the investigations, and to ensuring uniformity in the replies to be received from various countries.

It is perhaps scarcely necessary to add that, if you are acquainted with any special statements or summaries dealing with the financial, monetary or commercial policy of the country which forms the subject of your enquiry, prepared either by the Government or by some important body qualified to do so, information of this nature would be of the greatest interest to the Committee.

The Secretariat of the League of Nations at Geneva (Economic and Financial Section) has been instructed to act as a centre for receiving replies to this enquiry. The Secretariat would be grateful if, in order to expedite the work, you would be good enough to forward the data concerning some section (for instance, the monetary policy), as soon as they are collected, without necessarily waiting for the full information relative to all of the three sections of which the enquiry consists.

As the Financial Committee will require some considerable time in which to prepare a general report for the next Assembly, it will be glad if the full answers to the enquiry could be sent in before the end of May.

I have the honour to be, Sir, your obedient servant,

(Signed) ERIC DRUMMOND,
Secretary-General.

APPENDIX TO THE CIRCULAR LETTER.

Provisional Economic and Financial Committee.

ENQUIRY INTO THE PUTTING INTO FORCE OF THE PRINCIPLES OF THE
BRUSSELS CONFERENCE.

The recommendations of the Brussels Conference can be brought into the following categories:

- I. Budgetary measures.
- II. Monetary measures.
- III. Commercial measures.

With regard to the political measures recommended by the Brussels Conference, the Financial Committee, while recognising itself as not, strictly speaking, competent to deal with them, is nevertheless of opinion that it would be of value to draw attention to the desirability of obtaining information on this point. In fact, certain political measures have a considerable effect in matters affecting finance, currency and commerce.

It is thought that uniformity of method could best be obtained were the Memoranda to be divided into chapters corresponding to the foregoing three categories and were the sections of each chapter divided in the manner indicated below, corresponding to the Resolutions actually passed.

I. BUDGETARY MEASURES.

A summary of budget development since the summer of 1920 with special regard to:

1. How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue (Art. III, P. F. ¹).
2. Whether expenditure on armaments has been reduced (Art. III, P. F.).
3. The extent of unproductive extraordinary expenditure (Art. III, P. F.).
4. The extent of productive extraordinary expenditure (Art. III, P. F.).

¹ The initials refer to the Resolutions of the Brussels Conference on Public Finance, Currency and Exchange and International Trade (see Annex 1).

5. The policy of the Governments in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.
6. The existence of subsidies on bread and other foodstuffs, coal and other materials (Art. V, P. F.).
7. Charges for unemployment (Art. V, P. F.).
8. The financial position of public undertakings: Railways, posts, telegraphs, telephones, etc. (Art. V, P. F.).
9. The introduction of new taxation (Art. VI, P. F.).
10. Methods of raising money by loans, whether by (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation (Art. VIII, P. F.).
11. The influence of foreign loans and trade balances.
12. The effect of local and provincial finance on the budget of the State.

II. MONETARY MEASURES.

A summary of monetary development since the summer of 1920 with special regard to:

1. The increase or decrease of the note circulation (Art. I, C. E.).
2. The influence of Government expenditure on currency (Art. II, C. E.).
3. The repayment of floating debt and the effects thereof (Art. IV, C. E.).
4. The connection between the Government and the central bank of issue (Arts. III, IV and XIV, C. E.).
5. The restriction of granting of credits either by means of the rate of interest or in other ways (Arts. V, VI and VII, C. E.).
6. The existence of any artificial control of exchange with a description of its character and its effects. Are foreign holders of bank-notes and credit balances treated differently from native holders? (Arts. XIII, XIV and XV, C. E.).
7. The causes and effects of deflation if existing (Art. X, C. E.).

III. COMMERCIAL POLICY.

A summary of commercial development since the summer of 1920 with special regard to:

1. The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc. (Arts. I, II and III, I. T.).
 2. The existence (or abolition) of price discrimination against foreign trade (Art. III, I. T.).
 3. The conclusion of (a) commercial conventions; (b) transport conventions (Art. VI, I. T.).
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ANNEX 3.

CZECHOSLOVAKIA.

The following sections of the report of the Czechoslovak Government were received after the major part of the volume had gone to press and too late for inclusion with the main report, which will be found on pages 31-56.

I. BUDGETARY MEASURES.

4. The extent of productive extraordinary expenditure.

PROPORTION OF ORDINARY AND EXTRAORDINARY PRODUCTIVE EXPENDITURE FROM 1920 TO 1922 IN RELATION TO TOTAL EXPENDITURE.

Chapter	Expenditure on	1920		1921		1922	
		Ordinary	Extraordinary	Ordinary	Extraordinary	Ordinary	Extraordinary
1	President of the Republic.	Kè	Kè	Kè	Kè	Kè	Kè
2	Presidential Secretariat.	1,000,000	—	3,000,000	—	3,000,000	—
3	National Assembly.	2,577,471	9,570,000	5,845,086	16,716,835	8,410,871	21,043,462
4	Supreme Administrative Court.	16,172,452	5,270,000	38,477,392	3,513,970	38,895,143	2,000,744
5	Audit Office.	852,544	270,000	1,272,869	1,569,693	2,007,936	1,050,472
6	Grants to Autonomous Organisations.	780,215	75,600	1,509,894	1,571,450	1,914,478	1,032,386
8	Allowances and Pensions.	167,090,000	—	393,161,050	—	1,204,229,000	3,000,000
9	President of the Council of Ministers	232,141,738	—	297,076,141	316,675,000	312,485,000	213,358,000
10	Ministry of Foreign Affairs.	93,030,558	18,086,820	119,147,180	80,390,157	209,115,254	19,598,493
12	Ministry of the Interior.	34,831,521	14,251,000	168,064,000	37,985,869	241,051,427	59,421,186
13	Ministry of Education.	199,478,848	12,729,000	267,831,309	354,344,094	309,662,230	247,821,300
14	Ministry of Finance.	226,065,057	67,853,497	347,345,966	491,504,590	396,465,927	557,605,301
15	Ministry of Commerce.	961,199,810	268,347,066	1,233,860,753	765,424,594	1,283,656,773	438,290,586
16	Ministry of Posts and Telegraphs	16,258,184	1,070,000	17,435,531	5,229,145	20,126,731	3,014,440
17	Ministry of Railways.	283,650,620	137,208,590	506,848,700	522,388,500	539,876,540	331,778,430
18	Ministry of Agriculture.	2,089,622,730	1,363,262,140	3,472,443,510	1,724,609,590	3,398,124,640	1,352,132,960
19	Ministry of Justice.	127,248,085	34,227,270	243,475,396	100,978,557	526,280,258	64,489,091
20	Ministry of Public Works.	96,315,244	7,047,000	168,738,633	168,133,947	103,392,560	99,453,040
21	Ministry of Social Welfare.	214,111,045	477,370,220	644,899,908	490,124,183	601,627,095	426,682,774
22	Ministry of Food.	615,680,237	372,502,000	417,714,556	279,912,720	326,604,156	326,430,694
23	Ministry of Public Health and Physical Culture.	—	24,429,593	—	39,928,486	—	29,305,069
25	Ministry for the Unification of the Legislation and the Organisation of the Administration.	26,163,737	19,758,300	52,394,508	46,895,524	101,135,121	48,536,976
26	Foreign Trade Department.	16,171,414	1,000,000	1,153,681	602,857	1,492,868	890,740
	Total.	5,420,441,510	2,848,707,132	8,466,596,105	5,485,250,369	9,627,688,203	4,253,121,144
	Percentage in relation to other expenditure	35.48 %	18.65 %	46.97 %	30.43 %	48.59 %	21.46 %

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

Before the world war, the emoluments of Austrian state officials were based upon the system of estimating the value of work done. They consisted of salary, on a graduated scale divided into eleven classes, and house allowance. This latter, which was of four kinds, was calculated in accordance with the number of inhabitants in the locality.

On the basis, however, of special legal provisions, the following amounts were deducted from the emoluments of officials:

- (1) Income tax assessed on the emoluments;
- (2) Stamp tax on emoluments paid;
- (3) Appointment tax;
- (4) Premiums on old-age pensions.

The difficult situation brought about by the war, the rapid rise in the price of articles of prime necessity, and widespread poverty, obliged the Government to grant material assistance to state officials.

At the end of 1915 a single subsidy was granted them, but it was very small and was granted to certain officials only, who needed it most.

As, however, the cost of living continued to rise, it became a matter of absolute necessity to settle the question as to what material assistance should be accorded to state officials, on rational lines, *i.e.*, having due regard to the fact that the officials most hardly hit were those whose salaries were very low, or who had very large families to support.

In order that the scale of salaries should be just, it became necessary to resort to the system known as "supplying food". This, in the first place, was intended to be supplementary to the existing system for the remuneration of work done, during the whole period of exceptional conditions brought about by the war.

From January 1st, 1916, onwards, an allowance "on account of the high cost of living" was granted for the year 1916 to state officials in office. This allowance, which was paid in twelve monthly instalments, was on a scale graduated partly in accordance with the total of salaries and allowances, and partly in accordance with the so-called "family categories" based upon the number of members in each family.

Similar allowances were granted later to retired state officials and to widows and orphans of state officials.

The system of allowances on account of the high cost of living was subsequently improved and extended. The number of "family categories" (at first three and later five and eight) was increased, and the rate of allowances raised.

The state undertook, moreover, from December 1st, 1916, onwards, to pay income tax, stamp tax, service duties and pensions premiums.

However, even these measures did not meet the continued rise in prices, and the allowances had repeatedly to be increased.

To these allowances on account of the high cost of living had to be added special supplementary allowances, calculated in the same manner and granted in the first place only for the period June 1st, 1917, to December 31st, 1917. In November 1917, a new subsidy was granted, a single subsidy allocated in accordance with the graduated scale referred to above.

At the time of the *coup d'Etat*, state officials enjoyed the following advantages, granted on account of the increase in the cost of living:—

- (1) The State had undertaken to pay income tax, stamp duty, and duties and contributions towards old-age pensions;

- (2) They were drawing monthly allowances to meet the high cost of living; and
- (3) Half-yearly supplementary allowances in addition to the monthly allowances.

The Czechoslovak Republic has made the following changes in this system.

A supplementary allowance in the form of a lump sum was again granted on February 1st and on May 1st, 1919, as had already been done in November 1917, in May and in November 1918.

On account of the continued rise in the price of the necessaries of life, the validity of the Decrees concerning monthly allowances to meet the high cost of living were prolonged, but certain changes were made, in favour of the officials, and an allowance in the form of a lump sum was granted in August 1919.

The increasing rise in prices again obliged the authorities to raise the amount of the monthly allowances to meet the high cost of living in 1919, and to change "allowances in the form of a lump sum" into quarterly allowances.

But even these measures were insufficient to meet the incessant rise in the cost of living. As from April 1st, 1920, these special allowances became monthly instead of quarterly and were payable both to officials in office and to retired officials.

In 1920, in order to counterbalance the continued rise in prices, it became necessary to grant a further allowance, to meet the high cost of living, of almost the same amount, for the period November 1st, 1920, to December 31st, 1921.

In 1921, Law No. 288/21 in the Official Gazette of Laws and Decrees, granted officials a special allowance payable in the form of a lump sum (of the same amount as the allowances to meet the high cost of living referred to in the preceding paragraph).

Towards the end of 1921, the inflation of prices partially ceased. The value of the crown appreciated, and prices were somewhat lower.

The authorities availed themselves of these circumstances in order partially to reduce the allowances which had been granted on account of the high cost of living; it thus inaugurated a period of deflation as regards the salaries of state officials.

The Law of December 21st, 1921, No. 495 in the Official Gazette of Laws and Decrees, laid down that state officials should pay pensions premiums, deducting these from their personal emoluments (8 % of the salaries being taken as a basis for calculating the pension), and 25 % of the income tax calculated on the basis of personal emoluments, payments from which state officials had been exempted since the commencement of grants to meet the high cost of living.

This is how the situation stands to-day as regards state assistance granted in order to meet the high cost of living.

In the future the system of state food supplies will probably be abolished and the system re-established under which work is remunerated in accordance with the method known as the "stabilisation of emoluments", that is to say, the increase of salaries proper at the expense of allowances and assistance to meet the high cost of living, which will be simultaneously and progressively reduced.

The results of the policy followed by the Government of the Czechoslovak Republic in the matter of official salaries are shown in the following table (1920 to 1922):—

Year	Allowances to meet the high cost of living	Special allowances	Second allowance to meet the high cost of living	Total
	In Czechoslovak Crowns			
1920	999,800,000		216,000,000	1,215,800,000
1921	576,503,771	1,214,755,323	1,214,755,323	3,006,014,417
1922	953,748,341	1,723,420,293	1,723,420,293	4,400,588,927

8. *The financial position of public undertakings.*

See table on opposite page.

CHAPTER 14. MINISTRY OF FINANCE.

(a) *Tobacco Monopoly.*

(1) In accordance with a provisional statement of accounts which has not yet been approved, the financial year 1920 shows a net profit of 601,324,316 Czechoslovak crowns, that is to say 151,000,000 Czechoslovak crowns over and above the amount estimated.

(2) During the financial year 1921, the sum of 600,000,000 Czechoslovak crowns was paid into the central Treasury. Debts repaid amount to nearly 390,000,000 Czechoslovak crowns, so that the net profit, according to the provisional statement of accounts, amounts to about 990,000,000 Czechoslovak crowns. It is, therefore, 546 millions more than the amount estimated.

(3) During the first six months of 1922 the sum of 350 million Czechoslovak crowns was paid into the central Treasury. This sum is equal to the total estimates for the whole financial year.

(b) *State Lottery.*

In spite of the very favourable terms offered to holders of tickets (terms which enable the "Loterie par Classes" to compete with similar enterprises abroad), the lottery shows a considerable and ever-increasing profit, as the following table proves:

In 1919 Second half,	Issue of 60,000 tickets:	Net profit 1,964,340.35 Kč.
" 1920 First "	" 100,000 "	" 3,359,725.84
" 1920 Second "	" 120,000 "	" 4,597,852.—
" 1921 First "	" 130,000 "	" 5,033,698.05
" 1921 Second "	" 150,000 "	" 5,844,495.—
" 1922 First "	" 170,000 "	"

As the balance sheet of the last drawing has not yet been finally established, we can only give the *gross* receipts, which amount to 7,388,625 Czechoslovak crowns, which should give a *net* profit of 6,500,000 Czechoslovak crowns.

Lastly, we may add that 190,000 tickets were issued for the lottery in the second half of 1922. This lottery produced 11,190,000 Czechoslovak crowns in round figures, so that there should be an estimated profit of 10,000,000 Czechoslovak crowns.

The net profits shown above are those obtained on the various "Loterie par Classes". Such of the latter as take place in the second half of the year cannot be closed before the end of April of the following year. The net profits do not in fact correspond with the actual surplus indicated in the statement because such surpluses are established on the basis of the balance sheet issued at the end of the year.

CHAPTER 17. MINISTRY OF RAILWAYS.

Extraordinary expenditure connected with railway construction and the purchase of rolling stock appears under the heading of actual expenditure for the year 1920, to the extent of 1,264,077,410 Czechoslovak crowns. On the other hand, expenditure on investments is not

FINANCIAL POSITION OF STATE ENTERPRISES.

(Czechoslovak crowns.)

Heading	Year	State Expenditure		State Receipts		Surplus or Deficit		Remarks.
		Estim. expend.	Actual expend.	Estim. receipts	Actual receipts	Estimated	Actual	
14. Ministry of Finance: A. Tobacco Monopoly	1920	329,533,537	— ^a	779,230,500	— ^a	+ 449,696,963	— ^a	^a It is not possible at present to give the final figures as the accounts have not yet been closed.
	1921	1,060,442,028	— ^a	1,943,999,500	— ^a	+ 883,557,472	— ^a	
	1922	987,043,966	— ^a	1,705,482,500	— ^a	+ 718,438,534	— ^a	
B. State Lottery	1920	34,992,493	29,859,284 ^b	43,005,492	38,147,151 ^b	+ 8,012,999	+ 8,287,867 ^b	^a It is not possible at present to give the final figures as the accounts have not yet been closed. ^b After closing accounts.
	1921	45,270,624	43,382,646 ^b	55,745,900	54,926,279 ^b	+ 10,475,276	+ 11,543,633 ^b	
	1922	51,430,664	— ^a	63,717,000	— ^a	+ 12,286,336	— ^a	
16. Ministry of Posts and Telegraphs	1920	420,859,120	413,140,200 ^b	429,801,500	528,716,900 ^b	+ 8,942,380	+ 115,576,700 ^b	^a In the Statement of Accounts connected with the Genoa Conference, the receipts items were much lower, because they only included receipts on postage, whereas in this case the whole recorded receipts and expenditure of the Ministry are shown.
	1921	1,029,237,200	1,026,310,300 ^b	770,089,100	828,667,100 ^b	— 259,148,100	— 197,643,200 ^b	
	1922	871,634,970	481,723,000 ^b	962,930,500	481,182,200 ^c	+ 91,275,530	— 541,400 ^c	
18. Ministry of Agriculture State Forests and Property	1920	61,311,824	49,678,000 ^a	73,510,223	63,587,000	+ 12,198,399	+ 13,909,000 ^a	^a According to the results obtained during the period Jan. 1 to June 1922. ^b Final accounts. ^c According to the provisional accounts.
	1921	145,915,178	129,410,000 ^a	174,464,715	150,740,000	+ 28,549,537	+ 21,330,000 ^a	
	1922	376,481,640	— ^b	499,809,210	— ^b	+ 123,327,570	— ^b	
17. Ministry of Railways ^a	1920	3,452,884,870	4,531,999,650 ^b	2,738,577,120	3,273,386,620 ^b	— 714,307,750	— 1,258,613,030 ^b	^a In the Statement of Accounts connected with the Genoa Conference, the receipts items were much lower, because they only included receipts on railways, whereas in this case the whole recorded receipts and expenditure of the Ministry are shown. ^b In accordance with the final accounts. ^c According to the provisional statement of accounts.
	1921	5,197,953,100	5,468,878,020 ^c	4,642,390,000	4,912,538,600 ^c	— 584,663,100	— 556,339,420 ^c	
	1922	4,660,257,600	4,809,347,950 ^d	4,945,500,090	4,227,002,480 ^d	+ 285,242,490	— 582,344,570 ^d	
20. Ministry of Public Works State Mines and Blasting Furnaces	1920	187,134,980	— ^a	219,088,290	— ^a	+ 31,953,301	— ^a	^a The final figures cannot be given because the final accounts have not been submitted. ^b Provisional data up to the end of September 1922.
	1921	677,513,669	— ^a	668,427,440	— ^a	— 9,086,229	— ^a	
	1922	530,825,139	— ^a	678,612,100	— ^a	+ 147,786,961	— ^a	
23. Ministry of Public Health and Physical Culture Public Baths	1920	1,250,000	1,238,985 ^a	1,375,000	365,000	+ 125,000	— 873,985 ^a	^a According to the provisional statement of accounts. ^b The data refer to the period Jan 1st, 1922, to the end of September 1922.
	1921	1,280,000	3,422,533 ^a	1,375,000	3,398,867	+ 95,000	— 23,726 ^a	
	1922	3,596,828	2,576,307 ^b	3,300,000	2,629,767 ^b	— 296,828	+ 53,460 ^b	

included in the figures for 1921 and 1922, because in 1921 and 1922 these sums were provided for under the chapter of "State Investments" and were not included in the ordinary budget.

According to the provisional balance sheet, investments amounted in 1921 to 1,421,512,303 Czechoslovak crowns, and in 1922 (up to the end of September) to about 598,000,000.

Table of Transport Receipts.

Year	Persons	Parcels	Goods (grande vitesse)	Goods (petite vitesse)	Total
(in Czechoslovak crowns)					
1920	558,283,350	29,543,090	101,929,420	2,342,718,230	3,032,474,090
1921	720,000,000	60,000,000	190,000,000	2,903,499,100	3,873,499,100
1922	509,600,000	50,400,000	134,000,000	1,876,000,000	2,570,000,000
up to the end of September					

CHAPTER 18. MINISTRY OF AGRICULTURE.

State Forests and Lands.

As regards the net profits, it should be pointed out that the profits on State forests in Bohemia are much higher than on forests in Slovakia and Sub-Carpathian Russia. They amount in Bohemia to 370 Czechoslovak crowns per hectare, whereas in Slovakia they average 40 Czechoslovak crowns, and in Sub-Carpathian Russia 30 Czechoslovak crowns only.

These differences arise principally from the way in which the exploitation of the forests is organised and the greater or lesser facility with which felled timber can be moved. In Bohemia the forests are served by a good system of communications, whereas in Slovakia and Sub-Carpathian Russia, where the largest State forests are situated, certain regions cannot be exploited in the normal way owing to inadequate communications. Accordingly, expenses, particularly those connected with transport, are very high. Under present conditions, these disadvantages, aggravated since 1921 by a complete stagnation of the timber trade, can only be remedied gradually.

The timber trade in Slovakia and Sub-Carpathian Russia can find no outlet except in Hungary and Austria, where business is almost at a standstill on account of the great differences in currency values, and the very high cost of production and railway tariffs.

Moreover, the forests in Sub-Carpathian Russia consist for the most part of beech-trees, which only furnish a small quantity of building timber, while wood for burning and charcoal are products which it is very difficult to dispose of, for the reasons stated above.

CHAPTER 23. MINISTRY OF PUBLIC HEALTH AND PHYSICAL CULTURE.

The Spas belonging to the State in Slovakia were transferred, in conformity with a resolution adopted on August 20th, 1919, by the Council of Ministers (Decree of the Ministry of Agriculture of October 8th, 1919, No. 26205) to the administration of the Ministry of Public Health and were, in 1919, under the direction of the Health Office in Slovakia.

The State Radiotherapeutic Institution at Jáchymov was transferred on January 1st, 1922, from the administration of the Ministry of Public Works to that of the Ministry of Public Health.

In connection with expenditure on State spas in Slovakia, it should be pointed out that, after the revolution, it became necessary to expend considerable sums on putting these enterprises into working order once more. All the thermal establishments had been pillaged either by the Magyars, or when the Bolshevik invasion took place, and it has been necessary to carry out most comprehensive repairs, in order to resume the successful conduct of these enterprises and cater satisfactorily for the visitors.

It has also been necessary to settle certain questions of a legal nature, for instance, to abolish the Inspectorate-general and to establish the State ownership of the Strbské Pleso Spa, which had been leased to a private company. Under its former ownership the conditions of this establishment had become deplorable. The reorganisation of this spa cost in round figures 200,000 Czechoslovak crowns.

The Herlany Spa, which had to be entirely renovated, was opened to visitors on May 1st, 1922.

Lastly, 600,000 Czechoslovak crowns were paid out this year on extraordinary expenditure in connection with the "Artel" Company in Prague and the "Société d'Art industriel" at Bratislava, for the construction of the new hotel "Hviezdoslav", which was opened at Strbské Pleso.

All restaurants in the cure-establishments have been leased out. Only the hotels and their appurtenances are under State administration, and general rules have been drawn up for their management.

II. *The influence of foreign loans and trade balances.*

The following are the figures for the foreign trade of Czechoslovakia for 1920 and 1921 and the first half of 1922.

	1920		1921	
	In millions of metric quintals	In millions of Kč	In millions of metric quintals	In millions of Kč
Total imports	39.1	23,383	39.6	22,436
Total exports	69.0	27,569	96.4	27,312
Export surplus	29.9	4,185	56.8	4,876

	1922 (January to June) In millions of metric quintals
Total imports	17,590
Total exports	47,266
Export surplus	29,676

These figures show a considerable trade balance in favour of Czechoslovakia.

As is shown by the Banking Office of the Ministry of Finance, which controls commercial transactions with a view to making sure that such foreign exchange derived from exports as is at a premium is actually placed at the disposal of the Czechoslovak exchange market, the export surplus in the trade balance is exercising a favourable influence on the stabilisation of the Czechoslovak crown. This influence has probably not been weakened to any extent even by the payment

of the interest and amortisation of the State loans, which, during that period (January 1st, 1920, to June 30th, 1922), amounted to 199,271,077.69 Czechoslovak crowns (cf. Appendix I).

In addition to these payments to the public debt account for interest and amortisation, payments from the cash available have also been made on account of the purchase of cereals, both interest and capital, which have taken the form of an advance to the Cereals Office to an amount of 798,124,374.81 Czechoslovak crowns, an amount which, it is true, has already been shown in the foreign trade balance under the heading of imports, particularly of wheat and flour.

APPENDIX I.

The following table gives the service of the foreign debt, both interest and amortisation, provided for in the budgets for the fiscal periods 1919, 1920, 1921 and 1922 (as on June 30th, 1922).

Year	Credit	Paid to the		Total
		interest account	capital account	
1919	(a) <i>Italian</i> credit granted for the purchase of raw material and goods, 26,000,000 lire for (a)	—	50,716,973.—	50,716,973.—
1920	(b) <i>French</i> credit granted for the purchase of war stores and horses: bonds for 100,000,000 French francs and 1,149,212 dollars for (c)	22,432,714.80	—	22,432,714.80
	(c) <i>English</i> credit for (a)	—	—	—
1921	For the purchase of goods and food supplies and for the cost of transport (bonds for £336,116) for (a)	—	21,612,446.—	21,612,446.—
	for (c)	35,017,978.32	—	35,017,978.32
		8,246,581.43	—	8,246,581.43
On June 30th, 1922	(a) <i>French</i> credit for the maintenance of the Czechoslovak army in France: (Bonds for 28,152,226.60 French francs).	6,714,384.14	—	6,714,384.14
	(b) <i>English</i> credit granted for the purchase of goods and food supplies and for cost of transport (Bonds £429,564 11s. 9d.)	2,580,000.—	—	2,580,000.—
	Bankers' credits in German marks: 100,000,000 marks	—	51,950,000.—	51,950,000.—
			Total . . .	199,271,077.69

APPENDIX II.

The following table gives the service of the debt, both interest and amortisation, not provided for in the budgets for the fiscal periods 1919, 1920, 1921 and 1922 (as on June 30th, 1922), and met out of the cash available in the form of an advance for the Cereals Office.

Year	Credits	Paid to the		Total
		interest account	capital account	
1919		—	—	—
1920		—	—	—
1921	(a) Bankers' credits in German marks: 310,000,000 marks	20,624,844.—	300,013,631.40	320,638,475.40
	(b) English credit granted for the purchase of flour: £2,000,000 . . .	40,394,765.75	—	40,394,765.75
1922	English credit granted for the purchase of flour: £2,000,000 . . .	8,400,008.—	229,420,047.97	237,820,055.97
			Total . . .	598,853,297.12

SUMMARY.

	Czechoslovak crowns
I. Payments in respect of interest and capital .	199,271,077.69
II. ditto ditto .	598,853,297.12
Total	798,124,374.81

January 25th, 1923.

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LEAGUE OF NATIONS

BRUSSELS FINANCIAL CONFERENCE 1920

THE RECOMMENDATIONS
AND THEIR
APPLICATION

A Review after Two Years

VOLUME II

ITALY

PRICE 2s.



ECONOMIC AND FINANCE SECTION
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RESOLUTIONS

I. — RESOLUTIONS PROPOSED BY THE COMMISSION ON PUBLIC FINANCE AND ADOPTED UNANIMOUSLY BY THE CONFERENCE

I.

Thirty-nine nations have in turn placed before the International Financial Conference a statement of their financial position. The examination of these statements brings out the extreme gravity of the general situation of public finance throughout the world, and particularly in Europe. Their import may be summed up in the statement that three out of every four of the countries represented at this Conference, and eleven out of twelve of the European countries, anticipate a Budget deficit in the present year. Public opinion is largely responsible for this situation. The close connection between these Budget deficits and the cost of living, which is causing such suffering and unrest throughout the world, is far from being grasped. Nearly every Government is being pressed to incur fresh expenditure; largely on palliatives which aggravate the very evils against which they are directed. The first step is to bring public opinion in every country to realise the essential facts of the situation and particularly the need for re-establishing public finances on a sound basis as a preliminary to the execution of those social reforms which the world demands.

II.

Public attention should be especially drawn to the fact that the reduction of prices and the restoration of prosperity is dependent on the increase of production, and that the continual excess of Government expenditure over revenue represented by Budget deficits is one of the most serious obstacles to such increase of production, as it must sooner or later involve the following consequences:

- (a) Further inflation of credit and currency.
- (b) A further depreciation in the purchasing power of the domestic currency, and a still greater instability of the foreign exchanges.
- (c) A further rise in prices and in the cost of living.

The country which accepts the policy of Budget deficits is treading the slippery path which leads to general ruin; to escape from that path no sacrifice is too great.

III.

It is therefore imperative that every Government should, as the first social and financial reform, on which all others depend:

- (a) Restrict its ordinary recurrent expenditure, including the service of the debt to such an amount as can be covered by its ordinary revenue.

- (b) Rigidly reducing all expenditure on armaments in so far as such reduction is compatible with the preservation of national security.
- (c) Abandon all unproductive extraordinary expenditure.
- (d) Restrict even productive extraordinary expenditure to the lowest possible amount.

IV.

The Supreme Council of the Allied Powers in its pronouncement on March 8th declared that "Armies should everywhere be reduced to a peace footing, that armaments should be limited to the lowest possible figure compatible with national security and that the League of Nations should be invited to consider, as soon as possible, proposals to this end." The statements presented to the Conference show that, on an average, some 20 per cent, of the national expenditure is still being devoted to the maintenance of armaments and the preparations for war. The Conference desires to affirm with the utmost emphasis that the world cannot afford this expenditure. Only by a frank policy of mutual co-operation can the nations hope to regain their old prosperity; and in order to secure that result the whole resources of each country must be devoted to strictly productive purposes.

The Conference accordingly recommends most earnestly to the Council of the League of Nations the desirability of conferring at once with the several Governments concerned, with a view to securing a general and agreed reduction of the crushing burden which, on their existing scale, armaments still impose on the impoverished peoples of the world, sapping their resources and imperilling their recovery from the ravages of war. The Conference hopes that the Assembly of the League which is about to meet will take energetic action to this end.

V.

While recognising the practical difficulties in the way of immediate action in all cases, the Conference considers that every Government should abandon at the earliest practicable date all uneconomical and artificial measures which conceal from the people the true economic situation; such measures include:

- (a) The artificial cheapening of bread and other foodstuffs, and of coal and other materials by selling them below cost price to the public, and the provision of unemployment doles of such a character as to demoralise instead of encouraging industry.
- (b) The maintenance of railway fares, postal rates and charges for other government services on a basis which is insufficient to cover the cost of the services given, including annual charges on capital account.

VI.

In so far as, after every effort has been made, it is impossible to cut down expenditure within the limits of existing revenues, fresh taxation must be imposed to meet the deficit and this process must be ruthlessly continued until the revenue is at least sufficient to meet the full amount of the recurrent ordinary expenditure. The Conference considers that the relative advantages of the various possible means of increasing the national revenue, whether by direct or indirect taxation or by a capital levy (to be devoted to the repayment of debt), depend upon the special economic conditions obtaining in each country, and that in consequence each country must decide for itself on the methods which are best suited to its own internal economy.

VII.

If the above principles are accepted and applied, loans will not be required for recurrent ordinary expenditure; borrowing for that purpose must cease. In a number of countries, however, although the ordinary charges can be met from revenue, heavy extraordinary expenditure must at the present time be undertaken on capital account. This applies more especially in the case of those countries devastated during the war, whose reconstruction charges cannot possibly be met from ordinary receipts. The restoration of the devastated areas is of capital importance for the re-establishment of normal economic conditions; and loans for this purpose are not only unavoidable but justifiable. But in view of the shortage of capital it will be difficult to secure the sums required even for this purpose, and only the most urgent schemes should be pressed forward immediately.

VIII.

The means by which loans are raised are no less important than the purposes for which they are destined. In future the loans which are required for urgent capital purposes must be met out of the real savings of the

people. But those savings have, as it were, been pledged for many years ahead by the credits created during the war, and the first step to raising fresh money must be to fund the undigested floating obligations with which the markets are burdened. These principles apply both to internal and to external borrowing, and in regard to the latter we suggest that it would be in the general interest for the creditor countries to give such facilities as may be possible to the debtor countries to fund their floating obligations at the earliest possible date.

IX.

In order to enlist public interest, it is essential to give the greatest publicity possible to the situation of the public finances of each State.

The Conference is, therefore, of the opinion that the work already accomplished by the Secretariat in its comparative study of public finances should be continued, and it suggests that the Council of the League of Nations should request all its Members and all the nations represented at this Conference to furnish it regularly not only with Budget estimates and final Budget figures, but also with a half-yearly account of actual receipts and expenditure. At the same time, countries should be urged to supply as complete information as is possible on the existing system of taxation, and any suggestions which may appear to each State to be useful for the financial education of the public opinion of the world.

With the aid of the information thus obtained, the League of Nations would be enabled to prepare pamphlets for periodical publication setting out the comparative financial position of the countries of the world, and making clear the various systems of taxation in force.

X.

The Conference is of opinion that the strict application of the principles outlined above is the necessary condition for the re-establishment of public finances on a sound basis. A country which does not contrive as soon as possible to attain the execution of these principles is doomed beyond hope of recovery. To enable Governments, however, to give effect to these principles, all classes of the community must contribute their share. Industry must be so organised as to encourage the maximum production on the part of capital and labour, as by such production alone will labour be able to obtain those improved conditions of life which it is the aim of every country to secure for its people. All classes of the population, and particularly the wealthy, must be prepared willingly to accept the charges necessary to remedy the present situation. Above all, to fill up the gap between the supply of and the demand for commodities, it is the duty of every patriotic citizen to practise the strictest possible economy and so to contribute his maximum effort to the common weal. Such private action is the indispensable basis for the fiscal measures required to restore public finances.

II. — RESOLUTIONS PROPOSED BY THE COMMISSION ON CURRENCY AND EXCHANGE AND ADOPTED UNANIMOUSLY BY THE CONFERENCE.

The currency of a country, in the sense of the immediate purchasing power of the community, includes (a) the actual legal tender money in existence, and (b) any promises to pay legal tender, *e.g.*, as Bank balances — which are available for ordinary daily transactions.

The currencies of all belligerent, and of many other, countries, though in greatly varying degrees, have since the beginning of the war been expanded artificially, regardless of the usual restraints upon such expansion (to which we refer later) and without any corresponding increase in the real wealth upon which their purchasing power was based; indeed in most cases in spite of a serious reduction in such wealth.

It should be clearly understood that this artificial and unrestrained expansion, or "inflation" as it is called, of the currency or of the titles to immediate purchasing power, does not and cannot add to the total real purchasing power in existence, so that its effect must be to reduce the purchasing power of each unit of the currency. It is, in fact, a form of debasing the currency.

The effect of it has been to intensify, in terms of the *inflated* currencies, the general rise in prices, so that a greater amount of such currency is needed to procure the accustomed supply of goods and services. Where this additional currency was procured by further "inflation" (*i.e.* by printing more paper money or creating fresh credit) there arose what has been called a "vicious spiral" of constantly rising prices and wages and constantly increasing inflation, with the resulting disorganisation of all business, dislocation of the exchanges, a progressive increase in the cost of living, and consequent labour unrest.

I.

Therefore:

It is of the utmost importance that the growth of inflation should be stopped, and this, although no doubt very difficult to do immediately in some countries, could quickly be accomplished by (1) abstaining from increasing the currency (in its broadest sense as defined above), and (2) by increasing the real wealth upon which such currency is based.

The cessation of increase in the currency should not be achieved merely by restricting the issue of legal tender. Such a step, if unaccompanied by other measures, would be apt to aggravate the situation by causing a monetary crisis. It is necessary to attack the causes which lead to the necessity for the additional currency.

The chief cause in most countries is that the Governments, finding themselves unable to meet their expenditures out of revenue, have been tempted to resort to the artificial creation of fresh purchasing power, either by the direct issue of additional legal tender money, or more frequently by obtaining — especially from the Banks of Issue, which in some cases are unable and in others unwilling to refuse them — credits which must themselves be satisfied in legal tender money. We say, therefore, that —

II.

Governments must limit their expenditure to their revenue. (We are not considering here the finance of reconstructing devastated areas.)

III.

Banks, and especially Banks of Issue, should be freed from political pressure and should be conducted solely on the lines of prudent finance.

But the Governments are not the only offenders in this respect; other parties, and especially in some countries the municipalities and other local authorities, have raised excessive credits which in the same way multiply the titles to purchasing power.

Nor will it be sufficient, for the purpose of checking further inflation, that additional issues of legal tender or the granting of additional credits should cease; since the floating debts of Governments and other authorities constitute in themselves a form of potential currency, in that, except in so far as they are constantly renewed, their amount will come to swell the total currency in existence. Consequently —

IV.

The creation of additional credit should cease and Governments and municipalities should not only not increase their floating debts, but should begin to repay or fund them by degrees.

In normal times the natural and most effective regulator of the volume and distribution of credit is the rate of interest which the Central Banks of Issue are compelled, in self-preservation and in duty to the community, to raise when credit is unduly expanding. It is true that high money rates would be expensive to Governments which have large floating debts, but we see no reason why the community in its collective capacity (*i.e.*, the Government) should be less subject to the normal measure for restricting credit than the individual members of the community. In some countries, however, the financial machinery has become so abnormal that it may be difficult for such corrective measure to be immediately applied. We recommend, therefore, that :—

V.

Until credit can be controlled merely by the normal influence of the rate of interest, it should only be granted for real economic needs.

It is impossible to lay down any rule as to the "proper rates" of discount or interest for different countries. These rates will depend not only on the supply and demand at different times but also on other factors often of a psychological nature. It may, indeed, confidently be said that when once the arbitrary increase of inflation ceases and when the Banks of Issue are able successfully to perform their normal functions, rates will find their own proper level.

The complementary steps for arresting the increase of inflation by increasing the wealth on which the currency is based may be summed up in the words: increased production and decreased consumption.

The most intensive production possible is required in order to make good the waste of war and arrest inflation and thus to reduce the cost of living; yet we are witnessing in many countries production below the normal, together with those frequent strikes which aggravate instead of help to cure the present shortage and

dearness of commodities. When diminution in the Governments' demands frees more credits for trade and for the recuperation of the world, when inflation has ceased and prices cease to rise, and when the general unsettlement caused by the war subsides, it is probable that great improvement will be seen in productive activity. Yet, in our opinion, the production of wealth is in many countries suffering from a cause which it is more directly in the power of Governments to remove, viz., the control in various forms which was often imposed by them as a war measure and has not yet been completely relaxed. In some cases, business has even been taken by Governments out of the hands of the private trader, whose enterprise and experience are a far more potent instrument for the recuperation of the country.

Another urgent need is the freest possible international exchange of commodities. With this another Commission will deal, but we feel that our recommendations here on inflation would not be complete without adding that —

VI.

Commerce should as soon as possible be freed from control, and impediments to international trade removed.

Equally urgent is the necessity for decreased consumption in an impoverished world where so much has been impaired. It is therefore specially important at present that both on public and private account and not only in impoverished countries, but in every part of the world —

VII.

All superfluous expenditure should be avoided.

To attain this end, the enlightenment of public opinion is the most powerful lever. If the wise control of credit brings dear money, this result will in itself help to promote economy.

We pass now from inflation and its remedies to the other points submitted to us.

Without entering into the question whether gold is or is not the ideal common standard of value, we consider it most important that the world should have some common standard, and that, as gold is to-day the nominal standard of the civilised world —

VIII.

It is highly desirable that the countries which have lapsed from an effective gold standard should return thereto.

It is impossible to say how or when all the older countries would be able to return to their former measure of effective gold standard or how long it would take the newly formed countries to establish such a standard. But in our opinion —

IX.

It is useless to attempt to fix the ratio of existing fiduciary currencies to their nominal gold value; as, unless the condition of the country concerned were sufficiently favourable to make the fixing of such ratio unnecessary, it could not be maintained.

The reversion to, or establishment of, an effective gold standard would in many cases demand enormous deflation and it is certain that such —

X.

Deflation, if and when undertaken, must be carried out gradually and with great caution; otherwise the disturbance to trade and credit might prove disastrous.

XI.

We cannot recommend any attempt to stabilise the value of gold and we gravely doubt whether such attempt could succeed; but this question might well be submitted to the Committee to which we refer later, if it should be appointed.

XII.

We believe that neither an International Currency nor an International Unit of Account would serve any useful purpose or remove any of the difficulties from which international exchange suffers to-day.

XIII.

We can find no justification for supporting the idea that foreign holders of Bank notes or Bank balances should be treated differently from native holders.

XIV.

In countries where there is no Central Bank of Issue, one should be established, and if the assistance of foreign capital were required for the promotion of such a Bank, some form of international control might be required.

XV.

Attempts to limit fluctuations in exchange by imposing artificial control on exchange operations are futile and mischievous. In so far as they are effective they falsify the market, tend to remove natural correctives to such fluctuations and interfere with free dealings in forward exchange which are so necessary to enable traders to eliminate from their calculations a margin to cover risk of exchange, which would otherwise contribute to the rise in prices. Moreover, all Government interference with trade, including exchange, tends to impede that improvement of the economic conditions of a country by which alone a healthy and stable exchange can be secured.

We support the suggestion that —

XVI.

A Committee should be set up both for continuing the collection of the valuable financial statistics that have been furnished for this Conference and also for the further investigation of currency policy.

III. — RESOLUTIONS PROPOSED BY THE COMMISSION ON INTERNATIONAL TRADE AND ADOPTED UNANIMOUSLY BY THE CONFERENCE.

I.

The International Financial Conference affirms that the first condition for the resumption of international trade is the restoration of real peace, the conclusion of the wars which are still being waged, and the assured maintenance of peace for the future. The continuance of the atmosphere of war and of preparations for war is fatal to the development of that mutual trust which is essential to the resumption of normal trading relations. The security of internal conditions is scarcely less important, as foreign trade cannot prosper in a country whose internal conditions do not inspire confidence. The Conference trusts that the League of Nations will lose no opportunity to secure the full restoration and continued maintenance of peace.

II.

The International Financial Conference affirms that the improvement of the financial position largely depends on the general restoration as soon as possible of good-will between the various nations; and in particular it endorses the declaration of the Supreme Council of the 8th March last "that the States which have been created or enlarged as a result of the war should at once re-establish full and friendly co-operation, and arrange for the unrestricted interchange of commodities in order that the essential unity of European economic life may not be impaired by the erection of artificial economic barriers."

III.

The Conference recommends that, within such limits and at such time as may appear possible, each country should aim at the progressive restoration of that freedom of commerce which prevailed before the war, including the withdrawal of artificial restrictions on, and discriminations of price against, external trade.

IV.

The International Financial Conference expresses its conviction that the instability of the exchanges constitutes a great hindrance to the resumption of normal international trade.

V.

The International Financial Conference would welcome any action which can be taken by the League of Nations to enable the countries which under present conditions cannot purchase the necessary supplies for their reconstruction temporarily to obtain commercial credits on an approved basis for this purpose.

VI.

The International Financial Conference expresses the conviction that the repair, improvement, and economical use of the transport systems of the world, and particularly of countries affected by the war, are of vital importance to the restoration of international trade.

IV. — RESOLUTIONS PROPOSED BY THE COMMISSION ON INTERNATIONAL CREDITS AND ADOPTED UNANIMOUSLY BY THE CONFERENCE.

I.

The Conference recognises in the first place that the difficulties which at present lie in the way of international credit operations arise almost exclusively out of the disturbance caused by the war, and that the normal working of financial markets cannot be completely re-established unless peaceful relations are restored between all peoples and the outstanding financial questions resulting from the war are made the subject of a definite settlement which is put into execution.

II.

The Conference is moreover of opinion that the revival of credit requires as primary conditions the restoration of order in public finance, the cessation of inflation, the purging of currencies, and the freedom of commercial transactions. The resolutions of the Commission on International Credits are therefore based on the resolutions of the other Commissions.

III.

The Conference recognises, however, that this general improvement in the situation requires a considerable period of time, and that in present circumstances it is not possible for certain countries to restore their economic activity without assistance from abroad. This assistance is required for periods which exceed the normal term of commercial operations.

IV.

The Conference is of opinion that in principle the resources out of which this assistance is to be provided should be found from the savings of the lending countries and must not result in undue increase of the fiduciary circulation — that is to say, in the creation or extension of a disproportion between means of payment and the genuine requirements of business.

V.

The Conference believes, on the other hand, that this assistance can only be effectively accorded to countries which are prepared to assist one another in the restoration of economic life, and to make every effort to bring about within their own frontiers the sincere collaboration of all groups of citizens and to secure conditions which give to work and thrift liberty to produce their full results.

VI.

The Conference does not believe that, apart from particular decisions dictated by national interests or by considerations of humanity, credits should be accorded directly by Governments.

VII.

It appears to the Conference that one of the chief obstacles to the granting of credits is the absence in borrowing countries of sufficient security for ultimate repayment. The Conference therefore studied with attention in the light of the general considerations enumerated above, all the proposals presented with a view to creating guarantees which would provide satisfactory security for exporters.

The Conference has been forced to recognise that no single system could by itself suffice to provide for the many different needs of the various countries, and that it is necessary to indicate a series of measures sufficiently elastic to be adapted afterwards to every variety of circumstances.

For these reasons the Conference decided to make the following recommendations:

VIII.

An international organisation should be formed and placed at the disposal of States desiring to have resort to credit for the purpose of paying for their essential imports. These States would then notify the assets which they are prepared to pledge as security for the sake of obtaining credit, and would come to an understanding with the international organisation as to the conditions under which these assets would be administered.

The bonds issued against this guarantee would be used as collateral for credits intended to cover the cost of commodities.

A plan based upon these principles is developed in the Annex. It has been devised to enable States to facilitate the obtaining of commercial credits by their nationals. It is easy to see that the scheme is susceptible of development in various directions, and that some of its provisions might be adapted so as to facilitate the extension of credit direct to public corporations.

A Committee of financiers and business men should be nominated forthwith by the Council of the League of Nations for the purpose of defining the measures necessary to give practical effect to this proposal.

IX.

It has been represented to the Conference that more complete results might be achieved if the bonds used as collateral were to carry some international guarantee.

The Conference sees no objection to the further consideration of this proposal. The Committee referred to in paragraph VIII above might usefully consider the conditions under which it could be applied.

X.

It has also been represented to the Conference that an extension on international lines of the existing system of export credit insurance would in many instances be of great value in developing trade with countries where political and social conditions give rise to an anxiety which is often exaggerated by exporters. The Conference believes that an extension of this kind is worthy of consideration, and that it should be examined in detail by experts.

XI.

The attention of the Conference has been called to the present system of "finishing credits," that is to say, of credits under which a lien in favour of the exporter or a banker is maintained on the raw material in all its different stages and upon the proceeds of the manufactured article. This system has suffered greatly owing to the lack, in many countries, of sufficient legal protection for the exporter throughout the various stages of importation, manufacture, re-exportation and sale. The Conference would suggest that the Council be recommended to draw the attention of the different Governments to this question, and to summon an advisory body of legal experts and business men to specify the legislative action which it would be desirable to take in order to attain the desired object in each of the countries concerned.

XII.

Apart from the above-mentioned proposals which the Conference recommends the League of Nations to adopt and if possible to apply in practice, the Conference believes that the activities of the League might usefully be directed towards promoting certain reforms, and collecting the relevant information required to facilitate credit operations. In this connection the Conference considers it well to draw attention to the advantages of making progress under each of the following heads:

- (1) Unification of the laws relating to bills of exchange and bills of lading;
- (2) The reciprocal treatment of the branches of foreign banks in different countries;
- (3) The publication of financial information in a clear, comparative form;
- (4) The examination of claims by the holders of bonds the interest on which is in arrear;
- (5) An international understanding on the subject of lost, stolen or destroyed securities;
- (6) The establishment of an international clearing house;
- (7) An international understanding which, while ensuring the due payment by everyone of his full share of taxation, would avoid the imposition of double taxation which is at present an obstacle to the placing of investments abroad.

XIII.

During the course of its deliberations the Conference could not fail to be impressed by the fact that all, or almost all, of the many proposals submitted for its consideration require at some stage the active intervention of the League of Nations. The Conference is unanimously in sympathy with this tendency and believes that it is desirable to extend to the problems of finance that international co-operation which the League of Nations has inaugurated and which it is attempting to promote in order to improve the general situation and maintain the peace of the world.

ANNEX.

1. In order that impoverished nations, which under present circumstances are unable to obtain accommodation on reasonable terms in the open market, may be able to command the confidence necessary to attract funds for the financing of their essential imports, an international commission shall be constituted under the auspices of the League of Nations.

2. The commission shall consist of bankers and business men of international repute, appointed by the Council of the League of Nations.

3. The commission shall have the power to appoint sub-commissions and to devolve upon them the exercise of its authority in participating countries or in groups of participating countries.

4. The Governments of countries desiring to participate shall notify to the commission what specific assets they are prepared to assign as security for commercial credits to be granted by the nationals of exporting countries.

5. The commission, after examination of these assets, shall of its own authority determine the gold value of the credits which it would approve against the security of these assets.

6. The participating Government shall then be authorised to prepare bonds to the gold value approved by the commission, each in one specific currency to be determined on the issue of the bond.

7. The date of maturity and the rate of interest to be borne by these bonds shall be determined by the participating Government in agreement with the commission.

8. The service of these bonds shall be secured out of the revenue of the assigned assets.

9. The assigned assets shall in the first instance be administered by the participating Government or by the international commission as that commission may in each case determine.

10. The commission shall at any time have the right of making direct representations to the Council of the League of Nations as to the desirability of transferring the administration of the assigned assets either from the commission to the participating Government or from the participating Government to the commission.

11. The decision of the Council of the League of Nations on this question shall be binding.

12. After the preparation of these bonds, the participating Government shall have the right to loan the bonds to its own nationals, for use by them as collateral security for importations.

13. The bonds shall be made out in such currencies and in such denominations as are applicable to the particular transaction in respect of which they are issued.

14. The participating Government shall be free to take or not to take security for the loan of these bonds from the nationals to whom they are lent.

15. The maturity and the rate of interest of the loan of the bonds shall be fixed by agreement between the participating Government and the borrower of the bonds; they need not be the same as the maturity and the rate of interest of the bonds themselves.

16. When making application to his Government for a loan of these bonds, the importer must furnish proof that he has previously obtained from the international commission express permission to enter into the transaction for which the bonds are to be given as collateral.

17. Each bond, before it is handed over by the participating Government to the importer, shall be countersigned by the commission in proof of registration.

18. Having obtained the consent of the commission and received from them the countersigned bonds, the importer will pledge these bonds to the exporter in a foreign country for the period of the transaction.

19. The exporter will return to him on their due dates the coupons of the pledged bonds, and the bonds themselves on the completion of the transaction.

20. On receipt of the coupons and the bonds respectively, the importer will return them to his Government.

21. Bonds returned to the participating Government shall be cancelled and may subsequently be replaced by other bonds, either in the same or in a different currency, up to an equivalent amount.

22. The exporter, or if he has pledged the bonds the institution with which he has repledged them acting on his behalf, would be free, in the event of the importer not fulfilling the terms of his contract, to hold until maturity the bonds given as collateral by the importer, or to sell them in accordance with the custom in his country in case of default.

23. In the second alternative, an option of repurchasing the bonds direct must first be given for a short period to the Government which issued them.

24. If a sale is resorted to and results in a surplus beyond what is necessary to cover the claims of the exporter upon the importer, the exporter shall be held accountable for that surplus to the Government which issues the bonds.

25. The revenues from the assigned assets shall be applied as follows to the service of the bonds.

26. Out of these revenues, the commission or the participating Government, as the case may be, shall purchase foreign currencies sufficient to meet at their due date the coupons on all bonds any time outstanding in the different foreign currencies.

27. In addition they shall establish abroad in the appropriate currencies a sinking fund calculated to redeem at maturity 10 % of the bonds outstanding in each of the different countries.

28. Further, in addition to the amounts provided for payment of coupons and for the endowment of the sinking fund, they shall establish out of the assigned revenues a special reserve in one or more foreign currencies for the redemption of bonds sold in accordance with paragraph 22.

29. The amount to be set aside for the special reserve shall in each case be determined by the commission.

30. Any surplus remaining at the end of each year after the provision of these services shall be at the free disposal of the participating Government.

31. A participating Government shall have the right to offer its own bonds as collateral for credits obtained for the purpose of importations on Government account. The previous assent of the commission will in these cases also be required for the particular importations desired by the participating Government.

32. If a participating Government which has been in control of its assigned revenues should fail to fulfil its obligations, the exporter concerned will notify the commission and the commission will apply to the Council of the League of Nations for the transfer of the management of the assigned revenues to the commission.

33. The consent of the commission is necessary whenever bonds secured on the assigned assets are given as collateral and shall as a rule be accorded only for the import of raw materials and primary necessities.

34. The commission may, however, at its discretion, sanction in advance the importation of specified quantities of such goods.

35. Even in the case of imports under such a general sanction, a notification of the particular transaction must be registered with the commission.

36. The assent of the commission must also be obtained in every case to the term of the credit which it is proposed to open.

Circular Letter and Annex sent to the Various Governments.

GENEVA, March 20th, 1922.

Sir,

The Second Assembly of the League of Nations passed the following Resolution:—

“The Assembly, having had brought to its notice the continuing gravity of the exchange crisis and its dangerous effects upon the economic position and the conditions of labour of the working classes, invites the Provisional Economic and Financial Committee to carry on urgently its enquiries from various Governments as to the measures taken to ensure the application of the resolutions of the Brussels Conference. The Assembly further invites the Committee to investigate, in accordance with the Governments’ suggestions and as speedily as may be, all practical proposals which may be made for the completest possible application of these resolutions.”

The Financial Committee, which was given the task of putting this decision into force, ventures to apply to you, in view of the especial knowledge that you have of the conditions of, and has the honour to ask you if you would be so good as to collect the information required to meet the wishes of the Assembly. A note is attached (*see pages 18 and 19*) describing the scope of the enquiry with a view to defining the extent of the investigations, and to ensuring uniformity in the replies to be received from various countries.

It is perhaps scarcely necessary to add that, if you are acquainted with any special statements or summaries dealing with the financial, monetary or commercial policy of the country which forms the subject of your enquiry, prepared either by the Government or by some important body qualified to do so, information of this nature would be of the greatest interest to the Committee.

The Secretariat of the League of Nations at Geneva (Economic and Financial Section) has been instructed to act as a centre for receiving replies to this enquiry. The Secretariat would be grateful if, in order to expedite the work, you would be good enough to forward the data concerning some section (for instance, the monetary policy), as soon as they are collected, without necessarily waiting for the full information relative to all of the three sections of which the enquiry consists.

As the Financial Committee will require some considerable time in which to prepare a general report for the next Assembly, it will be glad if the full answers to the enquiry could be sent in before the end of May.

I have the honour to be, Sir, your obedient servant,

(Signed) ERIC DRUMMOND,
Secretary-General.

ANNEX TO THE CIRCULAR LETTER.

Provisional Economic and Financial Committee.

ENQUIRY INTO THE PUTTING INTO FORCE OF THE PRINCIPLES OF THE
BRUSSELS CONFERENCE.

The recommendations of the Brussels Conference can be brought into the following categories:

- I. Budgetary measures.
- II. Monetary measures.
- III. Commercial measures.

With regard to the political measures recommended by the Brussels Conference, the Financial Committee, while recognising itself as not, strictly speaking, competent to deal with them, is nevertheless of opinion that it would be of value to draw attention to the desirability of obtaining information on this point. In fact, certain political measures have a considerable effect in matters affecting finance, currency and commerce.

It is thought that uniformity of method could best be obtained were the Memoranda to be divided into chapters corresponding to the foregoing three categories and were the sections of each chapter divided in the manner indicated below, corresponding to the Resolutions actually passed.

I. BUDGETARY MEASURES.

A summary of budget development since the summer of 1920 with special regard to:

1. How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue (Art. III, P. F. ¹).
2. Whether expenditure on armaments has been reduced (Art. III, P. F.).
3. The extent of unproductive extraordinary expenditure (Art. III, P. F.).
4. The extent of productive extraordinary expenditure (Art. III, P. F.).

¹ The initials refer to the Resolutions of the Brussels Conference on Public Finance, Currency and Exchange and International Trade (see page 7).

5. The policy of the Governments in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.
6. The existence of subsidies on bread and other foodstuffs, coal and other materials (Art. V, P. F.).
7. Charges for unemployment (Art. V, P. F.).
8. The financial position of public undertakings: Railways, posts, telegraphs, telephones, etc. (Art. V, P. F.).
9. The introduction of new taxation (Art. VI, P. F.).
10. Methods of raising money by loans, whether by (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central bank leading to further new inflation (Art. VIII, P. F.).
11. The influence of foreign loans and trade balances.
12. The effect of local and provincial finance on the budget of the State.

II. MONETARY MEASURES.

A summary of monetary development since the summer of 1920 with special regard to:

1. The increase or decrease of the note circulation (Art. I, C. E.).
2. The influence of Government expenditure on currency (Art. II, C. E.).
3. The repayment of floating debt and the effects thereof (Art. IV, C. E.).
4. The connection between the Government and the central bank of issue (Arts. III, IV and XIV, C. E.).
5. The restriction of granting of credits either by means of the rate of interest or in other ways (Arts. V, VI and VII, C. E.).
6. The existence of any artificial control of exchange with a description of its character and its effects. Are foreign holders of bank-notes and credit balances treated differently from native holders? (Arts. XIII, XIV and XV, C. E.).
7. The causes and effects of deflation if existing (Art. X, C. E.).

III. COMMERCIAL POLICY.

A summary of commercial development since the summer of 1920 with special regard to:

1. The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc. (Arts. I, II and III, I. T.).
 2. The existence (or abolition) of price discrimination against foreign trade (Art. III, I. T.).
 3. The conclusion of (a) commercial conventions; (b) transport conventions (Art. VI, I. T.).
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COVERING LETTER.

July 3rd, 1922.

*To the President of the Provisional Economic and Financial Committee,
League of Nations, Geneva.*

I am sending to the Provisional Economic and Financial Committee of the League of Nations a report upon the application in Italy of the decisions of the International Financial Conference in Brussels, which has been drawn up by Professor Riccardo Bachi. This report contains very full information concerning the economic situation of Italy during the two years 1920-1921.

The analysis of Italian life contained therein shows how in Italy the policy of the Government and the conduct of the whole nation have been in the highest degree in conformity with the principles recommended by the Brussels Conference. Indeed, the efforts which have been made by Italy with a view to economic reconstruction are most noteworthy, in spite of the very grave crisis which has affected the whole world, and which in Italy has caused so great a depression in commerce and industrial activity. These reconstructive efforts are all the more noteworthy, if one takes into consideration the heavy losses and the upheavals which have so gravely affected the life of the country during the five years of war. As Professor Bachi points out, the manifest improvement in the Italian situation at the beginning of 1922 as contrasted with that at the beginning of 1920, must be in part attributed to the spontaneous action of economic forces of reconstruction. In accordance with the principles adopted at Brussels, Italian economic policy has latterly been inspired by the idea of granting the necessary liberty to trade and commerce, diminishing or eliminating the restrictions which were set up during the war period: thus in the course of these two years, there have been gradually eliminated, either wholly or to a great extent, the restrictions and the interferences of the Government in foreign trade, in agricultural and industrial production, in respect of the movement of capital and dealings with foreign securities, in trade in coal and raw materials, in respect of the mercantile marine, in trade in food-stuffs, etc. In these respects, and particularly as regards international exchanges, Italy's policy has been inspired by more liberal principles than those of other countries.

In this movement for the restoration of Italian economic life, the change which has taken place in the collective psychology of the people is of great importance when contrasted with the excitement prevailing in the times immediately following the war. Thus, the economic and political situation has regained those characteristics of stability which are the necessary prelude to a vigorous economic activity. The principal factor in this national recovery is the effort which the Italian people has made to restore State finances. The very numerous statistics collected in the report show the sharp increase in taxation, an increase perhaps unnecessarily great, which may render necessary some revision of the financial legislation: a very large portion (not yet determinable in the present state of economic statistics) of the national income is absorbed by either central and local taxation. Thus, the budgetary position has been improving

gradually. One factor in this improvement which is by no means negligible is the greater severity which has been adopted in matters of expenditure, particularly the reduction of military expenditure, the abolition of food control, of the official price for bread and of the Government direction of the mercantile marine, etc. The work of reorganising certain public services and the systematisation of the bureaucracy still present great difficulty; the working of certain public services, and especially the railways and posts, still results in considerable deficits: in this connection, however, it is a question of administrative and political difficulties, which are affecting many countries and not merely Italy; their solution will require further careful consideration on the part of the Government. The figures set out in the report show during the last years and especially for the immediate past, a very distinct tendency to diminish the deficit in the Budget; it is hoped that further efforts toward economy in expenditure will succeed in bringing about the desired equilibrium at no far distant date.

A factor of great importance in the restoration of Italian economic life has been the cessation of monetary inflation; for a long time now the State has avoided all further issues of notes, and with the cessation of food and industrial control, it has been able to withdraw a proportion of the notes previously issued; the monetary stability which has thus been realised has brought about a certain stability in the level of prices and has also reduced the variability of the exchanges.

I hope that the publication of these statistics will serve, not only to throw light on the situation in Italy, but also to demonstrate in what directions action should be taken to bring about an improvement in the general situation.

I have the honour to be, etc.

(Signed) G. BIANCHINI.

REPORT
ON THE
APPLICATION IN ITALY OF THE RESOLUTIONS
OF THE
International Financial Conference held in Brussels in 1920

Introduction.

ECONOMIC SITUATION IN ITALY IN 1920-1921.

Economic changes: abolition of war restrictions.

A comparison between the present report and the one presented to the Brussels Conference reveals the extensive changes which have taken place in the economic and financial situation of Italy during the short period of two years. These changes correspond, in a large measure, to the tendencies of general and economic policy embodied in the definite programme of reconstruction which was drawn up at Brussels. Although the improvement in the situation may be ascribed in part to the wisdom and foresight of the Government, it is due, in a far larger measure, to the spontaneous action of recuperative economic forces. The experience of recent years has shown that the State, so far from increasing its control over the commercial life of the country, should abstain altogether from intervention; the last relics of "war restrictions" have disappeared in most branches of trade, and the action of the State has assumed a negative rather than a positive form, thus leaving freer play to natural forces and facilitating the restoration of a more stable condition of political, social and economic equilibrium.

Changes in the political and social situation.

The changes which have taken place in the economic situation of Italy during these two years correspond to the changes in the political and social conditions of the country. During

the first part of 1920 the national life still bore traces of the unstable social situation; the psychology of the community was still entirely abnormal. The tremendous events of the preceding years kept men's minds in a certain state of agitation; there was a desire for change, an acute anxiety regarding the future, due to the false perspective in which political events in other countries were viewed. The frequent strikes for political purposes which occurred in the years 1919 and 1920, sometimes in connection with events of trifling importance, were symptomatic of this state of mind.

The economic phenomena caused by the war had brought about very considerable changes in the distribution of wealth, partly owing to the depreciation of the currency and partly owing to changes in the rates of production and consumption. In 1919 and 1920, apart from the political strikes referred to above, there was a whole series of economic strikes — which furnished the clearest evidence of the movement towards a redistribution of income on lines corresponding to the change in the level of prices.

During these two years violent conflicts took place between the employer class and the working class, culminating in a new situation in the labour world, based on the increased power of the professional associations of both classes and an enormous development of the system of collective agreements. The working class embarked on a highly aggressive policy in order to obtain better conditions of labour under the impression, perhaps exaggerated, that enormous industrial profits had been gained during the war and the first months of peace.

The victories of the workers were in some cases aided by this political situation. The increased cost of labour contributed in a large degree to the general increase in the cost of production, a result also due to the conditions in which industries had developed and expanded during the last few years; for it must be remembered that many of the industrial enterprises which came into being or expanded during or after the war had done so with extraordinary rapidity, and had adopted technical methods which were not always suited to their needs.

These conditions of instability and social conflict were largely instrumental in impelling the adoption in the political economy of the State during the years 1919-1920 — particularly in financial affairs — of principles which were contrary to the recommendations of the Brussels Conference. Thus, during these two years, various branches of the Government's activities continued to be governed by the ideas which had prevailed during the war. Military expenditure was still considerable and was due to other causes besides the winding up of departments and to the liquidation of liabilities previously incurred. The State continued to intervene in questions of food-supply, and goods were often sold at prices which for political reasons were fixed below cost. The result was a large financial deficit; other serious deficits were caused by the State administration of commerce and industry and especially by the still extensive Government control of maritime transport.

Moreover, in view of the difficult social conditions and the disturbed economic situation, it was not easy to organise immediately a system of sources of revenue capable of producing as large and as rapid a return as was required. Furthermore, during these two years, the State had been compelled, in order to obtain revenue, to have recourse to loans, the result of which had been to increase the already formidable total of the debt. It had also been obliged to have recourse to the issue of notes with its inevitable serious effects on the price of goods and on the foreign exchange — effects which, in their turn, further aggravated the social discontent.

The abnormal development of the conditions of political and economic life was not peculiar to Italy; it appeared in other countries in different degrees — often in a more acute form — during the difficult period after the war.

Gradual reconstruction of the country.

From the close of the year 1920 and throughout the year 1921 a remarkable and rapid change took place in the conditions under which our national life was developing; there was

increased stability, a diminution of social conflicts and a more settled frame of mind. The general atmosphere being more settled it became possible to carry on economic reconstruction with remarkable rapidity, and the State was able to embark on a policy directed towards the economic re-organisation of the country. The people, aware of the serious difficulties which had to be faced in order to place the public finances on a sound basis, consented to the abolition of State control of the prices of corn and other articles of consumption, and submitted to new and heavy fiscal burdens in addition to those imposed during the war. The nation thus took a definite step towards the attainment of that financial equilibrium which is the essential condition of economic reconstruction, and especially of an improvement in the monetary situation.

The economic crisis.

The economic crisis which in 1920 assumed such an intense form in most countries, appeared somewhat more belatedly in Italy towards the end of that year, and continued to increase without, as in England and the United States, any clear sign of improvement. As elsewhere, this crisis was characterised by a serious disturbance of the equilibrium between consumption and the productive capacity of industrial enterprises. The seriousness of the crisis was accentuated by the mistaken efforts made in certain circles which, shortly after the cessation of hostilities, led to an unforeseen increase in productive capacity, fostered by the belief that a large and continued increase in the rate of consumption would take place. In Italy as in other countries, the results of these erroneous estimates of future requirements became particularly and most intensely evident in the great instrumental industries such as mining, metallurgical engineering machinery and ship-building; the same phenomenon was reproduced in a less obvious and more gradual manner in industries directly producing articles for consumption. The crisis has proved to be very serious in Italy, and appears likely to last a long time by reason of the special economic conditions and particularly on account of the great losses caused by the war and the enormous sacrifices borne by the Italian population during the struggle.

In the following pages we shall examine a few of the features and consequences of the crisis, while considering separately the application of the various principles laid down by the Brussels Conference. We shall note particularly that the crisis has led to a serious depression in certain branches of industry, to increasing unemployment, reduction in working hours, lowering of salaries, decrease in consumption, general diminution in the volume of business, a considerable fall in wholesale prices and, to some extent, of retail prices, also decreased profits, slackening of the circulation of money, a reduction in the circulation of bearer bonds issued by banks, a partial shrinkage of banking business, a reduction of certain branches of foreign trade and a corresponding falling off in the movement of transport, and, finally, an increase in the number of bankruptcies and dishonoured bills. The failure of a large bank and of certain great industrial enterprises are grave, but characteristic, features of the crisis.

Part I.

FINANCIAL MEASURES

GENERAL FINANCIAL CONDITION

General statistical data.

The financial policy latterly followed, which is based on the principles indicated above, has led to a certain reduction in actual expenditure, and an increase in actual receipts.

Effective expenditure.

We give below figures showing total actual expenditure (in thousands of lire) for each financial year from 1913-14 to 1920-21 (the figures for this latter year are provisional), and also the sum estimated for the years 1921-22 and 1922-23. We give for each year the figures for the Ministries of Finance, War and Marine.

Year	Total actual expenditure		Expenditure of Ministry of Finance	Expenditure of Ministry of War	Expenditure of Ministry of Marine
	Amount	Relatives figures			
1913-14	2,687,661	100.0	703,651	609,100	309,086
1914-15	5,395,397	200.7	799,933	2,602,729	622,872
1915-16	10,625,242	395.3	970,640	7,587,701	674,309
1916-17	17,595,260	654.7	1,582,037	13,245,226	765,036
1917-18	25,298,807	941.3	2,322,466	17,637,313	1,118,559
1918-19	32,451,576	1,207.4	3,311,914	20,908,359	1,489,705
1919-20	23,093,416	859.2	7,823,865	7,409,617	1,162,397
1920-21 ¹	28,783,488	1,070.9	15,109,213	3,727,481	1,331,850
1921-22 ²	21,083,545	784.5	9,605,071	2,354,784	874,807
1922-23 ²	18,525,306	689.3	9,417,900	1,876,549	611,102

In considering these figures it must be borne in mind that, for certain administrative and technical budgetary reasons, the figures for actual expenditure prior to 1920-21 do not comprise

¹ Provisional.
Estimated.

the total amounts expended in those years, as certain large items did not appear in the budget — for example, important items such as food subsidies, fuel and maritime transport. The figures for these various services do not appear in the data indicated above until after 1919-20; this explains the increase in the total expenditure for the financial year 1920-21.

Among the other factors which caused an increase in expenditure for this year, mention must be made of losses on exchange, which amount to about 3 milliards, due to the high rate of exchange and the large payments made abroad. About 1 milliard is due to the deficit in the administration of the railways; 1,360,000,000 for payments to employees, and lastly 600,000,000 for various public works.

Owing to the stricter financial policy which has since been followed, it has been possible to reduce several items of expenditure. Thus the estimated expenditure for the years 1921-22 and 1922-23 is smaller than the previous estimates, although it includes large sums for charges directly due to the war. The liquidation of the food supply organisation and other war services caused heavy charges in the budgets for several years. Owing to the delay in the preparation of final accounts arising out of the war, the figures for public expenditure during these financial years are to a certain extent only approximate. The calculations involved are so complex that it will be difficult, even in the future, to arrive at a total estimate of the cost of the war, quite apart from the difficulty of defining the actual expression "cost of the war" also in a financial sense.

The figures above relating to the sums paid or allocated to the ministries of war and marine since 1920-21, make it clear that expenditure has been brought down to something not very different from pre-war level: when comparing the figures, the change in the purchasing-power of money must be taken into account, and it must also be remembered that in 1920-1921 not only were important pre-existing obligations liquidated, but further, the exceptional political conditions still necessitated the maintenance of an armed force above the normal. Moreover, it should be borne in mind that up to the financial year 1921-1922 certain expenditure for the civil administration of the liberated territories still figured in the military budget, on account of the exceptional conditions subsisting in these territories.

The budget estimates for 1922-1923 anticipate an actual expenditure about seven times as great as in the last pre-war financial year, although expenditure directly caused by the war has practically disappeared. This increase is certainly relatively very considerable, but allowance must be made not only for the reduced purchasing power of money but also for the increase of territory and the numerous disturbances which the war has brought into the social and economic condition of the country, disturbances which, in various ways, result in fresh obligations on the State and fresh charges on the Treasury. It is to be hoped that strict economy and additional reductions in certain public services will enable a still further diminution to be made in the total expenditure. In the meantime the budget for 1922-1923 shows a real improvement on that for 1921-1922. The chief reasons for this improvement are as follows: the deficit in respect of food subsidies, formerly an important item, has been wiped out; expenditure on maritime transport has decreased by 532,000,000 lire owing to the fall in the price of coal; the gradual withdrawal of State control of the mercantile marine, and the return of vessels to private shipowners. Appropriations in the defence budgets were considerably reduced and were based on an army of 175,000 men, though, as regards the navy, the necessities of the new Adriatic services had to be taken into consideration. A cut of 238,000,000 lire has been made in the appropriations for war damages and the restoration of the liberated territories, though even the previous efforts made in this direction had been very considerable. Owing to the payment of arrears, the item of military pensions was reduced by a comparatively small amount (238,000,000 lire): it must, however, be remembered that this item is one of the largest in the budget, amounting as it does to 1,650,000,000 lire. While these items and several others show a reduction of expenditure, many others show an increase. Interest on the public debt — an item which for the financial year 1922-1923 amounts to the enormous figure of 5,198 million lire — shows

a large and ever-growing increase. Large sums are devoted to public works and to the special needs arising from the economic crisis and to the necessary adaptation of the public services to the new conditions of the country.

Effective revenue.

Expenditure, although thus considerably reduced, is capable of still further reduction by means of strict economy in the administration of public finance; there may also be anticipated a drop in the price of both goods and labour. However, State expenditure for some long time to come will be much greater than before the world war. This increased expenditure will certainly prove to be one the most serious and lasting consequences of the war, and will impose upon the Italian people heavy and continued sacrifices, as a large proportion of all individual incomes will necessarily be diverted from individual consumption and savings. The great public expenditure in our country is a phenomenon the gravity of which is all the greater in that Italy is, as regards raw material, the least favoured of the great Powers.

In order to meet the enormous expenditure imposed by the war during the difficult years of its duration, it was found necessary — as was the case with the other belligerent States — to resort to financial operations of an extraordinary nature, such as loans of different kinds and the issue of notes. But in Italy, much more than elsewhere, the State did not shrink, even during the war, from very considerably increasing taxation — an increase which has been accentuated since the war — in order to meet an ever-growing proportion of the expenditure out of revenues. It is to be hoped that at no distant date receipts may exactly counterbalance expenditure, and the financial equilibrium be restored.

In the following table we give figures in thousands of lire, showing the total revenue and expenditure for each financial year from 1913-1914 to 1919-1920 (closed accounts), for 1920-21 (provisionally closed accounts), and for 1921-1922 and 1922-1923 (as in the budget estimates). We also give the percentage ratio of revenue to expenditure.

Years	Total Revenue		Total Expenditure		Percentage ratio of revenue to expenditure
	Amount	Index Figure	Amount	Index Figure	
1913-14	2,523,746	100.0	2,687,661	100.0	93.9
1914-15	2,559,959	101.4	5,395,397	200.7	47.4
1915-16	3,733,734	147.9	10,625,242	395.3	31.1
1916-17	5,345,044	211.8	17,595,260	654.7	30.4
1917-18	7,532,766	298.5	25,298,807	941.3	29.8
1918-19	9,675,845	383.4	32,451,576	1,207.4	29.8
1919-20	15,207,489	602.6	23,093,416	859.2	65.9
1920-21 ¹	18,071,000	716.0	28,783,488	1,070.9	62.8
1921-22 ²	16,977,938	672.7	21,083,545	784.5	80.5
1922-23 ²	15,763,610	624.6	18,525,306	689.3	85.1

The reservations previously made with regard to these figures must not be forgotten. The table shows a tendency towards the gradual covering of expenditure by revenue.

¹ Provisionally closed accounts.

² Budget estimates.

Not only does the financial situation show a gradual improvement, but in addition to the heavy increase in taxation, a remarkable change has also taken place in the manner in which these burdens are distributed among the various classes of taxpayers. In proof of this we give below figures showing, in thousands of lire, the sums yielded by each group of taxes for the financial years from 1913-14 to 1920-21 (the figures for the latter year being provisional) excluding such minor items as revenues from crown lands, returns on public services, repayments and recovery of expenses, receipts derived from dealings in foreign exchange, etc. The data in the following tables refer principally to taxation; in order to show the changes which have taken place in the incidence of taxation during the first and last year under consideration, we give the proportional figures showing the percentage of each group of taxes as compared with the total figure:

Years	Direct taxation on income	Taxes on business transactions, concessions, etc.	Indirect taxation on consumption	Industrial monopolies	Commercial monopolies	Total
1913-14	540,689	293,931	621,310	547,120	—	2,003,050
1914-15	592,448	298,775	461,888	573,273	—	1,926,384
1915-16	720,878	337,906	641,120	700,529	—	2,400,433
1916-17	1,057,930	448,357	922,183	845,996	—	3,274,466
1917-18	1,531,626	588,608	970,470	1,129,575	—	3,220,279
1918-19	2,065,567	813,537	1,033,466	1,521,087	—	5,433,657
1919-20	2,333,771	1,298,335	1,204,912	2,007,805	452,550	7,297,373
1920-21	3,968,362	1,747,900	1,490,247	3,013,484	521,892	10,741,885
<i>Percent.</i>						
1913-14	27.0	14.7	31.0	27.3	—	100.0
1920-21	36.9	16.3	13.9	28.0	4.9	100.0

Between the last pre-war financial year and the year 1920-21 the yield from these taxes has increased fivefold, but also the proportion between the various groups of revenue has greatly changed. The yield from direct taxation on income in particular has increased from 27 % to 37 %, while that from indirect taxes on consumption has fallen from 31 % to 14 %; these changes are evidence of the fact that the Italian system of taxation has assumed a more democratic character. It must also be pointed out that new taxes on business transactions include several stamp duties which are no longer based as formerly on the principle of being special payments for State services rendered to the payer of the tax, but are really luxury taxes (taxes on jewellery, perfumery, bottled wines and liqueurs and other luxuries, tickets for cinematographs and other entertainments, etc.) Some sources of revenue which of late years were included under direct taxation, are of a temporary nature (excess profits duties), but they will be superceded by other large sources of revenue, chiefly by means of a general reform of the income tax.

In spite of the exceptional economic crisis from which the country is suffering so greatly, the yield of taxation during the last few months has shown an upward tendency which augurs well for the restoration of the State finances.

We give below, in thousands of lire, figures showing the yield of the various taxes during the first nine months of the financial year 1921-22 as compared with the first nine months of the year 1920-21, and also the estimates for the whole of the financial year 1921-22:

	Estimates for the whole financial year 1921-22	Actual Revenue from July to March		Difference
		1921-22	1920-21	
Direct taxation on income .	2,794,500	3,243,913	2,366,956	+ 876,958
Stamp duties, taxes on con- cessions and school duties	1,582,500	1,100,019	899,720	+ 200,299
Registration duties and duties on mortgages. . .	926,380	681,392	574,176	+ 107,216
Indirect taxation on con- sumption	1,808,280	1,413,044	1,277,223	+ 135,821
Industrial monopolies. . .	2,881,500	2,226,074	2,033,169	+ 192,905
Lotteries	100,000	136,340	104,282	+ 32,059
Commercial monopolies . .	247,500	382,112	368,624	+ 13,488
Total	10,340,660	9,182,895	7,624,149	+ 1,588,746

The total revenue up to the end of March 1922 shows an increase of about 1 ½ milliards on the corresponding period of the previous year, and the increase for the whole financial year 1921-22 will probably exceed two milliards. Nevertheless, despite the stricter financial policy adopted, expenditure will still greatly exceed the estimates. As regards expenditure we do not possess any figures which could fairly be compared with the figures for receipts. The figures appearing in the monthly Treasury reports (so far these have appeared up to November, 1921) do not refer to real expenditure, but to money payments, and include not only effective expenditure, but movements of capital also. It would therefore be unfair to draw any conclusions whatever from these figures.

INTRODUCTION OF NEW TAXES

General scope of the new taxes: systematic analysis of the fiscal reforms carried out or contemplated since the beginning of the war.

After the outbreak of war, numerous measures were taken with a view to increasing the yield of taxation. The following table gives approximate figures showing in thousands of lire, the actual and the estimated yield from new taxes adopted as from October 1914 to the end of November 1921, without taking account of those reforms in taxation which have already been voted, but which for various reasons have not yet been put into force.

Financial year	Lire (000,000's omitted)
1914-1915	+ 54,187
1915-1916	+ 336,662
1916-1917	+ 927,697
1917-1918	+ 1,753,731
1918-1919	+ 2,739,258
1919-1920	+ 3,793,050
1920-1921	+ 5,657,655
1921-1922	+ 6,874,525
1922-1923	+ 7,195,950

Even if we allow for the depreciation of the currency, the increase in the burden of taxation is undeniably a very large one. During the war and the period immediately following, the policy adopted in respect of increased taxation was necessarily somewhat confused and hasty, and often resulted in rough and ready measures, intended solely to obtain more money, irrespective of whether the nature of the tax itself were reasonable and the incidence equitable. An increase of revenue had to be obtained with the least possible delay, and a well-considered and rational transformation of the system of taxation was not possible. Thus, on many occasions, the hasty expedient was adopted of simply raising the rate of taxation, thereby intensifying the defects of the former system and causing unfair incidence; many measures being of a purely provisional character took no account of sound modern principles of taxation. It was not possible until later to work out a scheme for a more reasoned and general reform of taxation in consonance with the new political, social and economic conditions of the country. These reforms were outlined or effected chiefly during the period to which the present report refers. We will deal with some of the changes in detail:

(a) *Direct taxation.*

In spite of the great difficulty of assessment, especially on account of the absence of data for valuation, and in spite of the possible serious repercussion on national economy, Italy has not hesitated to make an entirely new departure in taxation — *the Capital Levy* — a tax, the application of which is subject to great objections and which has not yet been adopted by any other great State. This tax, which was voted in 1919, has been introduced with a rapidity unexampled, we think, in the history of finance, — so much so that in the financial year 1920-21 it has already produced a revenue of over 452 millions, and during the calendar year 1920 a net yield of 355 millions — a sum notably higher than that estimated. The original scheme for this tax has undergone various changes, and in its present form it differs considerably from the tax originally proposed, the purpose of which was to impose a direct levy on private fortunes, with the object of bringing about an important diminution of the debts contracted by the State as a result of the war. The tax is assessed upon the basis of the property of each taxpayer on January 1st, 1920, estimated according to values prevailing on that date, with certain attenuations. Only estates valued at less than 50,000 lire are exempt from this tax. It is levied on estates at a graduated rate, rising from a minimum of 4 ½ per cent to 50 per cent on estates of not less than 100 millions; the reduction of private fortunes thus effected is very considerable and its extent appears all the more remarkable if we take into account the fact that this levy is made on estates estimated according to the current sale price at the beginning of 1920, that is, before the fall in prices had begun, and before the economic crisis and other factors had led to the depression in the money-market and the fall in the quotations of many securities. The levy is assessed according to the above-mentioned stipulations in one single amount, but it may be paid by the taxpayer in instalments spread over 9 or 19 years according to the proportion of his estate which consists of real property. If payment is made in instalments, the growing purchasing power of money involves a continual increase in the actual value of the sums paid; the valuation of fortunes for levying the first instalment of the tax has hitherto been calculated on provisional estimates based on the returns made by the taxpayers themselves; the revision of these returns by the revenue officials, both as regards the size of estates and their valuation, will very greatly increase the assessment and the yield of the tax. The first returns represented a capital value of only 55 milliards, a figure which was undoubtedly considerably lower than the real value; the revision will greatly increase this figure and appreciably diminish the amount of evasion, particularly in respect of the value of real property; the law lays down strict regulations with regard to this matter in order to fix the actual value of real property at the date to which the tax refers. With a view also to obviating or diminishing evasion in respect of securities which

constitute a large part of the movable property affected by this tax, the Government has adopted the principle of compulsory registration of the holders of these securities whether private or public, with the exception of Treasury bonds and bank deposits. This principle has been hotly disputed and has roused violent opposition, and there is no need to discuss here whether its adoption was opportune; nevertheless, compulsory registration has undoubtedly led to difficulties in credit operations and other transactoins affecting securities. Its application has been delayed and eventually a modification was proposed allowing of the continual use of bearer bonds but stipulating a deduction of a duty of 15 per cent. of the interest thereon. In any case the adoption by Act of Parliament of the compulsory registration and the tax of 15 per cent. already imposed on private securities has had the effect of causing a very large conversion of private securities into registered securities, and also of reducing evasion by means of supplementary returns made for the purpose of the extraordinary capital levy.

The introduction of the capital levy and of the principle of registration of securities has seriously affected the economic life of the country; without expressing an opinion as to the advisability of these measures, they would undeniably appear to correspond, in their general nature, to the rigorous financial policy recommended by the Brussels Conference.

The social considerations which inspired the policy of the capital levy also led the Government to tax profits arising out of the war, more heavily than has been done in any other country — we refer to the *confiscation by the State of war profits*. Carrying to its extreme logical conclusion the principle which during the war gave rise to the special tax on war profits, soon after the close of hostilities, the Government decreed that the Treasury should appropriate the whole of the profits themselves, that is to say, the rate of taxation on income considered to be due to the abnormal economic conditions of the war and post-war period up to June 1921 was raised to 100 %.

These extraordinary fiscal measures, by which exemptions originally granted were in some cases withdrawn, and which often involved the revision of assessments which had been regarded as definitely settled, have no doubt seriously affected the economic life of the country and have impaired the position of many enterprises and thereby considerably contributed to the gravity of the crisis. Without passing judgement as to the wisdom of these measures, we would point out that the various taxes on excess profits have already yielded at least 5 milliards. Many assessments have not yet been completed and it is stated that the complete yield from the extraordinary war taxation will reach 8 milliards. There is sometimes great difficulty in levying these taxes because the situation of some industrial and commercial enterprises has been seriously affected by the economic crisis.

Some minor direct taxes were introduced during the war and the first years of peace. Sometimes these taxes were only of a temporary nature, but they produced, and are still producing, considerable revenue. We refer in particular to the tax on fees received by directors and managers of companies, the tax on noncombatant forces and on persons exempt from military service, personal war contributions and various additions to other taxes or payments, the additional income tax on incomes of more than 10,000 lire a year, the increase in income tax rates and the partial introduction of the principle of graduation of direct taxation on revenue from real and movable property. Several of these taxes are temporary, partly because they were framed in a rough-and-ready manner, and were intended to be replaced by more permanent measures.

In the last few years, pending a general reform, and apart from the rough general elementary graduation already referred to, certain modifications have been introduced in respect of the *chief direct taxes*. These modifications have increased the yield, particularly by an increase in the rate of taxation. For instance, the percentage of the tax on income from movable property rose between 1914 and 1922 from 20.4 % to 25.868 % as regards income derived from subscriptions to public funds, and from 17.595 % to 25.368 % in the case of income from other capital sources. On income partly unearned and partly earned, it rose from 11.73 % to a rate varying from

12.934 % to 20.0944 %; on wholly earned incomes from 10.557 % to a rate varying from 11.6406 % to 18.801 % and on incomes wholly earned in Government service and other public work, from 8.797 % to rates varying from 9.3255 % to 11.07291 %. Similary in 1914 income derived from house property was taxed at a general proportional rate of 16.50 % and in 1922, the graduated rate varied from 20.72 % to 27.74 % according to the amount of income. With regard to the tax on landed property, in the provinces where the old land register is still in force the total amount to be levied is divided among the number of tax-payers and it is, therefore, difficult in this case to give the exact figures of the rate of increase. But in those provinces where the new detailed survey is in force, a general graduated rate of 8.80 % was applied in 1914, whereas in 1922 the graduated rate varies from 11.896 % to 19.15 %. It is rather by increasing the rate of taxation than by re-assessing the increased incomes that the yield of these three taxes has risen to the extent shown in the following figures:

	(000's omitted)	
	1913-14	1920-21
Landed property	81,639	115,626
House property	112,833	169,351
Earned incomes and incomes from movable property	346,217	935,332

The increase in the yield from the taxes on movable property is much more marked than in the case of the taxes on other property, both by reason of the fiscal methods employed in the assessment of taxable income and also by reason of the many hindrances to increases in rents, which have hitherto prevented an increase in the yield from house property. The proposed reform is intended to remedy the imperfect method of assessing real property. Nevertheless, in estimating the increase in the yield of these taxes, it must be remembered that income from real property is subject to local taxation and also that, during the war, taxes on income from movable property were in part increased by additional local taxation. In 1921 the additional local taxes on incomes from movable property reached 48,000,000 lire for the provinces and 45,000,000 for the communes; in respect of house property, the additional taxation by the provinces rose between 1914 and 1921 from 62,000,000 to 139,000,000 lire and by the municipalities from 99,000,000 to 248,000,000 lire; the provincial and municipal charges on landed property likewise increased from 75,000,000 to 214,000,000 lire, and from 130,000,000 to 453,000,000 respectively. Local taxation has thus very greatly increased the burdens imposed on real property.

In addition to these various increases in the rates of individual taxes on income, these taxes, as already pointed out, were increased by the establishemnt of an additional duty on the aggregate of the three taxes. This additional duty is levied on the sum total of incomes registered as derived from property, whether personal property, house property or landed estate, if this sum total exceeds 10,000 lire. The additional duty is graduated and varies from 1 % to 8 %. In 1921 it was doubled in order to meet the expenses of the Government control of grain. This additional duty was originally introduced as a rough provisional expedient for collecting revenue, pending the general reform of direct taxation which would involve the organization of a graduated tax on total income, based on a systematic assessment.

This general scheme for the reform of *direct taxation* was drawn up by a commission of officials, politicians, and scientific persons which was already at work during the last months of the war. Their proposal was embodied in a bill brought before Parliament by Signor Meda in March 1919, together with a report of great theoretical interest. It was provisionally passed with certain amendments, in the form of a law of November, 1919, by the Ministry of Signor Tedesco. The law has not yet been put into force however, as the fiscal authorities have so far been chiefly occupied with assessing the Excess Profits Duty and Capital Levy; it was subsequently amended by the Soleri bill of November 25th, 1921, which it is believed will shortly be approved and will

come into force during the year 1923. Confining ourselves to the main principles of the last scheme, we may note that this reform will introduce a regular tax which will include, co-ordinate and unite the three taxes in force on income from landed property, house property and movable property, with rates somewhat different from those actually in force, and varying according to the kind of property subject to taxation. But the chief innovation will be the new method of assessing income in order to reduce the number of cases of evasion. In addition to the regular tax, there is a supplementary tax on the total income of the taxpayer, with a graduated rate and consideration for individual circumstances. The regular tax is fixed at a standard rate of 18 % for income wholly derived from invested capital, whether in movable property, house property or land; 15 % for income partly unearned and partly earned, if the latter is derived from industry or commerce; 12 % for incomes of persons engaged in professions or manual labour and 9 % on salaries and wages paid by the State, the provinces, the municipalities or other public bodies.

The innovations in assessing taxable income are important. Among others the changes in the methods of assessing income derived from land will produce important practical effects. After a transition period of five years the assessment of such income will be based on the current rental value of land, certain expenses being deducted. The assessment will, therefore, no longer be based on the inaccurate data supplied by old land registers, which in some districts are more than 100 years old, nor on the results of the new survey, which is based on data of productivity no longer representing present conditions. That survey was, in fact, based on the three years between 1874 and 1885 when the yield was smallest. The innovation gives a flexible and accurate basis for the land tax, and the yield obtained from it will be much increased as compared with the present system. The same applies to the valuation of income from house property, that is to say, the current local value, after deduction of certain expenses, forms the basis of the assessment. Income from premises utilised for industrial production is not assessed as from real property, it being considered that such income is included in joint earned and unearned income and constitutes the net profits of industry.

Income derived from joint stock companies is considered as taxable only in respect of profits received by the shareholders as dividends or as free issues of shares, thus solving the difficulties and disputes which have hitherto arisen in estimating income derived from profits that have not been distributed. Companies are thus taxed on the profits distributed, and not on those actually earned; they are, accordingly, regarded as representing the shareholders and as the shareholders' dividends do not assume the character of partly unearned and partly earned income, it follows that the profits of limited liability companies are taxed at the highest rate applicable to income from capital. Various rebates are allowed on very small earned or mixed incomes. It has also been explicitly admitted that wages of less than 10 lire per working day are not taxable, and that other wages are only taxable after the deduction of 10 lire per day.

The most complex innovation provided for in this reform is a supplementary personal tax on total income — a tax which also falls on income declared exempt from ordinary taxation in virtue of special laws — because it must take account of all the elements of income which go to determine the economic welfare of the taxpayer. This total tax also falls, therefore, on income derived from abroad but enjoyed in Italy, and even affects certain receipts which lack the character of periodicity peculiar to income, such as gains from increase in capital value and occasional earnings. The tax is imposed on the total individual income and not on the family income, but with some deductions in favour of heads of families in proportion to the number and ages of the members of the family. The rate is progressive and varies from a minimum of 1 % on incomes of 2,000 lire per annum, to 25 % for incomes of not less than 1 ½ million lire.

Special regulations have been introduced for the settlement of fiscal disputes, and severe penalties are prescribed for evasion of payment. It is difficult to estimate with any accuracy the increase in yield which this reform will produce, in view of the lack of statistical data and the drastic nature of the changes introduced, but it will certainly be very considerable, especially

as regards the supplementary tax and the new regulations for the tax on real property, it may, therefore, be assumed that the introduction of this reform will bring in a much greater yield to the Treasury, part, at least, as compensation for the yield from the temporary taxes on income derived from the war.

(b) *Taxes on business transactions, transfers of property and government concessions.*

The detailed information hitherto given has referred to the practical results of, and prospective yield from, the innovations introduced in respect of direct taxation. Direct taxes have now become the fundamental basis of the Italian financial system. But more or less drastic changes have been made in other forms of taxation also; the chief object of these changes being to increase the burdens on privileged persons. We have seen from the figures already quoted that a very large increase has been effected in the product of the taxes which the Italian fiscal authorities have somewhat illogically grouped under the single heading "*Taxes on business transactions, transfers of property and government concessions*". The yield for 1920-1921 amounts to six times as much as that obtained in 1913-14.

The changes made in respect of taxes on successions and gifts are of social rather than fiscal importance. Various measures have been passed increasing both the amounts charged and the percentage of the tax; before the war the latter ranged from a minimum of 1 % to a maximum of 22 %, according to the degree of relationship and the amount of the fortune left; it has been raised by degrees, and now varies from a minimum of 1 % to a maximum of 75 %, with the addition of a supplementary tax for collateral heirs already possessing a certain fortune, so that the maximum rate actually reaches 80 % and, in some cases, even more through additional duties. Furthermore, heirs who are farther removed from the fourth degree, are taxed as heavily as strangers. Finally, the State takes the entire estate from intestate successions, when the nearest relations to the deceased are farther removed than the sixth degree. Reforms as extreme as this lose the character of taxation and assume that of the confiscation of private property. They are essentially based upon revolutionary political principles, and are of doubtful value, both by reason of their injurious effect on savings and of the fact that the very high rate of taxation provides a strong motive of evasion. Nevertheless the reforms carried out by means of this tax are undoubtedly in accordance with the stringent fiscal principles recommended by the Brussels Conference.

Various provisions have been passed increasing the *registration tax* on documents of all kinds; graduated rates have been raised, and the fixed rates have been doubled. The *mortmain tax* has been increased by 50 % and an *archive tax* has been introduced and later on increased. There are besides, land registration duties, a transcription tax, and the mortgage tax, all of which have been increased in various ways.

The measures taken to create new and increase old *stamp duties* since the beginning of the war number at least 160, and it would be very difficult to give even a general summary of them. As we have already noted, these stamp duties have now in many cases entirely lost the character of "fees" imposed as payment for a service rendered by the State, and have become indirect taxes on consumption. It is true that several measures have been passed by which new deeds and documents are subjected to the formality of stamping and by which the former duties have been increased in varying degrees. But the indirect taxes on consumption, more particularly as regards luxuries, have a much wider scope and are imposed on jewellery, pharmaceutical specialities, perfumed soap and perfumery, hotel, café and restaurant bills, tickets on city tramways, bottled wines and liqueurs, tickets for cinematographs and other public performances, the sale of luxuries, transactions in raw materials and commodities among traders, etc., etc., It has been found difficult to work out the fiscal mechanism of some of these taxes; they have had to be modified in certain respects and are not yet in final form. These taxes have been

unfavourably received and have necessitated certain troublesome formalities which cause them to be disliked by producers, traders and consumers. There is no doubt that evasions are very frequent and very difficult to detect. The reorganisation of these taxes, which at present yield far less than they should do theoretically, constitutes a fiscal problem for the future which will be very difficult to solve.

Among the more remarkable increases of the stamp tax on documents, we may note in particular the adoption of a graduated rate in the case of receipts; the burdensome nature of this tax renders it similar to taxes which in other countries have been imposed on payments in general. In the last few months the yield from certain of the taxes on business transactions has tended to diminish by reason of economic stagnation.

(c) *Indirect taxes on consumption.*

Customs duties and the various excise duties belong essentially to this category. This group of taxes has been less increased than the other categories in view of the danger of its adversely affecting production and consumption. The difficulties of obtaining food supplies, and the rise in prices made it impossible to impose excessive taxation of the kind. Among the increased charges special mention should be made of those on the manufacture of spirits, sugar, beer, glucose and vegetable oils. Additional taxation has been imposed on the manufacture of common and toilet soap, lye, luxury fabrics, gloves and refined mineral oils etc. The tax, particularly as regards the manufacture of wines, has aroused much opposition on account of the harm thereby caused to agrarian and commercial interests and it has had to be amended in various ways. In spite of the reductions made, it is expected that, when the tax is in full operation, it will produce an annual revenue to the Treasury of half a milliard lire. The changes in the customs duties have less importance from a fiscal point of view. The new tariff which came into force on July 1st, 1921, increased the customs duties on a very large number of articles, but rather with a view to protection than to the raising of additional revenue for the Treasury. In recent years the yield from customs has increased considerably, owing to the fact that payments have been made in notes (instead of gold) according to the rate of exchange.

(d) *Fiscal monopolies.*

The increase in the yield from monopolies is very remarkable. The revenue from this source in 1920-21 is almost 7 times that raised during the last years before the war and amounts to a third of the total yield of taxation. In certain circles there have been hopes of even greater financial results from the monopolies in production and distribution, and soon after the close of hostilities, therefore, the Ministry then in power prepared an extensive scheme for the creation of a series of monopolies — mostly commercial — from which very important results were expected. Under this scheme the State was to take over the trade in certain commodities which are in very large demand (coal, coffee, mineral oils, etc.,) but the opposition in commercial and industrial circles, and the fact that State management, by increasing prices and diminishing technical efficiency would not have produced the revenue anticipated, prevented the application of this ambitious scheme save to a very limited extent and for a short space of time. The only articles for which monopolies were established were trade in coffee and its substitutes and electric lamps; these monopolies were later superseded by taxes on manufacture and consumption. Even during the war, the sale of matches and playing cards had been monopolised; these monopolies produced a large amount of revenue, but the greatest amount has been drawn from the monopoly on tobacco, the sale price of which has been raised some ten times since the beginning of the war. It is calculated that the annual surplus revenue derived from these different increases amounts to two milliards. Although part of this surplus revenue is absorbed by the enhanced

cost of raw materials and of labour, the net proceeds have increased very rapidly. In spite of the higher prices, there has been an increase in the consumption owing to an extension of the use of tobacco among the lower classes during the war.

Local finance.

The large increase in municipal and provincial expenditure and taxation during the last few years has kept pace with the considerable increase in State expenditure and taxation.

No general statistics are available as regards the expenditure of local authorities since the beginning of the war. Such expenditure has been largely augmented as a result not only of the fall in the purchasing power of money, but also of the extension of certain public services which were created in order to remedy certain evil consequences of the war (public relief, charitable undertakings, food supply, etc.). Considerable sums have also been spent on works of public utility with a view to alleviating the ill effects of unemployment. The economic changes resulting from the war have also led to a deficit in the budgets of many industrial public services which formerly showed a surplus. The cost of re-establishing and extending the public services has continued to increase, and one of the chief causes of expenditure by local authorities may be traced to the steady influx of the population into the towns, thus largely increasing the numbers of the urban population. The growing demand for housing accommodation has necessitated the allocation of considerable sums in the budgets of the local authorities. The increase in the expenditure incurred by many authorities was largely due to the mistaken idea that the return of peace would be followed by a period of great prosperity, in anticipation of which they drew up extensive programmes of work. The increased expenditure is undoubtedly the result of extravagance on the part of several of these local authorities and of unreasonable advances in the salaries of officials, particularly the lower categories.

This rise in annual expenditure has not been accompanied by an adequate and simultaneous increase in annual revenue.

The revenue from certain sources has fallen off during the war, particularly as a result of a decrease in consumption; the effect of the rise in prices has been slow in asserting itself and has had an almost negligible influence on the revenue of local Governments, more particularly as the taxes on consumption are for the most part fixed and the obstacles already referred to have prevented an increase in rents. Local authorities on their own initiative have been able to make but few fiscal reforms of any importance in view of the fact that the burden of taxation was very heavy, that taxation was limited by law, and that a definite ratio had to be observed between local and State taxation. During the last few years the State has introduced a few rough and ready innovations in the financial organisation of the local authorities, in order to increase the revenue, but these modifications have usually been of a very general and provisional nature; they consisted for the most part of mere increases in the rate of taxation, and thus added to the defects of the system of local taxation. The most important measure was the introduction of an additional local tax on excess profits and on part of the income from real property.

In spite of the character of these fiscal measures, the entire yield from various local sources increased almost threefold during the war, as appears from the following figures:

	1914	1921
	Lire (ooo's omitted)	
Municipal and provincial super-taxes	365,552	1,148,062
Excise duties	273,558	772,341
Municipal taxes and duties . . .	125,000	429,739
	764,110	2,350,142

For the year 1922 it is expected that the yield from excise duties will amount to about 817,000,000 lire, and that other sources of revenue will show a considerable increase as a result of the modification of tariffs provisionally authorised by a recent decree. Revenue, however, is far from covering expenditure, and the budgets of several administrative bodies, both municipal and provincial, show a serious deficit. During the war and the years immediately subsequent to it, the State frequently allowed local administrations to have recourse to loans with a view to meeting the deficit on their budget or to enable them to bear the heavier burdens resulting from increases of salary or the carrying out of public works. These sums have mostly been borrowed from the "Loan and Deposit Institution". The loans granted by this institution thus rose from 878 million lire at the end of 1914 to 1,707 millions at the end of 1920, and the amount still further increased during 1921. To this must be added the loans contracted by the issue of bonds, which at the end of 1921 amounted to 458 millions. The liabilities incurred by local authorities have thus reached a very high figure indeed.

The necessity of placing local finance on a stable basis has led to a proposal framed in conformity with the reform of direct State taxation already described; this proposal will probably be approved very shortly and will come into force during the year 1923. Under its provisions the local super-taxes on income from land and home property are to be re-organised, and their scope extended in accordance with the new principles for the assessment of taxable income. The provinces will receive their share of the yield from the complementary State tax on total income, while it has been attempted to establish for the municipalities a new tax assessed according to the expenditure of each tax-paying family, instead of the former various municipal taxes on personal income, which are to be abandoned. In addition to the property taxes on real estate, a municipal tax is established in respect of income derived from commerce, industry or professions; this tax is linked together with a section of the State tax on income from movable property. But, on the other hand, the complementary municipal super-tax on movable property, temporarily established during the war, will be abolished, and also the old tax on commercial firms. A provincial super-tax on this municipal tax on industry, commerce and professions is also proposed.

These various innovations are intended to produce greater and more regular revenue for local authorities, both on the basis of the various forms of property taxes and on that of the total income whether earned or unearned. The result will be to increase the portion of revenue which the local authorities levy from direct taxation and chiefly from the taxation on the richer taxpayers. However, the serious financial situation of the local authorities makes it necessary to continue to have recourse to indirect taxation on a large scale. Under the new measures, therefore, several other taxes, internal excise duties, for instance, will be maintained, but they will be reorganised and graduated according to the price of the goods taxed. The State renounces all share in such revenue and assigns it wholly to the municipalities. A tax at a very high rate will be imposed on the sale of alcoholic liquors, previous duty on licences for the manufacture of spirit being, however, abolished. The basis of the temporary residence tax has been changed and its application extended to include all persons temporarily residing in a municipality. Lastly, a more important innovation has been introduced by the more systematic application of the principle of special contributions to local finance by means of the institution of betterment taxes for the execution of important public works, which increase the value of real property, by means of compelling proprietors to participate in certain public works, and by the imposition of special assessments on persons who benefit largely by certain public services.

The well-considered reforms enacted in direct State and local taxation are intended to increase very considerably the burdens imposed, whilst distributing them more equitably. But even in the present condition of financial legislation and practice, the latest figures would appear to show that the total burden of taxation is by no means disproportionate to the estimated national revenue. In proof of this, we would adduce the following figures, which show, in thou-

sands of lire, the total taxes paid during the calendar year 1921 by the population of the old Italian territory, excluding the liberated provinces:

	Lire (ooo's omitted)
Direct taxation	4,703,424
Indirect taxes on consumption	1,579,019
Fiscal monopolies	3,902,289
Taxes on transfers and business transactions.	2,148,627
	<hr/>
Total of fiscal taxation	12,333,359
Total of local taxation	2,350,142
	<hr/>
Grand Total	14,683,501

POLICY ADOPTED WITH REGARD TO CERTAIN HEADS OF EXPENDITURE.

Policy with regard to Public Officials.

In the previous paragraphs we have studied the general development of expenditure and revenue and the new taxes adopted in order to meet the increased needs. We will now deal with certain categories of expenditure to which the Brussels Conference particularly drew the attention of Governments. Let us first take the policy followed with regard to the remuneration of officials.

It is well known that the question of bureaucracy is one of the most serious in the organisation of the modern State; it has arisen before today and not in Italy alone. Even before the war, the organisation of public services was a subject of frequent discussion as were also the legal principles governing the contracts of public officials, the methods of recruiting and the selection of officials, and the methods of remuneration best calculated to obtain the maximum of efficiency. Various schemes were drawn up before the war and certain measures were adopted, but no adequate solution of this difficult problem was reached. The problem became even more serious after the outbreak of hostilities. During the war, a large number of Government officials were withdrawn from their duties and called to the colours, while at the same time the scope of State activity was enormously enlarged. For this reason the number of officials had to be greatly increased by the appointment of permanent and temporary staff. The latter should have been discharged on the return of those officials who had been mobilised and by the partial reduction of the duties undertaken by public bodies, but certain well known factors have led to an increase rather than a decrease of personnel since the war. Official statistics show that the staff employed in July 1914, amounted to 165,996 persons for administrative services, 117,504 State railway employees and 3,170 persons for the telephone service. The total number of officials was thus 286,670, and their total annual salaries amounted to 567 million lire. Later official figures, showing the position in July, 1921, give the total number of Government employees as 591,153 — more than double that for 1914; no exact comparison can be made, however, as the new figures cover a much larger field than the former ones. Nevertheless, certain partial comparisons make it clear that the number of Government employees has considerably increased, and the new enquiry gives us two general figures which are worthy of reflection, — regular salaries have risen to an annual total of 3,221 million lire, and allowances for the cost of living and other similar allowances amount to 2,310 millions. Government employees thus absorb in all an annual sum of 5 ½ milliards — more than a third of the annual revenue provided for in the budget for 1922-1923. This large expenditure is due not only to the number of public officials and employees, but also to the increase in salaries. This increase is partly permanent (in respect of increases in regular salaries) and partly temporary (in respect

of cost-of-living allowances) and is also accounted for in part by the more generous distribution of special allowances for extra work and other supplementary grants. The increase in salaries is the result of various measures which have generally granted a uniform amount to all grades of the service, or in any case, without there being any proportion between the increase and the former salaries, so that officials of lower categories receive the most favourable treatment and the comparative difference between large and small salaries is reduced. The cost of living allowance has been granted and altered several times without being regulated in exact proportion to the variations in the level of prices. As it takes into account family circumstances and is not in direct proportion to the amount of salary, it tends to improve the condition of the lower rather than of the higher staff. The resultant lack of proportion between the scale of salaries and the importance of the duties performed undoubtedly has harmful effects. Despite the great increase in expenditure, the economic position of Government employees, which was very unfavourable even before the war, has become most difficult, and has given rise to much unrest and even to strikes. The problem of the reorganisation of the public services has thus become even more difficult; it is essentially a political one, and its solution lies chiefly in narrowing the field of State action and in changing the basis of the fundamental principles of State organisation.

The law of March 19th, 1921, set up a Parliamentary Commission of Enquiry with a view to improving these conditions, and its report is of great importance. The drastic law of August 13th of the same year armed the Government with powers to transform and simplify the public services with the assistance of a special Parliamentary Commission. It authorised the Government to abolish services, offices and individual posts, to dismiss officials and cut down staffs, and generally to revise the scales of salaries. The maximum expenditure involved by the new reforms up to the end of the year 1930-31 inclusive is not to exceed the total spent on salaries and other allowances in virtue of the regulations in force on July 1st, 1921. The enquiries in connection with these reforms of the public services are almost complete and the reforms will probably be put into force very shortly. The inherent difficulties of the question, however, render it doubtful whether it is possible at present to arrive at a satisfactory solution.

In preceding paragraphs of the present Report we have already referred to facts in connection with the reduction of military expenditure, which was recommended by the Brussels Conference.

Budget Charges in respect of Food and Industrial Supplies.

The war period brought about a very high measure of State control of the supply of coal, imported liquid fuel, lignite and other home-produced fuel, metals, hides, and other raw materials. This control was specially organised with a view to war production. Exact statistics are not yet available in all cases. During the period now under review, the State control in respect of less important industrial supplies was already liquidated, or was in course of liquidation, but the State continued to control *the supply, sale and distribution of coal*. At the end of 1919 and at the beginning of 1920 this Government control of the coal trade still facilitated the working of industry and of the public services by assuring the supply of fuel—still a matter of great difficulty to private undertakings in view of the deficiency in production, difficulties in trading, want of money and lack of transport. In 1920 the position had somewhat improved as regards the provision of supplies in Italy, although there were still periods of great shortage when the stocks available were very limited. The State continued to distribute supplies on a considerable scale during the first months of that year and also for some time later in the year during the strike in England. Supplies from private commercial undertakings were still irregular at periods when the costs were excessively high. The change which took place in 1920 in the conditions of the world fuel market and the rapid fall in prices, gradually lessened the value of State control of the supply of products from foreign markets in order to meet private needs. The State control

of fuel was, therefore, gradually transformed and was utilised chiefly to supply the needs of the railways and other public services. In the second part of 1920, and during the whole of 1921, supplies of fuel were drawn chiefly from the coal furnished by Germany in virtue of international treaties. From the balance sheets for June 30th and December 31st, 1921, it results that the coal and liquid fuel services, from the time of starting to the latter date, far from causing a loss in the Budget, produced a profit of about half a milliard lire.

State Control of food Supplies.

The State control of *food* was of much greater importance to the national economic and financial system. Owing to a number of circumstances and factors which need not be analysed here, the war placed very serious difficulties in the way of the obtaining and distribution of food-stuffs for the civil population. The war caused a considerable diminution in the production of food-stuffs at home and also made the obtaining of supplies from foreign countries and the transport of food-stuffs very difficult. A large proportion of the available supplies was suddenly cut off through losses in naval warfare; part of the supplies from abroad could not be obtained owing to interruptions in transport traffic. Moreover, an abnormally large proportion of the already scanty supplies had to be used to feed that part of the population which was under arms; the supplies available for the civil population were thus very small. The scarcity of food and the monetary inflation occasioned serious rises in prices, with the result that the distribution of supplies amongst the various classes of society became quite different from what it is in normal conditions, because the well-known phenomena of variations in prices preceding variations in wages, profits and other forms of income produced their effect on the economic means available to the consumers to the immediate detriment of the working classes in particular. All these circumstances resulted in Italy, as elsewhere, in State intervention on an extensive scale in the food-supply, in order to stimulate production, facilitate exchange and transport, check the rise in the curve of prices, limit consumption, and distribute the available supplies between the families of consumers in a manner differing from that which would have taken place had economic forces remained unchecked.

While refraining from expressing an opinion as to the principles and effects of this policy of rationing and supplying of foods, we would point out that some of the circumstances which gave rise to it were still active after the cessation of hostilities. Indeed, the population became more restless and demanded State intervention, even though in the meantime a new scale of salaries and wages and other incomes corresponding to the changed monetary conditions, had gradually been established.

As regards food, the widest measure of State intervention took place in the case of wheat and other cereals. The State established a monopoly of trade in these food-stuffs, by requisitioning the whole of the internal production and by controlling the importation and the distribution to the consumers, whose consumption it thus regulated and limited. Owing to political, social and economic considerations, corn and certain other food-stuffs were thus re-sold at an official price lower than the cost of production; the difference between the cost of production and the sale price became particularly noticeable after the war, chiefly in the case of imported wheat, the price of which, while already rising in the markets from which it was obtained, was further increased by the high exchange. In the case of cereals (and also of certain other food-stuffs and of some raw materials used in industry) supplies had been obtained in common for the various Allied countries, since the beginning of the war, by means of inter-Governmental organisations which succeeded in controlling the big markets and preventing fluctuations in prices. This organisation came to an end in 1920, and from that time, owing to various causes, prices once more rose,

Under these conditions, State control of food imposed considerable burdens on the budget during, and still more after, the war. As to the extent of these charges, we only possess insufficient and fragmentary statistical data for State trade in food-stuffs is not included either in the budget estimates or in the Treasury accounts. The uncertain and fragmentary nature of the data is due to various administrative causes, chief among them being the adoption, as regards food-supplies from abroad, of a system of inter-Allied organisation, under which the settlement of debts was extremely slow. At the time of writing, this settlement had not been completed as regards cereals; certain accounts connected therewith are still the subject of dispute, very large sums being involved. We quote certain striking details as to the financial result of the control of cereal supplies. These details are taken from a Parliamentary paper entitled "Report of the Budget Commission on the Bill for the State Control of Cereal Supplies, Chamber of Deputies, sitting held on November 25th, 1920."

"During the years 1914-15 to 1918-19, a total of 100,188,070 quintals of cereals was imported from abroad at a net loss of 60 lire per quintal, *i.e.*, at a total loss of 6,011 million lire. From July, 1919, to October, 1920, 29,367,826 quintals of grain were imported from abroad at an average price of 240 lire per quintal, and a total price of 7,048 million lire; further, 35,439,899 quintals of flour, maize, rye and barley were imported costing 8,166 million lire, the total loss amounting to 6,180 million lire. For the whole period there was thus a total loss of 12,191 million lire, on cereals imported from abroad from the commencement of State control up to October, 1920. The figures relating to home-grown cereals requisitioned by the Government are not more satisfactory. Up to the end of October 1920 the sums paid for requisitioned cereals amounted to a total of 5,475,286,500 lire. To this total 970 million lire must be added under the heading of general expenses, giving a grand total of 6,445,286,500 lire. The sales brought in a total of 4,094,252,500 lire, so that the control of requisitioned home-grown cereal supplies caused a loss of 2,351 million lire. The total loss resulting from the control of homegrown and foreign cereal supplies thus amounted to 14,542 million lire. Assuming similar results for the period ending December 31st, 1920, the future loss under the same conditions will not be less than another 1,000 million, so that the total deficit on the control of cereal supplies from the institution of the system up to the end of 1920, will reach 15,542 million lire."

The price at which corn was sold to the civil population during the war was subject to various fluctuations, which were, however, insignificant as compared with pre-war prices. The same phenomenon was observable after the war, where the difference between the official sale price and the cost price became even more marked. Any proposal by the Government to raise the sale price called forth violent opposition, particularly from the working class organisations and from certain political parties. This opposition succeeded for a long time in preventing the adoption of effective measures to remove — if only in part — the differences in price referred to. A Bill having this object was introduced in the spring of 1920, but aroused general disapproval, even in technicalities.

But in the latter half of 1920 the evidence of the immense loss caused to the Exchequer by the State administration of the food-supply, and especially by the State control of bread prices, finally opened the eyes of the nation. It was then realized that the fiscal measures which had been, or were about to be adopted, would gradually produce sufficient revenue to balance the ordinary expenditure, but that they would never suffice to off-set the enormous deficit caused by the State administration of corn supplies; and that the maintenance of this system would inevitably involve financial disaster and the bankruptcy of the State. It was about this time that the Brussels Conference declared that the fixing of artificial prices below purchase prices, for the sale of bread and other food-stuffs, was a disastrous method (see Resolution No. 5 of the Commission on Public Finance).

In view of the gravity of the situation and the change which had taken place in public opinion, this serious problem was taken in hand towards the end of 1920, and a Bill was framed

which passed into law, after prolonged discussion, on February 27th, 1921. This law decreed that, beginning with the harvest of 1921, home-grown corn should be sold at a price sufficient to cover the purchase price, and since that date prices have been gradually increased. At the beginning of 1921 the cost of foreign wheat was about 210 lire per quintal; it had been estimated that it would be necessary to import 24 million quintals for the next season, and the purchase price worked out at 5,040 million lire, not including 200 millions for administrative expenses. By selling wheat to cereal dealers at an average price of 150 lire per quintal, commencing with July, 1921, receipts amounting to 3,600 millions were anticipated; in this way the deficit on the service of the administration of corn supplies was reduced to 1,640 millions. In order to meet this deficit a whole series of fiscal measures was enacted placing taxes on income, capital and articles of consumption; these measures are included in the long list of new taxes, imposed during the last few years, which have already been discussed in previous paragraphs. The most noteworthy of these measures were the immediate anticipatory payment of an instalment of the Capital Levy, the doubling of certain sumptuary taxes, the increase of the tax on wines and the increase in the price of tobacco. The revenue from these taxes was to be used chiefly to form a special fund intended to meet the deficit on the administration of cereal supplies. This law was of the greatest importance for the restoration of the economic system of the country because it eliminated a cause of serious disorder from the public finances; it conformed in all respects with the principles of political economy advocated by the Brussels Conference.

Meanwhile, as a first stage in the application of this law, the sale price of green wheat was raised, in March, 1921, from 60 to 90 lire, and in April to 115 lire; similarly, the sale price of hard wheat was raised from 70 to 110 lire and later to 135 lire. In spite of this very appreciable rise in prices, the administration of corn supplies showed a considerable deficit during the financial year July, 1920-June, 1921. During this financial year, the army and civil population (not including producers) consumed 39 ½ million quintals of grain, in the following proportions:

27,533,100 quintals of foreign wheat at an average price of 230 lire per quintal, say	6,259,572,000 lire
12 million quintals of home-grown wheat at an average price of 115 lire for green wheat and 132 lire for ripe wheat, say	1,413,980,000 »
Total.	<u>7,673,552,000 lire</u>

The actual receipts fell far short of this large total, as the very low prices referred to above remained in force until the end of February, and the progressive increases were only brought into effect gradually after that date.

The 38,330,000 quintals handed over to the provincial boards produced	3,037,850,000 lire
The 1,203,100 quintals handed over to the military administration at the price of green wheat produced	100,711,000 »
Total.	<u>3,138,561,000 lire</u>

so that the deficit incurred by the State for the supply of corn during the financial year 1920-21 reached 4,534,991,000 lire.

During the following period the balance sheet for the administration of food supplies worked out more favourably than was expected at the time when the law referred to above was passed. Home production increased to 52 ½ million quintals for the season 1920-22 as compared with 38 ½ millions for the previous year, and with rather more than 49 millions on an average for the

years preceding the war. Moreover, there was a very appreciable fall in the price of foreign wheat in the great producing markets in the spring of 1921; at the same time freights and the rates of exchange fell appreciably, so that the cost price in Italy of foreign wheat, which at the beginning of 1921 had fluctuated between 225 and 230 lire per quintal, fell very rapidly and had reached a point below 150 lire in June. This fall continued and by the end of the year foreign green wheat was being sold at about 125 to 130 lire per quintal in the Italian markets. These commercial fluctuations made it possible to find a more favourable solution of the problem of the food supplies than had been contemplated by the law referred to above, and it was possible to publish a decree on June 22nd, 1921, re-establishing, as from July 1st, freedom to import foreign maize and rye. Freedom to import wheat was restored on September 1st. *Thus from July onwards all State intervention in dealings in maize, rye, barley and oats obtained from the new harvest had ceased and the trade in these cereals had been completely de-controlled.*

On the other hand, as regards wheat, a provisional system of State control was maintained. The State had undertaken, by a decree dated May 4th, 1920, to purchase or requisition the 1921 harvest at prices of 125 lire for soft or half-ripe wheat and 145 lire for hard wheat (not including the bonuses which in certain districts had to be paid to producers). This engagement was maintained, as regards wheat, although the prices laid down were henceforth above those ruling on the open market. However, the undertaking to requisition the whole harvest was converted into an obligation on the part of the Government to purchase, at the price stated, such quantities of wheat as the producers would be able to offer to the Government up to August 31st, not including, of course, the quantities required for sowing and for the food supply of the agriculturists and their families.¹ In districts where bonuses had been promised they were paid even in respect of wheat which was not handed over to the State. Contrary to expectations the offers of wheat made to the State were comparatively small, because the producers believed that the fall in prices would not be of long duration. This form of speculation on a rise in prices, practised by the farmers and merchants, did not meet with success, for though the prices have fluctuated to some extent they have hitherto remained at a relatively low figure. The Government continues, however, to effect some purchases abroad in order to be able to control the market. The fall of prices no doubt caused a certain deficit in the food-supply budget, but these debit balances, the totals of which are not yet known, were insignificant. The exhaustion of the stocks of home-grown and foreign wheat in the year 1922 marked the approach of the final winding-up of State administration.

We give below, in quintals, the quantities of cereals requisitioned or imported by the State from August, 1920, to December, 1921:

		Requisitioned	Imported
August,	1920	4,494,035	3,110,605
September	»	3,302,504	2,578,328
October	»	2,259,880	3,006,139
November	»	1,454,617	3,611,710
December	»	914,669	2,671,294
January,	1922	571,606	3,383,912
February	»	384,147	2,540,070
March	»	367,795	2,486,754
April	»	299,589	3,206,344
May	»	134,853	3,271,434
June	»	130,000	3,559,146
July ¹	»	366,128	3,292,559

¹ Date of re-opening of the free market.

		Requisitioned	Imported
August	1922	2,132,869	2,934,181
September	»	1,532,800	1,374,092
October	»	1,418,203	639,978
November	»	900,000	954,318
December	»	675,000	908,290

Maritime Transport in the Service of the State.

During the years of the war, the extreme difficulties of maritime transport and the necessity of securing a certain amount of cargo-space — indispensable for the military operations and for supplying the needs of the population and industries — compelled Italy, like most other countries, to exercise Government control over the tonnage, partly by requisitioning national or enemy vessels, and partly by chartering transports on time charters or for single voyages, with the result that, during the war, the greater portion of the sea-borne traffic was carried on for the service of the State and under Government control. The State administration of shipping, which was conducted under various legal forms, resulted in the State having to undertake the handling of an enormous volume of business, involving a turnover of milliards; the gross figures do not fully appear in the State budget. State control over maritime tonnage was maintained during the years after the war, not only because of the necessity of importing large shipments for the requirements of the public services and the food supplies of the population, but also as a consequence of the legislative measures adopted during the war, with a view to encouraging the purchase or building of ships — measures which provided for the vessels being hired by the State for a fixed number of years. The result of the employment of tonnage in various ways for the service of the State, both during and after the war, was in many cases that the available tonnage was less fully employed than under normal conditions.

The following table shows, in regard to the period under review, i.e., the years 1920 and 1921, the total sum on account of charters and compensation for requisitioning ships paid by the different State Departments for national and foreign vessels requisitioned or chartered by the State. The total expenditure for these two years amounts to about 2 ½ milliard lire; to this total should be added 450 millions, being the value of the coal supplied by the State, apart from payments for charters and compensation. These large figures are accounted for by the transport of goods, as shown in a subsequent table, which contains details for each quarter of the two years under review. The largest item in these shipments was the coal imported by sea, both for the State railways and for private deliveries. Recently the private deliveries have almost entirely ceased and the supply of coal is only undertaken in the case of coal of German origin, received in respect of reparations. The importation of mineral oil, most of which is required for the navy, has also gradually decreased. During these two years shipments of cereals reached high figures, but even they show a decrease during the last months of 1921, and they will soon disappear as a result of the new regulations adopted in regard to the control of food-stuffs and of the restoration of private trade in cereals. Thus, although the transport of goods for the service of the State during the two years which have just passed reached a total which is certainly noteworthy, we may expect to see it reduced to an absolute minimum during the current year. Shipments of coal for the use of the State railways have returned to the normal pre-war figures, with this difference, however, that purchases are for the most part effected f.o.b. instead of c.i.f., and that the shipments have in most cases been carried out in privately-chartered Italian bottoms, instead of in British bottoms. The expenditure for chartering and compensation for requisitioning during the year 1922 has fallen to 20 millions, which represents the cost of chartering certain vessels which it has been necessary to retain for a period of two years by virtue of the "De Nava" Decree; to this sum must be added 140 millions for the requisitioning of the former Austro-Hungarian vessels.

Payments for charter and compensation for requisitioning of vessels during 1920 and 1921.
Lire (000's omitted).

On account of the Ministry of Shipping.	National Mercantile Marine			Foreign Vessels		
	1920	1921	Total	1920	1921	Total
1. Compensation for the requisitioning of Austro-Hungarian vessels . . .	233,000	216,000	439,000	—	—	—
2. Chartering of vessels hired for two years (Decree "De Nava")	30,000	75,000	105,000	—	—	—
3. Transatlantic voyages	50,000	—	50,000	—	—	—
4. Charters for fixed periods	20,000	30,000	50,000	—	—	—
5. Vessels chartered in England	—	—	—	902,000	155,000	1,057,000
6. Vessels chartered in the U.S.A.	—	—	—	84,000	48,000	132,000
Total	323,000	321,000	644,000	986,000	203,000	1,189,000
<i>On account of other Ministries :</i>						
Agriculture	—	—	1,000	—	—	—
War	—	—	19,000	—	—	—
Admiralty	—	—	41,000	—	—	—
Supplies and Foodstuffs	—	—	375,000	—	—	—
Fuel Control (State Railways)	—	—	243,000	—	—	—
Total	—	—	679,000	—	—	—
Grand Total	323,000	321,000	1,323,000	986,000	203,000	1,189,000

Goods carried in Vessels requisitioned or chartered by the State.
Tons.

	Cereals	Coal	Frozen Meat	Mineral Oil	Total
1920					
1st quarter	571,948	680,090	11,862	6,390	1,270,290
2nd "	414,988	768,080	—	—	1,183,068
3rd "	839,374	822,482	9,305	7,112	1,678,273
4th "	921,240	888,200	4,889	5,984	1,820,313
Total:	2,747,550	3,158,852	26,056	19,486	5,951,944
1921					
1st quarter	792,653	724,355	3,580	8,900	1,529,488
2nd "	768,451	521,625	2,330	6,923	1,299,329
3rd "	613,061	592,959	3,509	1,264	1,210,793
4th "	168,620	566,190	—	—	734,810
Total:	2,342,785	2,405,129	9,419	17,087	4,774,420

In order to demonstrate the rapidity with which the State administration of merchant shipping was wound up, we have given, in annexes Nos. I-III, the figures showing the distribution of Italian mercantile tonnage (for vessels of over 250 tons register) at the beginning of the years 1920, 1921 and 1922. If the figures in these tables are compared, it will be seen that State intervention has continually decreased during the last two years. The number of vessels still under State control has been further reduced during the first quarter of 1922, and it practically includes at the present time only the ex-enemy vessels which are still under sequestration, the vessels chartered by the State Railway Office for shipments of coal and finally a few vessels used as transport for troops and war material. Shipments for food supply have entirely ceased. The vessels of the lines which carry the subsidised mails are still subject to a special legal and economic régime. As the old conventions were suspended during the war, and as no new agreements have yet been concluded to meet the changed conditions of this form of traffic, these vessels are managed, on behalf of the State, by the companies which formerly held the concessions. Their course is prescribed for them and they are subject to regulations laid down by the State, which provisionally guarantees the companies' receipts, by an amount approximately corresponding to the former subsidies. A Bill is at present before Parliament regarding new conditions to govern the working of these mail lines.

Unemployment Subsidies.

The International Conference at Brussels recommended the various Governments to discard as rapidly as possible all measures contrary to economic laws and productive of artificial results, which conceal from the population the true economic situation of the country. Among the most salient instances of such measures is the system of unemployment doles which demoralise the worker instead of giving him an incentive to work. During the period immediately after the war the adoption of measures for reducing unemployment, even by artificial means, was regarded as a practical necessity, having regard to the political considerations by which all Governments were then influenced. The organisation of society was in an abnormal condition at the time when hostilities ceased; various factors tended to provoke conflicts and to encourage a spirit of revolt. At the time when hostilities ceased, public opinion continued to exaggerate, far in excess of reality, the difficulties which society would encounter in readjusting itself to peace conditions, and there was a fear that demobilisation of the armies and industries would present much greater difficulties in regard to the absorption of labour than really proved to be the case. It was believed that these two operations would take place in a precipitate and disorderly fashion, that they would result in throwing a mass of labour on to the market at a single stroke, and that this would inevitably cause unemployment of a widespread and dangerous character. To guard against this danger, the Government had contemplated measures of three kinds, with the object, first, of facilitating the employment of labour (by labour exchanges), secondly, of providing doles for unemployed, and thirdly of utilising on public works the labour for which no employment could be found. In reality this unemployment, which had been so dreaded, was not experienced in the first months of peace, partly because the demobilisation of the army and of industry was only carried out by stages, and partly because the increased activity of a great number of industries which had been noticeable during the second part of 1919 and during 1920 had created favourable conditions on the labour market. During this time the policy adopted by the State, particularly in regard to the rapid and extensive execution of public work, helped no doubt to absorb a good deal of the available labour, so that unemployment did not attain large dimensions, and wages could be maintained at a high level, or even increased. Subsequently, during the last months of 1920 and in 1921 the number of unemployed increased considerably, as a consequence of the economic crisis. A table is appended showing the funds allocated by the State by virtue of special legislation (*i.e.* in addition to the customary measures) for the execution of works on a large public scale.

in order to reduce unemployment, for the organisation of labour exchanges for the unemployed and for the distribution of unemployment doles.

Funds allocated by the State to Unemployment Relief in accordance with legislative enactments.
Lire (ooo's omitted)

	Ordinary and Extraordinary Unemployment Relief	Organisation of Labour Exchanges for unemployed		Appropriations for unemployment insurance	Advances to local administrations for measures against unemployment	Unemployment doles in the liberated provinces
		Workmen	Clerks &c. in private firms			
Decrees of April 29th and July 24th, 1917	7,400	2,000	1,000	—	—	—
Decrees of Nov. 17th, 1917, Jan. 5th, 1919, and Feb. 9th, 1919	97,000	—	—	—	—	—
Decree of Sept. 7th, 1919	50,000	—	—	—	—	—
Decree of March 11th, 1920	10,000	—	—	—	—	—
Decrees of Oct. 19th, 1919, and March 11th, 1920	40,000	—	—	40,000	50,000	—
Decree of Feb. 23rd, 1922	—	—	—	40,000	—	—
Decrees of Feb. 2nd, 1918, and of Feb. 9th, 1919	—	679	—	—	—	—
Laws of Jan. 30th, and of July 17th, 1921	45,000	—	—	—	—	—
Law of Feb. 5th, 1922	—	—	—	—	—	16,000
Total	249,400	2,679	1,000	80,000	50,000	16,000

Extraordinary Credits for Public Works and for reduction of Unemployment.

- Decree of Nov. 17th, 1918 No. 1698: Grant of 3,300 million lire for public works carried out by the State and authorisation to lend 500 millions at 3 % to local administrations.
- Decree of April 25th, 1920 No. 572: Increase of 100 millions in the loans granted to the local administrations by the decree of November 17, 1918.
- Decree of June 8th, No. 864: Increase of 50 millions in the loans granted to the local administrations.
- Decree of April 3th, 1921 No. 571: Increase of 30 millions in the funds for the granting of relief to local administrations.
- Law of August 20th, 1921 No. 1177: Authorisation given to the National Social Insurance Institute, to the National Insurance Institute and to the Savings Bank Departments of the Banks of Naples and Sicily, to lend to the State sums up to 1,000 million lire for accelerating the execution of public works undertaken for the alleviation of unemployment. Appropriation of 840 million lire in the Budget Estimates of the Ministry of Public Works for the execution of various specified public works.

As is seen from the above table fairly extensive credits were granted for public works; the works in question were rapidly carried out, so that all appropriations — with the exception of the last credits voted — were either completely, or very nearly, absorbed in the works. An

organisation, which it is needless to describe in this paper, was created for distributing the funds among the public works to be executed in the various districts, due regard being paid to the extent of unemployment. The funds were allocated, in part, to drainage boards and to local administrations. Although the chief object of these measures was to utilise the available labour and to enable certain works to be rapidly completed, the usefulness of the works in question was nevertheless borne in mind. The report of the special Committee for the organisation of these works, dated November 15th, 1920, states:—

“Although it is necessary to provide employment rapidly and extensively for the workers and though the condition has been laid down that no works should be subsidised unless they are suitable for the employment of a large amount of labour and can be commenced forthwith and completed during 1920, it should nevertheless be remembered that works should only be undertaken which are of unquestionable value from an economic point of view. It is for this reason that reference has been made to the special conditions in the South of Italy and in the Islands, where the carrying out of certain public works, though less important if regarded solely from the point of view of finding work for the unemployed, was of considerable importance for the economic development of those regions. In this connection special attention was directed to drainage works; and, with a view to enabling land which had been improved by irrigation to be exploited, the Committee was authorised to extend the application of the laws concerning the drainage of the Roman Campagna to other districts in which drainage works could be carried out.”

As is seen from the above table, relief to unemployed was given even during the war, and measures were taken resulting in the creation of an insurance fund against forced unemployment of workers employed in war industries (auxiliary factories) who might be thrown out of work after the war. This fund was gradually increased as a result of various measures adopted even as late as 1921. Doles were paid to the unemployed through the labour exchanges. Although the granting of large doles to the unemployed might be useful and even necessary, from a broad point of view, during the first and most difficult phase of military and industrial demobilisation, there was a danger that it might lead to useless waste of money and might exercise a demoralising influence on the habits and mentality of the working classes. It is indeed often the case that unemployment doles create unemployment. For this reason a decree of October 19th, 1919 (No. 2214), introduced, in place of the system of doles, a system of compulsory insurance against forced unemployment under conditions similar in some respects to the British system. The introduction of this form of insurance, which was destined to have such far-reaching effects, was certainly premature in Italy, as was also the introduction of other branches of compulsory social insurance, conceived on a very large scale, recently established by Italian legislation. They represent, however, an interesting experiment in the systematic organisation of workers' insurance, and constitute a substitute for the doles, thus being in accordance with the principle laid down by the Brussels Conference.

Unemployment is regarded as a sort of social misfortune which may be remedied by a systematic scheme of insurance. The employers and the workers provide in equal proportions the greater part of these insurance funds. The only action taken by the State is to supplement these contributions. Direct State subsidies are only retained as a provisional measure.

FINANCIAL SITUATION OF PUBLIC UNDERTAKINGS.

The Brussels Conference in its resolution on the subject of public finance utters a warning against “the maintenance of the tariffs of railway fares, postal rates and charges for other Government services on a basis which is insufficient to cover the cost of the services given, including annual charges on capital account.”

The factors, discussed in previous chapters, which have in general added considerably to the expenditure of the State also contributed in a special degree, as time went on, to the increase in the expenditure of various undertakings managed by the State. The increases in rates were not sufficient to enable these undertakings to balance their budgets.

State Railways.

Considering first the case of the *State railways* we give below some grand totals showing the financial position for the last few years:

Year	Receipts	Expenditure	Profits (paid into the Exchequer)	Deficit (subvention from the Exchequer)
1913-14	614,648	586,580	28,068	—
1914-15	620,648	641,004	—	20,905
1915-16	849,451	819,346	30,105	—
1916-17	1,204,987	1,120,281	84,706	—
1917-18	1,418,562	1,418,558	4	—
1918-19	1,767,252	1,767,194	57	—
1919-20	1,996,255	2,856,007	—	859,751
1920-21	3,251,956	4,297,842	—	1,045,526

As a result of technical and economic factors, which it is needless to describe in detail, the financial results of the exploitation of the State railways were not very satisfactory even before the war. During the first part of the war there was a sudden decrease in traffic and an appreciable increase in expenditure; at the same time the receipts were augmented only in a small degree, either because the rates had not yet been increased or because the increases had not been sufficiently large. After the first shock of the war, both receipts and expenditure began to increase rapidly: the increase in the rates, even though slow, the restriction or suppression of certain not very remunerative forms of traffic — slow goods trains — the abolition of certain privileges (return tickets, cheap tickets for State officials, etc.) contributed in part to swelling the receipts. The factor which played the principal part in increasing both the traffic and the receipts to a marked degree was the military traffic, which attained enormous dimensions; the characteristics of this traffic are well known (speed, traffic in one direction only, concentration of traffic in a limited zone, vehicles returning empty, difficulty of making intensive use of the rolling stock, etc., etc.).

During the war, the immense increase of military traffic coincided with a great decrease in ordinary traffic and a corresponding general relaxation of business activity due to various factors connected with the war (for instance: decrease of maritime traffic, prohibition or restriction of many forms of trade, suspension of traffic with enemy countries). The decrease in the volume of ordinary traffic was chiefly due to the restrictive policy intentionally adopted by the Railway Administration which suspended or reduced the train services in order to economise material, fuel and other means of exploitation. These measures did something to check the upward tendency of expenditure so that even during the last years of the war the total expenditure was less than the total receipts. At the conclusion of hostilities the general position of the Railway Department was considerably modified. Intensive military traffic and the low amount of civil traffic

continued for some time, but the civil traffic gradually regained its normal volume. Railway rates were raised several times until the passenger fares reached three times the pre-war rate. Although these increases were not very considerable if account is taken of the diminution in the purchasing power of money, the fact that the last increases coincided with the economic crisis served to restrict the development of traffic; it, therefore, seems legitimate to infer that any subsequent increases in the rates would fail to produce a sufficient yield to justify their introduction.

The war had resulted in an intensive utilisation of the rolling stock and plant, and the urgency of transport and the lack of material made it impossible during that time to undertake the necessary work of upkeep and repairs. When peace returned, work of this kind was considerably in arrears and had to be executed at great cost. It was necessary to place large orders for rolling stock and to make provision for new installations; these repairs and purchases had to be carried out at very high cost, in comparison with the pre-war prices. The causes to which the increase of expenditure must chiefly be ascribed, however, were as follows:

- (a) The increased cost of fuel,
- (b) The increased number of employees and the increase in their wages.

The expenditure on fuel for transport amounted in 1913-14 to 76 million lire and rose in 1918-19 to 526 millions, in 1919-20 to 978 millions, and in 1920-21 to 1,241 millions; this increase took place in spite of all the steps taken to reduce the consumption of fuel, and the partial employment of wood, lignite and other fuel of inferior quality. The rise in prices of coal had already reached sensational figures, the average cost per ton of fuel having gradually risen from 36.46 lire in 1913-14 to 202.67 lire in 1918-19, to 397.84 lire in 1919-20 and to about 468 lire in 1920-21. It was not until 1921-22 that — as a result of the considerable fall in prices — a serious reduction in the expenditure on coal could be effected.

Another very serious cause of difficulty for the Railway Administration was the increase in the expenditure for personnel. The table below shows the number of persons employed at the end of each year, the total annual expenditure in thousands of lire and the average wages of each employee:

	Number of Employees			Total Annual Expenditure (thousands of lire)	Average wages in lire
	Permanent	Temporary	Total		
1913-14	117,974	36,535	154,509	283,646	1,918
1918-19	118,028	62,381	180,409	796,845	4,631
1919-20	128,731	92,752	221,483	1,270,761	6,498
1920-21	154,131	81,329	235,460	1,974,832	9,386

These figures show clearly the enormous increase in the expenditure on personnel as well as the considerable augmentation of the number of employees.

After demobilisation, the temporary employees, who had been engaged in large numbers during the war in the place of employees called to the colours, were not discharged from service. All the factors already mentioned tending to increase the number of State officials also contributed to the increase of railway employees. In the case of the railway service, the result was also due, though only to a slight extent, to an increase in the railway system (as the Sardinian railways and those of the liberated provinces were taken over by the State); but the result must be ascribed

above all to the falling off in the effective output of the workers, and to the adoption of the 8-hour day. It will also be seen from the table given above that a very great part of the expenditure was due to increases in wages. These increases took the form in some cases of cost of living allowances at uniform rates to all State officials; in most cases, however, under the influence of political pressure, strikes or threats of strikes, the grants were made to the railway employees only. The railway employees, being highly organized, possess a great number of associations, some of which enjoy great power owing to the number of their members or to the skill of their leaders. Even before the war, they had succeeded in making themselves a privileged class, in comparison with the general body of workers and officials. From 1917 onwards, there were frequent and sudden rises in wages, sometimes in the form of payments in anticipation, payments on account, temporary bonuses and cost of living bonuses; these concessions were not made in accordance with any system. Subsequently, in the summer of 1920, all the concessions referred to above were embodied in a new scheme of wages which included further privileges for the employees. Certain secondary and auxiliary benefits, such as bonuses for economy of fuel and other materials, gratuities to deserving employees, bonuses for regular running of trains and profit sharing bonuses (*cointeressenza*) were also merged in the general wages scheme, thus depriving the personnel of all interest in the efficient and economical working of the lines. However, the advantages which the Administration had gained by giving the personnel an interest in the efficient working of the service have demonstrated the advisability of returning to this system of auxiliary bonuses. In the present economic crisis it is certainly very difficult to effect an appreciable reduction in the number of railway employees and there are various causes which render it not only improbable but very difficult in practice to reduce this formidable item in the budget of the Administration. The expenditure on personnel was equivalent to 46 % of the receipts in 1913-14, 45 ½ % in 1918-19, 63 1/3 % in 1919-20 and 60 3/4 % in 1920-21; the total of this expenditure has, therefore, increased considerably in proportion to the receipts.

As a result of the large increase of expenditure, the coefficient of exploitation which was 81.25 % of the receipts in 1913-14, rose to 94.44 % in 1918-19, to 137.49 % in 1919-20 and to 138.88 % in 1920-21.

For the year 1921-22 the draft budget of the railway administration (including navigation services, but excluding some special or independent administrations) estimates the ordinary receipts at 3,430 million lire and the ordinary expenses at the same figure. The extraordinary receipts and expenses are both estimated at 471 millions, so that the budget is expected to balance without profit or loss for the Treasury.

The explanatory report on the budget states that the estimates for the receipts were based on the following assumptions: normal increase of traffic, complete application of the increased rates previously decided on, marked reductions in the prices of fuel and other materials, and full and complete application of the higher scale of wages and salaries already granted to the personnel. The expenditure on personnel is fixed in this draft budget at a total which does not differ materially from that of 1920-21. The expenditure on fuel has been calculated on the basis of a standard rate of 300 lire per ton, which is certainly higher than the prices now ruling. In this last railway budget, therefore, a balance has been obtained between receipts and expenditure for the financial year 1921-22. At the time of drawing up the present report no statistics have been published which would enable a reliable opinion to be reached with regard to the present administration. In all probability, however, the balance sheet for 1921-22 will show a fairly large deficit, because receipts have been very considerably reduced by the economic crisis, whilst expenditure for wages of staff and repair of material appears to have greatly exceeded the budget estimates. The time has not yet come when the railways will no longer be a charge on the State Treasury.

In Annex No. IV to the present report, we give a few figures, to supplement those already quoted, regarding the State railways in 1919-20, 1920-21 and 1913-14.

Postal, Telegraph and Telephone Services.

The war modified the financial results of the *Postal and Telegraph services* in the same way as it affected the railways. Before the war the receipts from the administration of the postal, telegraph and telephone services exceeded the working expenses, so that a fairly large profit accrued to the Treasury, although even then complaints were made regarding the clumsiness of the administrative machinery, the complexity of the service, and the inefficiency of the personnel. For the financial year 1913-14 the total receipts from the Postal Administration rose to 153 ½ million lire, and the expenditure to 148 millions. In the years immediately preceding that year, the receipts had shown a marked upward tendency (ten years before in 1903-04 the receipts had only amounted to 93 millions) in spite of repeated reductions in the postal rates. The war caused an immense increase of the working expenses, exceeding in value the corresponding depreciation of the currency. The expenses for the years 1919-20 and 1920-21 are shown below. It will be seen that the totals are higher than those which we have just quoted:

	Lire (ooo's omitted)	
	1919-20	1920-21
Receipts	361,637	531,770
Working Expenses	648,360	956,611
Deficit	286,723	424,841

It will be seen that the deficits are considerable.

The rates were greatly increased in February, 1921: postal rates by 60% on an average, and telegraph rates by 20%. Still greater increases were introduced in the telephone service, and subsequently to February, 1921, further partial modifications were introduced in certain services. These measures had the effect of reducing the number of letters carried, from which it may be inferred that further restrictions would fail to produce immediate revenue. In spite of the rise in rates, the administration of postal, telegraph and telephone services still shows a deficit. The draft budget of the Ministry for these services has recently been reconstructed in order to show "the economic budget of the Department" ("Bilancio economico dell' Azienda") for the year 1922-23, *i. e.*, so as to render it possible to calculate in a scientific manner the cost of single services. It contains the estimates for these services, but the figures are not comparable with those previously given, which were extracted from the budget in the old form ("Bilancio di Competenza"). The "economic budget" shows total expenses in 1922-23 of 962 million lire and total receipts amounting to 794 millions, the result being a net loss of 168 millions. The co-efficient of exploitation rises in consequence to 121% while the analogous "economic budget" for the year 1907-08 showed a co-efficient of 75%. A credit balance of 25% is thus converted into a deficit of 21%. The disastrous result, in this Department, is also largely due to the vast expenditure on personnel, which represented 49% of the total expenditure in 1907-08, and is estimated at 65% in 1922-23. In 1907-08, the total for wages was 54.3 million lire; in 1922-23 it is estimated at 630.9 millions. The increase of expenditure on personnel has been extremely rapid during the last few years; it rose from 458.1 millions in 1919-20, to 665.4 millions in 1920-21. The future variations under this heading are connected with the general reorganization of State personnel.

The number of employees in the postal, telegraph and telephone services tends to increase for the same reasons as in the case of the railway employees. The number of the employees was 40,690 at the beginning of 1915, and 49,576 in April, 1921. The number of temporary employees included in the above totals rose from 2,318 to 12,189. The finances of these departments can only be placed on a sound footing if measures are taken to increase the output of the staff and to relieve the administration by discontinuing those services which are least remunerative and handing them over to private enterprise.

STATE LOANS.

Extraordinary Financial Operations during the various stages of the war and since the war.

In spite of the large increase in taxation, the budget figures given in the preceding pages show a considerable difference between revenue and expenditure, especially during the last years of the war and the first years of peace. It was, therefore, necessary, in order to cover the deficits, to have recourse to extraordinary financial methods in the form of loans of various kinds.

The first of the tables given below shows for each financial year from July, 1914, to December, 1921, the total of the various kinds of debts incurred by the State. The second table gives a summary of National Debt on December 31st, 1921.

The first table shows that the new loans amounted to very large totals during the various financial years. Special attention is drawn to the total of 20 milliards reached during the financial year 1918-1919. After having reached this maximum figure, the borrowings showed a downward tendency and fell as low as 5,863 million lire for the half year from July to December, 1921. The latter sum does not seem to correspond with the estimates of the budget for 1921-1922; account must, however, be taken of the very appreciable reduction in the total of the loans contracted during the last few months, and also of the important funds held by the Treasury.

The first table also shows that consolidated loans were only issued up to the beginning of 1921. The issue of funded loan bonds was discontinued after the sixth national loan which was floated in the first months of 1920 with remarkable success. After that date the State borrowed, generally speaking, only in the form of Treasury bonds of various types repayable at different dates. Most of these bonds were ordinary short term bonds; during the financial year 1920-1921, they exceeded 10 milliard lire and they rose during the half-year from July to December, 1921, to a total of five milliards. The issue of ordinary Treasury bonds became the chief source of revenue for the Treasury during the period under review in this report. These bonds are not to be considered as part of the floating debt merely intended to enable the Treasury to effect its regular payments and to make good temporary differences between the expenditure and receipts; they constitute provisional obligations of the State, which later on will have to be placed on a sounder basis. These provisional bonds have now reached a considerable amount and their consolidation will cause serious difficulty to Italian financial policy. The difficult conditions of the money market and the consequent fall in securities with fixed interest, which have now reached a level below the price of issue, make it impossible to attempt to float a new consolidated loan. The criticized fiscal policy adopted during the last years, and particularly the introduction of compulsory conversion of bearer bonds have certainly contributed to depreciate the securities. Treasury bonds of various categories are not subject to this registration rule. This privilege, as well as the fact that they are repayable at short terms and consequently are not subject to any heavy depreciation, has made it easier up to the present to place them with banks and private individuals. It should be pointed out that the placing of these bonds with banks has sometimes resulted in increasing the amount of circulation, in the strict sense of the term, for the sake of the Treasury. These transactions have thus taken the place of direct advances in bank notes on account of the State. The figures which are given in the tables show that short term bonds stand higher than 3 or 5 year bonds, although the latter yield a higher interest. During the first months of 1922, the influx into the market of money available for investment, but not to be invested in industrial securities, caused a reduction in the capitalisation rate of

interest bearing securities and, in consequence, of State bonds. The changed conditions made it possible materially to reduce the rate of interest of the new issues. The improvement in the financial situation of the State and the increase in the Treasury balances made it also possible to limit the total number of bonds to be issued monthly to a relatively small amount (350 million lire).

During the year 1920-1921, a milliard 7 year bonds was issued to provide funds for the reparation of war damages. These bonds bear interest at 5 % on their nominal value and further entitle the holders to take part in certain very important lotteries. These bonds are so very popular that their stock exchange price has risen rapidly to a figure considerably above the price of issue. A new issue of seven-year bonds of the same kind was made in April, 1922, at a much better price than the preceding one; the whole issue was quickly and easily taken up. The lottery system might be systematically adopted in future also or other less important operations with a view to the partial consolidation of the short-term loans.

The figures in the first table show that from the financial year 1920-1921, recourse was had to the issue of notes to a very limited extent only.

Debts contracted with the British and American Governments amount, at par rate of exchange, to 21,245 million lire. At the current rate of exchange the total would naturally be much larger. No new debts of this kind were contracted after the first months of 1919, the subsequent increase in the foreign debts being solely due to accrued interest.

The National Debt which on June 30th, 1914, amounted to 15,706 million lire had risen by the end of 1921 to 112,026 millions. This immense total comprises the loans from foreign Governments which are at present the subject of much earnest discussion.

NATIONAL LOANS AND TREASURY BONDS ISSUED FROM JULY 1st, 1914, TO DECEMBER 31st, 1921.
ADVANCES IN NOTES FROM THE BANKS OF ISSUE DURING THE SAME PERIOD.

LIRE

Financial year	National loans	Advances in Bank Notes	Treasury bonds					Total
			Ordinary and for Military supplies	Special, for abroad and for credits opened by the U. S. Government	Five-year	Three-year	Seven-year	
1914-15	1,000,000,000	960,879,647	21,226,000	—	—	—	1,982,105,647	
1915-16	3,628,831,100	294,986,672	384,063,500	2,275,469,800	—	—	6,583,351,072	
1916-17	3,985,473,600	410,000,000	3,334,570,000	3,259,666,200	312,074,100	—	11,301,783,900	
1917-18	6,108,086,900	3,250,000,000	2,883,618,500	5,935,675,800	900,185,300	—	18,888,889,400	
1918-19	137,000,000	1,129,008,976	8,042,797,000	7,735,179,200	-188,677,100b	—	19,928,694,001	
1919-20	21,097,460,800	1,390,000,000	-216,447,500d	1,060,068,152	2,666,077,725	218,631,100	17,060,106,177	
1920-21	—	102,105,000	5,614,184,500c	10,278,857,000	1,300,982,600	264,145,900	12,986,113,769	
1921-22	—	—	4,999,985,500	387,379,200	2,095,485,175c	-126,434,100c	5,862,994,100	
	35,956,852,400	7,536,980,295	24,114,485,500	21,245,312,871	4,734,407,000	1,000,000,000	94,588,038,066	
					51,094,205,371			

N. B. — The 4 % 5-year bonds are not included, as they have all matured and been repaid.

The amount of State notes in circulation on December 31st, 1921, was 2,545,364,290 lire, including 277,692,000 lire of "token notes" I and 2 lire, which replace small silver coin which has been retired.

(a) Foreign bonds are calculated at par rate of exchange.

(b) Reduction due to subscriptions to the 5th National loan.

(c) Reduction due to subscriptions to the 6th National loan.

(d) Difference between the issues and repayments for the year 1919-1920.

STATE OF THE NATIONAL DEBT ON DECEMBER 31st, 1921
(in millions of lire).

1) Old debt previous to August 1st, 1914, total on August 1st	14,839	
4 % Treasury Bonds and other securities repaid	1,461	
		<hr/>
		13,378
2) National loans during the war :		
1st, 2nd, 3rd,	4,628	
4th	3,986	
5th	6,245	
6th	21,091	
		<hr/>
		35,950
3) Ordinary Treasury Bonds.		24,494 ¹
4) Treasury Bonds (5, 3 and 7 year).		5,734
5) State circulation with the exception of short-term bonds.		2,267
6) Circulation of bank notes on account of the State		8,504.8
7) Treasury Bonds abroad and for credits of the United States Government calculated at par rate of exchange		21,245.3
8) Balances from the Deposit Institute (Cassa Depositi e Prestiti) and interest bearing loans on current accounts		452.6
		<hr/>
Total		<u>112,025.7</u>

¹ This sum includes 380 million lire of ordinary bonds in circulation on August 1st, 1914.

Part II.

MONETARY MEASURES.

THE MONETARY SITUATION IN ITALY DURING THE LAST FEW YEARS.

Development of the circulation.

The following table shows in millions of lire, for the end of each of the months named, the total of notes in circulation: notes issued by the banks on their own account and on account of the State, and notes put into circulation directly by the State (with the exception of "cash notes" which generally merely replace fractional coinage).

	Notes issued by the Banks			Notes issued by the State	General Total
	On their own account	On account of the State	Total		
July 1914	2,265	—	2,265	499	2,764
December »	2,201	735	2,936	657	3,593
June 1915	2,243	1,613	3,856	766	4,622
December »	1,899	2,069	3,968	1,082	5,050
June 1916	2,158	2,158	4,316	1,135	5,451
December »	2,458	2,554	5,012	1,317	6,330
June 1917	2,521	3,295	5,816	1,460	7,276
December »	2,592	5,833	8,425	1,749	10,174
June 1918	3,590	6,481	10,071	1,972	12,043
December »	4,585	7,166	11,750	2,124	13,874
January 1919	4,307	7,193	14,496	2,124	13,620
February »	3,967	7,407	11,374	2,164	13,538
March »	3,953	7,763	11,717	2,191	13,908
April »	3,907	8,330	12,236	2,268	14,504
May »	3,921	8,151	12,072	2,271	14,344
June »	4,255	8,026	12,281	2,271	14,552
July »	4,879	8,007	12,885	2,271	15,156

	Notes issued by the Banks			Notes issued by the State	General Total
	On their own account	On account of the State	Total		
August 1919	4,567	8,639	13,206	2,271	15,477
September »	4,735	9,250	13,985	2,271	16,256
October »	4,530	10,696	15,227	2,271	17,498
November »	4,825	10,774	15,599	2,271	17,870
December »	5,651	10,630	16,281	2,271	18,553
January 1920	4,920	10,714	15,635	2,270	17,905
February »	4,848	10,599	15,447	2,270	17,717
March »	5,475	10,456	15,932	2,270	18,202
April »	6,029	10,401	16,430	2,270	18,700
May »	6,459	10,402	16,861	2,270	19,131
June »	7,484	10,333	17,817	2,270	20,087
July »	7,615	10,284	17,899	2,269	20,168
August »	7,431	10,524	17,955	2,269	20,224
September »	8,231	10,682	18,912	2,269	21,181
October »	8,361	10,940	19,301	2,269	21,570
November »	8,577	10,899	19,476	2,269	21,745
December »	8,989	10,743	19,732	2,269	22,001
January 1921	8,672	10,591	19,263	2,269	21,532
February »	8,618	10,308	18,926	2,269	21,195
March »	8,759	10,005	18,764	2,269	21,033
April »	8,677	9,601	18,278	2,269	20,547
May »	8,809	9,220	18,029	2,269	20,298
June »	9,437	8,722	18,159	2,268	20,427
July »	9,433	8,507	17,940	2,268	20,208
August »	9,490	8,352	17,841	2,268	20,109
September »	9,727	8,430	18,156	2,268	20,424
October »	9,746	8,554	18,300	2,268	20,568
November »	9,436	8,486	17,922	2,268	20,190
December »	10,704	8,505	19,209	2,268	21,477

The total amount of paper money circulating in Italy on the eve of the war, was 2,764 million lire, a figure which was already excessive, and which pointed to a slight depreciation of legal currency in relation to the gold standard. The amount rose gradually to 13,874 millions at the end of 1918, shortly after the cessation of hostilities; this ascending movement subsequently made further progress, and the fiduciary circulation amounted to 18,553 millions at the end of 1919, to 22,001 millions at the end of 1920, and to 21,477 millions at the end of 1921. If the total notes in circulation at the end and at the commencement of each year are compared, it will be found that the increase was 30 % in 1914 (5 months), 40.6 % in 1915, 25.3 % in 1916, 60.2 % in 1917, 36.8 % in 1918, 33.7 % in 1919 and 18.6 % in 1920, while a slight decrease of 2.2 % took place in 1921. If the total volume of circulation at the end of July, 1914, is expressed by 100, the following index numbers are obtained for the ends of the succeeding years: 120 for 1914, 183 for 1915, 229 for 1916, 367 for 1917, 502 for 1918, 670 for 1919, 796 for 1920 and 777 for 1921: with regard to the final figure for 1921, it should be remembered that a great inflation of circulation of a purely temporary character took place in the last days of December as a consequence of the serious panic caused by the failure of the Banca Italiana di Sconto.

Various forms of currency in circulation in the State.

As is shown by our table, the paper money circulating in Italy may be divided into three categories. First of all, there is a comparatively unimportant amount of small notes (5, 10 and 25 lire) issued directly by the State; these notes, which amounted to a total of about 500 million lire before the war, were increased on several occasions during the war until they reached a total of about 2,300 millions and they have since remained more or less at that level. Another category of much greater importance consists of notes issued by the banks on account of the State; a certain proportion of these notes (485 million lire) represents obligatory advances under the terms of the law establishing the Banks of Issue. In order to meet these advances, the banks issue notes which are covered as regards one-third of their value by metallic reserves, and thus receive from the State interest at the rate of $1\frac{1}{2}$ % per annum. Another part of the notes on account of the State is constituted by what are called extraordinary advances to the Treasury and these advances increased progressively until June, 1918, when they reached the sum of 4,850 million lire; they have not undergone any alteration since that date. These notes are not covered by any metallic reserve and the Treasury only pays interest to the banks at a minimum rate (a quarter per cent per annum) to cover the expenses occasioned by the printing of the notes. A further milliard of notes, representing a category of advances essentially similar to the group just mentioned, was issued in 1919 in order to carry out the withdrawal of an equal quantity of Treasury bonds, which had been taken by the Banks of Issue. Under the heading of Extraordinary Advances there were also issued about 800 million lire in notes required for the exchange of the Austro-Hungarian crowns circulating in the liberated territory, and in order to enable the banks to advance funds on the security of bonds issued by the enemy in the invaded territory (Cassa Veneta). The notes so far mentioned were destined for the general requirements of the Treasury; further quantities of notes were issued and transferred to the Treasury for special purposes; an issue of notes for 700 million lire belongs in particular to this category — notes designated in the balance sheets of the banks under the curious heading "Notes supplied to the Treasury". This issue took place at the beginning of the war and was largely used to enable the Deposit and Loan Institute (Cassa Depositi e prestiti) to grant loans to local authorities for the execution of public works.

A final and very important category of notes was issued and handed over to the State in order to enable the State to make grants to various institutions (savings banks, co-operative societies, agricultural credit establishments, credit institute for the reconstruction of Venetia etc.), of funds or credits of which they were in need, and in order to finance temporary economic operations undertaken by the State (purchases of corn, war supplies, fuel, etc.). This last category has been subject to the greatest variations, especially in the latter part of the period under review; certain advances required for various institutions, after having attained important dimensions, were reduced or even ceased altogether, and the recent improvement in the national finances has enabled the Treasury to meet out of its own funds contingencies which would previously have necessitated special issues of notes. There have also been heavy fluctuations in notes issued on account of the food supply; inflation was going on at the time when the goods were purchased and deflation when they were sold. It may be urged in this connection that the notes thus put into circulation by the action of the State merely took the place of notes which — if the State had not itself taken part in these transactions — would still have been required in order to render possible the corresponding private trade operations. It is, however, clear that the commercial dealings of the State require a greater amount of money than business conducted by private individuals, since the State has less recourse than they to the ordinary instruments of credit.

The table shows that the notes in circulation on account of the State underwent fairly serious inflation up to the end of 1919 as a result of the unsatisfactory condition of the national

finances; in one form or another this inflation served to meet the deficit in the revenue of the State. During the year 1920 there was practically no inflation. In 1921 there was no change in the amount of notes issued as statutory or extraordinary advances, or supplied to the Deposit and Loan Institute; on the other hand, the amount of notes issued in order to make advances to various institutions, or for the purpose of food supply, decreased from 2,904 to 666 million lire, chiefly in consequence of the reforms accomplished by the State in food control. A further reduction in this category of notes may be expected in the near future, whereas a reduction in the other categories can only take place as a result of extraordinary Treasury operations or if — which is at present very improbable — the receipts of the State were largely in excess of the expenditure.

When studying the fluctuations of the notes issued on account of the State in comparison with the issue of notes for the needs of the banks themselves, it must be realised that a proportion, probably very considerable at times, of the notes ostensibly put into circulation for purposes of trade, while they appear to have been issued for the requirements of ordinary economic transactions, were in reality used to meet the needs of the State in the form of discounting or of subscriptions to Treasury bonds, or in some other way to make up the deficit in the accounts of the Provincial Treasuries (the service of which is in the hands of the Bank of Italy). A specially marked expansion in the issue of bank-notes always took place on the occasion of the issues of national loans; the fact has been duly observed that subscription to loans causes a characteristic inflation of credit owing to the practice of bank advances, the dangers of which have so often been emphasized by students of war economics. The relationship between the expansion of the issue of bank-notes for the needs of the banks and the needs of the Treasury has been so evident during the war and during the period which immediately followed it, that some persons have not hesitated to assert that it was no longer possible to make a distinction between the two kinds of issues. The data supplied in our table show that the so-called commercial circulation (notes issued by the banks for their own use) only underwent slight oscillations till towards the end of the war and that it even showed at certain moments a distinct tendency to decrease; this movement corresponded with the reduction in the volume of business and with the role assumed by the State as the centre of the national economic life.

The inflation which took place in 1919 was due to the crisis caused in the financial market by the announcement of new extraordinary taxes and by the exaggerated news published in this connection during the summer months; these circumstances resulted at that time in hoarding of notes on a still larger scale than had been the case at the beginning of the war. At one period notes and cheques were also exported with a view to avoiding the capital levy. The heavy inflation of notes which took place in 1920 was caused in the first half of the year partly by the operations with regard to the National Loan and afterwards by the needs of the Treasury and the continuous demand for credit which characterised the beginning of the economic crisis. The serious inflation in 1921 was also due to the economic crisis, as well as to the considerable and ever-increasing volume of bills and acceptances and of advances granted to industrial, commercial and banking undertakings to tide them over a critical period. At the end of December, 1921, and in January, 1922, there was a sudden increase in the volume of notes issued for commercial purposes; the reason being the consternation caused by the suspension of payments by the Banca Italiana di Sconto; the heavy withdrawals of funds made by depositors in all sorts of credit establishments during that period occasioned large re-discounting operations and advances on bills of exchange, Treasury bonds and other securities, and consequently a considerable issue of notes. These notes were not long in finding their way back into the coffers of the banks as soon as confidence was restored.

Development of credit.

Much space would be needed to give an account of the evolution of the phenomena connected with credit which were witnessed during the last few years.

Banks of Issue.

During the war, the Banks of Issue assumed in a special way the functions of the Treasury organisation; they were entrusted with the task of regulating circulation, supplying the funds necessary for the economic transactions of the State, controlling the foreign currency market, and issuing loans; their normal work as credit establishments was considerably reduced either by reason of the changes caused by the war in business affairs or the competition of the ordinary banks. But as soon as the first abnormal post-war period was over, the credit operations of the Banks of Issue began to flourish on a larger scale than ever, as shown by the increase in discounting and loan transactions; this period of activity lasted until the first symptoms of the economic crisis made themselves felt; the preliminary phase of a crisis is indeed always characterised by a feverish demand for money; the liberality with which the Banks of Issue and ordinary banks grant advances helps to moderate the violent oscillations of the economic movement, to minimise the early repercussions of the crisis and to postpone the advent of the acute stage.

Ordinary Banks.

The credit transactions of the ordinary banks during these years have been subject to great variations. It is well known that in the early days of the war, at the time of the crisis caused by the sudden disorganisation of all the conditions of economic life, a marked tightening of credit took place, occasioned by the general lack of confidence and by the substitution of cash transactions for credit transactions. Then for a time trade activity was somewhat restricted, although the great and characteristic flow of money into the banks in consequence of the monetary inflation was already noticeable. When this first phase of the economic crisis caused by the war came to an end with the sharp upward trend in business, resulting from the extensive and profitable orders for war-supplies, the large ordinary banks experienced an increase in the volume of operations, and, taking advantage of the increase in production and trade, artificially caused by the rise in prices, these banks plunged anew into more or less extensive industrial credit operations. In this way there arose for some time a considerable recrudescence of speculation in shares and frequent new issues for the establishment of new or the extension of the activities of old companies. These extensive operations for financing industry were persisted in somewhat recklessly by certain banks, even after the cessation of hostilities, at a time when the preliminary symptoms of the crisis were already becoming evident, and when it would have been desirable to adopt a policy of retrenchment and caution. It was the lack of foresight, the erroneous belief that the conclusion of peace would, within a short time, give rise to a great expansion of trade and industry, that caused the disaster to the Banca Italiana di Sconto.

The arrival of the crisis, accompanied by a fall in prices, decreased demand, and the stoppage of new enterprises gave rise to a very serious depression, particularly in the large manufacturing industries (industries producing instrumental goods); the result of this was to endanger the position of many firms to which certain banks had given credits on too lavish a scale. In the second half of 1921 and the first months of 1922, the large banks adopted a policy which aimed at rendering their resources more liquid, restricting their loans and reducing their financial operations.

The vicissitudes which the credit policy underwent during and after the war reacted in marked fashion on the movement of deposits. The accumulation of funds in banks was sharply reduced at the beginning of hostilities; it then gradually rose again, and reached very large proportions as paper money poured more and more into the market. At times there were certain stoppages in the flow of deposits caused by sudden spasms of want of confidence or panic movements and also by the flotation of State loans. Later on the economic and banking crisis gave rise once more to a considerable decrease in the amounts of deposits. A large proportion of the money which flowed into the banks in excess of the demands for credit was invested in Treasury bonds. These bonds were thus taken by the banks up to amounts which in certain cases reached several milliards. This enormous absorption of Treasury bonds, either by direct subscription or by discounting or loan operations, caused a further increase in the bank issue of notes for

Treasury requirements. The economic and the credit crisis lately led to great restriction in the subscriptions to Treasury bonds by ordinary banks, and a reduction in the rate of interest on these bonds makes such an investment no longer advisable.

The war, by giving a new form and fresh stimulus to industrial credit operations and by directing the activities of the banks of issue for some time in a new direction, further strengthened the predominant influence of the large ordinary banks on the economic life of the nation, and paved the way for their expansion. The increased importance of exchange operations and of relations with international finance gave rise to the establishment of branches or affiliated banks abroad, or to the conclusion of agreements with foreign banks.

The credit crisis at the beginning of the war suggested the idea of a Consortium, which was established with a view to granting advances on industrial securities, or on goods offered as guarantee. The influence which this institution exercised on credit was of but slight importance, except quite at the beginning of the war during the period of tension caused by the general lack of confidence.

Eventually the economic crisis revived the importance and activity of the Consortium, making advisable a large increase in capital, particularly with a view to meeting the difficult situation with which many enterprises were faced as a result of the collapse of the Banca di Sconto.

VARIOUS EFFECTS OF MONETARY INFLATION AND DEFLATION.

The financial market: movements in the prices of bonds and ordinary stock.

The monetary inflation and the other main economic features of the war period have left their mark on the share market. The continuous depreciation of the currency reacted in different ways upon the fixed security market and the ordinary stock market. Under the influence of well-known factors, the depreciation led to a rise in the rate of interest and hence also to a rise in the capitalisation rate of securities with fixed yield.

Such a rise in the capitalisation rate is obviously equivalent to a corresponding decrease in the value of capital, and it is for this reason that fixed securities declined in value during and after the war roughly in proportion to the increase in the circulation of paper money. This decrease slowed down at moments when inflation was less rapid, and even gave place to a movement in the opposite direction when signs of deflation appeared.

Naturally other factors — in particular political — exercised a more or less temporary influence on share quotations. To these factors must be attributed the characteristic phenomenon of an abnormally high capitalisation rate for the principal securities issued during the war — the result of a feared reduction in the rate of interest. A similar influence on the capitalisation rate was caused by the announcement of the obligatory conversion of bearer bonds to registered securities. To show the downward tendency in the quotations of fixed securities, we give here index figures based on the annual averages of the chief bonds issued by the Government, representing the sum quoted on the exchange required to produce one lire annual interest :

1913	27.85
1914	26.94
1915	22.30
1916	22.55
1917	20.75
1918	19.24
1919	19.75
1920	16.47
1921	15.93

During the first part of 1922, at a time when the value of the currency showed a marked improvement, there was a distinct upward tendency in the quotations of State loans.

We show below the quotations at the end of each month during the last two years for the two main types of Government stock:

	3 1/2 % Stock			5 % Stock		
	1920	1921	1922	1920	1921	1922
January.	80.26	73.25	71.93	86.58	74.66	75.82
February	79.73	73.56	73.66	86.47	75.25	78.37
March.	79.31	72.19	69.77	86.43	75.32	77.—
April	79.31	73.42	70.75	85.55	79.13	77.98 ¹
May	79.34	73.87	—	84.48	79.60	—
June	75.72	72.73	—	77.96	78.67	—
July	71.28	69.98	—	74.44	75.10	—
August	69.09	70.75	—	74.14	75.90	—
September.	68.66	70.74	—	71.50	75.26	—
October.	66.25	72.27	—	68.06	77.03	—
November.	75.35	71.58	—	76.83	76.64	—
December.	74.04	71.65	—	75.94	76.98	—

Corresponding with this depreciation of Government securities, there has been a similar depreciation of bonds issued by local administrations and mortgage banks, and also of industrial shares; indeed, during the years 1920 and 1921, the industrial shares (for which there is not much market in Italy) fell in some cases even more sharply than Government bonds, owing to the increased risks resulting from the economic crisis.

But if monetary inflation, by decreasing the purchasing power of money, tends gradually to reduce the market value of fixed securities, this inflation tends, as a rule, to increase the value of ordinary stock. The latter represents the assets of industrial, commercial and banking enterprises, etc., consisting, at any rate partly, of fixed plant, goods and other property, the monetary value of which grows as the fiduciary circulation increases. Inflation is also usually accompanied — *caeteris paribus* — by a tendency towards increased profits, as expressed in the monetary unit, and by a tendency, though less marked, towards increased dividends. Thus, in spite of the influence of the rise in the capitalisation rate already noted, the market price of shares had, once the initial period of general economic disturbance had passed, both during the war and after the armistice, a clearly marked upward tendency parallel to the development of monetary inflation.

This upward movement was arrested for the first time in the second half of 1919, and then again towards the end of 1920, owing to the decrease in profits, either feared or actually realised, on account of the great labour disputes and the new fiscal measures. Subsequently, in 1921 and 1922, there has been a marked downward movement corresponding to the economic crisis, which has considerably increased the risks in respect of profits from industrial enterprises, and caused a sudden and considerable decrease in the cost of many raw materials, of manufactured articles and of plant. This downward movement coincides with the monetary deflation. The fluctuations in Stock Exchange quotations were naturally felt most — both during the high- and low-price period — in connection with the shares of large manufacturing companies (mining, metal-working, machinery, etc.), both by reason of the greater variability in the value of the assets of these companies and by reason of the greater variations in their profits.

The following index numbers, calculated according to the Stock Exchange quotations for the shares of a large number of companies, will give a clear idea of the movements on the

¹ April 15th.

market. The individual figures referring to any particular stock merely express the proportion between the prices quoted for this stock at the end of any given month and the quotation at the end of the preceding December. The general index figures have been calculated on a basis of the weighted arithmetic mean, there being given in respect of each company a coefficient corresponding to the amount of capital invested at the end of the previous year.¹

	1916	1917	1918
December of the preceding year	100	100	100
January	99.31 x 0.4	101.53 x 0.30	106.15
February	98.04 x 0.04	102.79 x 0.10	106.12 x 0.03
March	99.97 x 0.9	101.18 x 1.31	103.81 x 1.18
April	100.52 x 1.7	102.34 x 2.13	108.47 x 1.86
May	104.79 x 0.2	105.05 x 0.11	109.92 x 0.11
June	112.69	106.62 x 0.18	113.63
July	111.70 x 0.6	115.52 x 0.41	127.03 x 0.10
August	116.63	109.47	128.85 x 0.03
September	115.85 x 0.2	113.97 x 0.19	127.64 x 0.05
October	114.04 x 0.3	116.77 x 0.32	117.83 x 0.26
November	110.50	111.87	115.71
December	107.84 x 0.1	113.76 x 0.11	109.85 x 0.03

	1919	1920	1921	1922
December of the preceding year	100	100	100	100
January	99.10 x 0.21	102.75 x 0.22	94.23 x 0.38	96.61 x 0.26
February	105.53 x 0.06	106.81 x 0.05	98.43 x 0.09	94.10 x 0.04
March	106.96 x 1.22	106.97 x 1.00	91.82 x 1.74	88.82 x 0.28
April	101.91 x 3.10	106.49 x 2.99	90.51 x 2.15	
May	108.11 x 0.15	105.58 x 0.07	85.84 x 0.03	
June	110.02 x 0.12	94.87 x 0.23	80.76 x 0.01	
July	105.19 x 0.28	87.57 x 0.20	78.71 x 0.57	
August	100.97	86.86 x 0.09	82.87 x 0.01	
September	100.34 x 0.06	80.33 x 0.11	87.04 x 0.02	
October	96.02 x 0.32	73.62 x 0.18	91.07 x 0.37	
November	96.43	80.20 x 0.11	83.99 x 0.05	
December	99.49	80.08	80.13	

With reference to the period more particularly dealt with in the present report, we may note that during the years 1920 and 1921 a fall of about 20 % took place, as compared with the level at the end of the preceding year. The first quarter of 1922 shows a further fall of about 11 %.

We give below, classed in broad categories, the index numbers for different groups of companies for December, 1919, 1920 and 1921, and for March, 1922. These numbers are all calculated on the same basis (100), which represents the level of prices for December, 1918, *i.e.*, immediately after the war:

¹ From 1919 onward corrective coefficients have been introduced for companies the capital of which was increased by the issue of new shares.

N. B. — The figures preceded by the sign "x" correspond to the amount of dividend paid.

	December 1919	December 1920	December 1921	March 1922
Banks	109.36	103.17	94.19	90.47
Former railway companies ¹	92.09	62.21	50.84	52.09
Land Transport	85.28	70.86	58.45	61.46
Maritime transport	103.64	83.61	53.97	47.56
Cotton industries	119.84	137.77	125.08	115.75
Jute industries	95.00	118.18	102.15	108.27
Wool industries	104.06	101.47	118.41	118.35
Flax and hemp industries	121.76	152.81	155.41	124.64
Silk industries	147.95	172.32	153.85	128.62
Mines	104.46	74.54	53.23	50.14
Iron companies	87.93	47.45	17.77	13.95
Machinery	90.23	55.12	32.81	18.12
Automobile industries	112.91	72.21	56.29	47.55
Electric industries	93.95	67.68	67.95	68.36
Chemical industries	93.54	80.26	58.98	54.66
Sugar refineries	107.23	108.91	101.54	96.92
Other food industries	112.78	106.40	107.33	98.90
Aqueducts	100.28	87.13	90.35	87.06
Building and land societies	105.07	100.63	100.64	93.23
Miscellaneous	104.64	130.50	112.26	103.62
General index figure	99.49	79.67	63.84	56.70

The figures in the last column show how few were the groups of companies whose shares reached a higher level in March, 1922, than at the end of 1918. Only textile and miscellaneous companies appear in this class; for certain groups (sugar refineries, other food industries and companies dealing in real estate), the difference is not great. On the other hand the fall in iron foundry shares has been catastrophic; their present value amounts to scarcely 14 % of the price quoted at the end of 1918. These figures are significant. They show that the fall in prices has borne most heavily on those industries which are most greatly affected by the stagnation in business and the economic crisis.

Prices of commodities; fluctuations in prices of different kinds of merchandise.

There is a clear relation, not only, as we have just shown, between monetary inflation and stock quotations, but also between this monetary inflation and the prices of all kinds of commodities. The fiduciary inflation caused a considerable rise in prices during the war and the period immediately following it. As inflation slowed down, prices became steadier; and now, when a certain movement towards deflation has been initiated, prices are beginning to fall. The two phenomena have not been completely interdependent and simultaneous, owing to the complexity of the various forces which have been acting upon the mechanism of economic life during the troubled period through which we are passing. It may be noted that certain prices give evidence of a marked state of inertia; the degree of variability of prices differs according to the technical or economic character of each commodity. The level of prices varies, over any period of time, not only in proportion to the amount of currency in circulation, but also in proportion to the rapidity

¹ Railway companies which formerly operated railways and which now take a share in financial operations.

of circulation of money and to the volume of trade. The rapidity of circulation has undergone frequent changes during recent years. It became much lower at the outbreak of war, then again immediately after the war, again at certain moments marked by great social unrest, and also after the economic crisis had begun. At such times, the slackening of the rapidity of circulation usually coincides with the hoarding of notes, as a rule within the country but sometimes abroad also. The volume of trade has undergone various fluctuations which cannot be estimated, even approximately, for want of statistics. The slackest periods were during the war and during the economic crisis.

An approximate idea of the movement of wholesale prices may be obtained by examining the index figures, which have been drawn up by the present author, for some forty classes of goods up to the end of 1920. These calculations have been based upon the simple arithmetic mean, taking as the basis (100) the prices of goods for the five years 1901-1905. The percentages in the table below show the rise in prices as from the beginning of the war.

	Cereals and meat	Other food- stuffs	Textiles	Minerals and metals	Other goods	General index figure
July.1914	114.0	127.2	116.9	111.6	108.1	115.6
December . . .1915	178.2	166.2	170.3	371.1	206.2	214.8
Diff. % between July 1914 and Dec. 1915	+ 56.3	+ 30.7	+ 45.7	+230.7	+ 90.7	+ 85.6
December . . .1916	205.7	198.7	278.8	594.2	243.7	214.6
Diff. % between Dec. 1915 and Dec. 1916	+ 15.4	+ 19.6	+ 63.8	+ 60.5	+ 18.1	+ 37.2
December . . .1917	322.9	276.5	515.5	871.9	384.0	459.6
Diff. % between Dec. 1916 and Dec. 1917	+ 57.0	+ 39.2	+ 84.9	+ 46.7	+ 57.6	+ 55.9
December . . .1918	366.0	418.4	584.3	520.9	509.5	468.9
Diff. % between Dec. 1917 and Dec. 1918	+ 13.0	+ 51.3	+ 13.2	+ 40.2	+ 32.7	+ 2.1
December . . .1919	420.4	544.9	793.5	706.4	477.1	576.2
Diff. % between Dec. 1918 and Dec. 1919	+ 14.9	+ 30.2	+ 35.8	+ 35.6	+ 6.36	+ 22.9
December . . .1920	577.8	775.6	813.8	1,123.1	735.6	800.6
Diff. % between Dec. 1919 and Dec. 1920	+ 37.4	+ 42.3	+ 2.6	+ 29.0	+ 54.2	+ 38.9
Diff. % between July 1914 and Dec. 1920	+406.8	+509.7	+596.2	+860.7	+580.5	+592.6

The general index figure for the prices of commodities at the end of 1920 was about seven times as great as the pre-war figure, while the circulation of paper money was more than eight times greater than at the end of June 1914.

As regards the movement of prices for the period 1920-1922, with which period the present report more particularly deals, we give below the monthly index figures, forming a new series starting from 1920, based on a larger number of classes of commodities: 76 for 1920-1921 and 100 from 1922 on.

The index figures given separately for each group of goods are simple arithmetic means, but we also show general index figures which are the simple geometric means of the individual index figures.

INDEX NUMBERS OF WHOLESALE PRICES IN ITALY.
(Basis: average prices in 1920 = 100)

	Vegetable food- stuffs	Animal food- stuffs	Chem- ical products	Textiles	Minerals and metals	Building materials	Miscel- laneous vegetable products	Other miscel- laneous com- modities	General arith- metic index number	General geo- metric index number
1920										
January	86.2	81.2	64.2	95.3	75.9	72.0	93.5	78.2	81.25	79.8
February	91.6	79.5	76.8	106.0	92.7	75.4	100.9	85.8	89.13	87.74
March	93.1	82.7	96.8	115.6	104.8	82.2	102.4	92.8	96.41	95.03
April	102.7	83.6	110.4	130.8	115.8	96.4	99.8	104.2	106.30	104.58
May	102.2	92.9	122.6	104.9	113.2	101.8	97.2	107.8	105.73	104.54
June	100.2	101.1	112.8	90.8	99.1	106.3	95.9	105.7	101.18	99.96
July	96.8	100.3	100.0	88.3	95.5	108.4	90.2	104.9	97.77	97.11
August	100.7	103.4	102.3	94.9	96.6	109.9	91.9	101.4	100.13	99.64
September	104.8	108.8	100.1	99.6	103.7	109.9	97.5	102.1	104.98	103.25
October	107.1	108.0	103.4	97.9	106.5	112.8	100.5	105.4	105.47	105.03
November	107.7	124.1	107.7	94.0	101.4	112.6	108.7	105.2	107.33	106.31
December	106.9	126.4	102.8	81.9	92.7	112.6	121.8	106.8	104.97	103.32
1921										
January	106.7	120.7	98.1	77.4	88.2	113.3	128.4	107.1	102.89	100.65
February	103.4	119.5	89.2	65.4	79.5	117.0	127.3	106.7	98.23	95.09
March	107.8	117.4	86.9	63.5	72.0	112.9	123.2	103.9	96.66	92.49
April	105.9	115.9	82.9	56.5	69.0	109.1	111.3	105.1	93.51	88.19
May	101.5	112.1	76.2	46.6	62.3	106.8	110.0	95.4	87.59	80.74
June	97.0	100.5	63.4	45.8	60.4	101.6	95.0	90.4	81.49	75.46
July	99.8	109.3	64.9	53.6	60.0	94.6	91.6	86.5	83.28	77.73
August	106.7	112.7	67.7	61.7	59.7	92.3	96.1	86.8	86.77	80.97
September	113.6	124.8	71.2	75.2	58.9	90.9	102.2	92.9	92.89	86.54
October	115.8	128.5	74.6	75.6	64.1	90.9	114.4	94.2	95.95	89.63
November	114.1	125.8	75.7	75.4	65.2	89.7	113.7	93.7	95.27	88.79
December	115.3	120.6	73.5	79.4	66.0	89.1	113.7	93.8	95.23	88.47
1922										
January	111.6	113.7	73.0	72.4	63.9	91.6	112.4	94.3	92.44	86.08
February	108.8	112.4	73.0	67.9	61.6	90.9	110.8	92.2	90.08	83.78
March	106.7	95.7	71.8	64.9	59.2	84.1	102.8	87.2	85.43	79.21

The downward movement in prices (a symptom characteristic of crises) became noticeable in certain countries at the beginning of 1920. At first it affected raw materials only; later it made itself felt, though not to the same extent, in the case of manufactured articles, foodstuffs

and, finally, retail prices and wages. The fall in prices on the international market came at a moment when in Italy business was still expanding, and the monetary inflation continuing; Italian money was still losing its value, while the dollar and the pound were appreciating owing to the restriction of credit, the withdrawal of notes and the influx into the market of larger quantities of goods. The rise of foreign exchanges as compared with the lira counterbalanced for several months the influence of the fall in prices of most raw materials on the international market. The joint effect of these circumstances on the general level of prices in Italy in the course of the year 1920 was to produce two different waves (similar to those in France, Germany and other countries); one of these movements reached its maximum point in April and the other in November. The depression that took place between those dates was chiefly caused by the sudden fall in textiles on the world market and also, but to a minor extent, by the fall in coal and metals — all raw materials, which are of preponderating importance in economic life and which had previously been specially affected by the rise; in the case of these articles there was an exact correspondence between the tendency to fall and the previous tendency to rise. The partial decrease in prices which occurred in Italy in the spring of 1920 may also be traced to the "strike of purchasers" which followed upon the announcement of the beginning of a general fall in other countries; this abstention on the part of consumers lowered the rapidity of circulation of money and thus held in check the effects of the increased paper inflation; the consequent slackening of business led to the flooding of the market with large stocks of goods which had been held back by producers and traders for purposes of speculation.

Thus in Italy the curve of prices reached its highest point in November, 1920, and afterwards fell definitely and continuously until June, 1921; it then resumed for a time its upward movement and reached a new maximum in October; after that date prices remained comparatively stable until the first weeks of 1922, when they again began to fall. The partial and temporary rise in the summer of 1921 coincided with a rise in the foreign exchange and lasted until, with a large reduction in monetary inflation, exchange rates and prices again began to fall.

If we examine the development of the curve of prices for the various groups of commodities, we realise that in Italy the fall took place first of all in raw materials, and, especially in the case of textiles, minerals and metals, was the direct consequence of the change in economic conditions. The price of foodstuffs moved somewhat irregularly during this period and the rise continued through a considerable part of 1921; this peculiarity as compared with the other groups of commodities is chiefly due to the changes carried out in the food-supply system and to the abolition of political measures for regulating the price of cereals and of bread price-lists in some districts. The abolition of price regulation generally leads to a rise in prices, which is more apparent than real, as it corresponds with the high level attained secretly under the system of control by clandestine supplements to official prices; the disappearance of that system creates an increased demand which is not immediately met by increased production.

The development of prices under the influence of these factors varies not only according to the technical nature of each commodity, but also according to its "economic" nature. It differs, therefore, in the cases of raw materials, semi-manufactured goods, finished products and foodstuffs. It also varies according to the more or less close relations which exist between the home market and the international market. The prices of goods produced and consumed chiefly within the country itself are affected more appreciably and more rapidly by the changes which take place in internal economic conditions (especially changes in the monetary situation), whereas, in the case of commodities in which there is a large foreign trade, fluctuations in prices are more directly determined by the variations in exchange rates, and the difference between the home and foreign prices then becomes less marked. The following table, in which the separate index numbers for these various groups of commodities have been calculated, shows the difference in the price curves between the two groups. These index numbers (based on the geometric mean) have only been calculated from 1921 onwards, taking as basis the average prices in that

year; they are based on the prices of 100 different commodities, but it should be pointed out that the group "finished products" is relatively small owing to the lack of the official quotations necessary for making the calculations.

1921	Food-stuffs	Raw materials	Semi-manufactured articles	Finished products	Commodities produced & consumed in the home market	Imported commodities	Commodities for export	General index number
January	102.04	127.07	121.73	109.83	106.88	125.06	120.93	114.30
February	99.90	113.74	111.33	108.89	102.92	114.68	107.83	107.36
March	101.13	105.76	107.70	107.82	104.02	105.42	104.95	104.60
April	99.87	98.61	100.41	109.76	103.21	97.37	96.62	100.46
May	93.86	90.24	89.46	99.47	95.76	88.14	87.84	92.22
June	86.02	84.49	83.60	93.90	86.60	84.14	86.04	85.67
July	89.64	85.82	87.65	90.25	89.04	87.04	86.46	88.08
August	94.91	87.91	91.84	90.92	92.94	90.61	88.52	91.70
September	105.16	94.18	96.55	94.88	100.35	96.19	99.95	98.84
October	107.44	98.00	100.12	95.44	103.23	99.40	101.95	101.74
November	106.04	99.65	99.93	96.32	102.95	100.31	100.64	101.79
December	103.27	98.07	99.79	97.73	101.54	98.93	99.25	100.38
1922								
January	100.66	97.64	98.93	95.93	99.75	97.57	98.50	98.88
February	98.23	95.01	96.06	92.43	96.95	95.07	96.35	96.23
March	91.68	89.43	93.11	87.81	90.48	90.85	94.08	90.98

The prices of raw and semi-manufactured articles are much more subject to variation than the prices of finished products, and in the first half of 1921, they also fell much more than the latter. Foodstuffs show greater stability; they rose appreciably during the second half of the year. Commodities produced and sold chiefly in the home market are subject to less variation in price than commodities which are exchanged in large quantities with foreign countries; the curves of these commodities follow fairly closely the rates of exchange in countries in which the currency has not greatly depreciated.

Internal and external prices of commodities.

The Statistical Memoranda on Currency, Public Finance and Trade annexed to the minutes of the Brussels Financial Conference contained some very interesting tables designed to show in various countries "the fluctuations in external and internal wholesale prices in terms of various national currencies" in order to establish the approximate comparison between the relative purchasing power of certain currencies at home and in the United States. The effects of recent monetary movements on the prices of goods and on foreign exchange rates, may be seen from calculations of a similar kind to those contained in the work referred to, comparing the development of internal and external prices in the case of Italy. The following table, therefore, gives for Italy the external price index numbers; they are the index numbers of the "Economist" converted into Italian currency, that is to say, the figures obtained by multiplying these index numbers by the percentage rate of the pound sterling on the Italian Stock Exchanges (the rate

of the pound divided by 25.22 and multiplied by 100). These index numbers of prices abroad (calculated on the 1901 to 1905 basis) are placed opposite the Italian index numbers (index numbers of home prices) up to 1919 (old series) and from January, 1920, onwards (new series), the reference always being to the 1901-1905 basis. The calculation of prices abroad has been made according to the average rate of exchange for the month in preference to the rate on any particular day, as the latter might have been influenced by special circumstances. In order to compare home and foreign prices, we give the ratio between the respective index numbers, multiplied by 100 in the usual way.

		British index number	Monthly rate of exchange on London	Rate of exchange on London as compared with parity	English index number converted into Italian currency (extern. prices) $(a \times c)$	Italian index number (internal prices)	Ratio between external and internal prices $(a \times 100)$
		<i>a</i>	<i>b</i>	<i>c</i>	<i>d</i>	<i>e</i>	<i>f</i>
June	1914	115.9	25.26	100.15	116.1	117.0	99.2
December	»	127.3	25.86	102.53	130.5	119.7	109.0
June	1915	147.7	28.53	113.12	167.1	161.3	103.6
December	»	165.1	31.00	122.91	202.9	214.8	94.5
June	1916	191.5	30.41	120.57	230.9	242.8	95.1
December	»	223.0	32.62	129.33	288.4	294.6	97.9
June	1917	256.6	33.98	134.73	345.7	362.9	95.3
December	»	263.2	39.67	157.29	414.0	459.3	90.1
June	1918	277.5	43.68	173.19	480.6	523.5	91.8
December	»	277.0	30.25	119.94	332.2	468.9	70.8
January	1919	265.9	30.31	120.18	319.6	410.1	77.9
February	»	263.8	30.31	120.18	317.0	403.9	78.5
March	»	259.4	30.96	122.76	318.4	410.1	77.6
April	»	262.4	34.64	137.35	360.4	417.9	86.2
May	»	272.2	37.24	147.66	401.9	426.3	94.3
June	»	281.3	37.33	148.02	416.4	451.0	92.3
July	»	293.2	37.55	148.89	436.5	456.6	95.6
August	»	295.9	39.48	156.54	463.2	465.5	99.5
September	»	299.4	40.94	162.33	486.0	468.3	103.8
October	»	308.9	42.56	168.75	521.3	492.0	106.0
November	»	317.5	48.81	193.54	614.5	552.9	111.1
December	»	334.7	50.08	198.57	664.6	576.2	115.3
January	1920	353.1	51.60	204.60	722.4	639.2	113.1
February	»	370.9	61.77	244.92	908.4	701.2	129.5
March	»	379.6	70.55	279.74	1,061.9	758.5	140.0
April	»	374.2	90.42	358.52	1,341.6	836.3	160.4
May	»	372.7	76.92	305.00	1,136.7	831.8	136.7
June	»	356.7	67.14	266.22	949.6	796.0	119.4
July	»	358.0	67.30	266.85	955.3	761.3	125.5
August	»	352.0	74.77	296.47	1,043.6	787.8	132.5
September	»	347.5	80.86	320.62	1,114.2	825.9	134.9
October	»	326.1	89.45	354.68	1,156.6	829.8	139.4
November	»	299.7	95.13	377.20	1,130.5	844.4	133.9
December	»	269.3	99.96	396.35	1,067.4	825.8	129.3
January	1921	255.3	105.85	419.71	1,071.5	809.5	132.4

	British index number	Monthly rate of exchange on London	Rate of exchange on London as compared with parity	English index number converted into Italian currency (extern. prices) $(a \times c)$	Italian index number (internal prices)	Ratio between external and internal prices $(\frac{a}{c} \times 100)$
	a	b	c	d	e	f
February 1921	235.3	106.40	421.89	992.7	772.8	128.5
March »	231.7	102.51	406.46	941.8	760.5	123.8
April »	224.0	85.80	340.21	762.1	735.7	103.6
May »	223.2	74.99	297.34	663.7	689.1	96.3
June »	218.6	75.77	300.4	656.7	641.1	102.4
July »	218.1	80.02	317.3	692.0	655.2	105.6
August »	219.0	85.52	339.1	742.6	682.7	108.8
September »	223.8	87.82	348.2	779.3	730.8	106.6
October »	208.5	97.76	387.6	808.1	754.9	107.0
November »	202.6	96.27	381.7	773.3	749.5	103.2
December »	198.0	93.95	372.5	737.6	749.2	98.5
January 1922	194.7	96.97	384.5	748.6	727.3	102.9
February »	193.6	89.15	353.5	684.4	708.7	96.6
March »	195.3	86.07	341.3	666.6	672.1	99.2

Reservations should doubtless be made with regard to the purely approximate character of the figures, of the differences in significance due to differences in method and in the list of commodities taken as basis for British and Italian index numbers. Nevertheless, the variations in the ratio given in the last column of the table remain very suggestive. Generally speaking, this ratio cannot deviate far from 100 between countries which possess a regular monetary system and in which commercial dealings can be carried out with perfect freedom and ease, as it must then be determined by the State of the exchanges and the level of prices in the two countries concerned. Under normal conditions, the exchange rate cannot deviate from par beyond the "gold point", and the price of goods in one of the two countries cannot go beyond what might be called the "commodity point", that is to say, in excess of cost (transport, insurance dues on entering and leaving the country, taxes, etc.,) for carrying commodities from one country to the other. The effect of this transport is to raise prices in the second country and lower them in the first. Between countries where normal conditions prevail, the ratio can only deviate from 100 if a change occurs in the significance of the index numbers of prices, or in "commodity point" itself. The table shows that since the beginning of the war the ratio has deviated from 100 in all cases under review, and that the divergencies have often been considerable.

For a large part of the period in question, every kind of circumstance capable of affecting the equilibrium between the two groups of prices has been operative. The charges for the transport of goods from England to Italy have increased heavily; the monetary situation became most irregular, especially in Italy during the years 1918, 1919 and 1920; various hindrances were placed in the way of commercial dealings up to 1920, and these hindrances were kept in force even later, although in a less degree. There were transport difficulties in addition and Government intervention both in the foreign currency market (control of the market, gold export prohibition, prohibition of certain transactions, monopoly of the purchase of currency, artificial stabilisation of exchange rates) and in the commercial market (direct State participation in industry, commerce and consumption, monopolies, prohibition or regulation of imports and exports, of foreign exchanges and of production and consumption, control or regulation of the prices of goods, sometimes involving discrimination between home and foreign prices.) All these circumstances caused the ratio between home and foreign prices to deviate from 100. As is shown by the table, home prices were generally higher than foreign prices during the war and the first months after

the declaration of peace. This phenomenon is due to various reasons, chief among which are the rise in the cost of transport and the adoption in England of official prices for coal and metals much lower for home consumption than for export. The intervention of the Italian Government in the currency market also greatly influenced the position by pegging the exchange rates towards the end of the war and during the period immediately following. Even for several months after the abolition of this system, home prices remained higher than prices abroad in consequence of further intervention undertaken with a view to lessening the effects of variations in exchange rates. The table shows that at times internal prices were as much as 30 % higher. These high prices would naturally have occasioned an increase in imports had not restrictive measures been taken to prevent it; these measures were the true cause of the large difference. The removal of the restrictions on the rates of exchange and on trade brought about a complete reversal of the situation during the last months of 1919, the whole of 1920 and part of 1921, when external prices greatly exceeded internal prices. The same phenomenon may be observed in all countries with a depreciated and still depreciating currency and is due to the fact that the foreign currency market responds far more quickly to variations in monetary circulation than the commodity market, owing to the well known inertia of commodity prices. The higher level of external prices must also be attributed in part to the fall in freight rates and to the gradual discarding in England of the policy of establishing different prices for home and foreign consumption. These factors had previously helped towards lowering external prices. The difference between foreign and home prices varied considerably during 1920 by reason of the irregular fluctuations in the exchange market — the violent rises being due to fears that the internal situation would become worse and to the anticipation of further issues of paper money in Italy. From the spring of 1921 onwards, external prices ceased to be higher in any serious degree, and the ratio shown in the last column of the table began to oscillate with comparative steadiness round the figure 100. This tendency towards stability shows, as we have already pointed out on several occasions, that the economic situation in Italy is gradually becoming normal again. The "armour of war" has been cast aside and the barriers to trade removed; goods can now be exchanged without difficulty and in this way the equilibrium between the different kinds of markets is being re-established. The "gold point" does not yet exercise its regulating power on the fluctuating exchange rates, but a comparatively steady "commodity point" tends to lessen the divergences between the prices of the commodities; and, assuming that no further fiduciary inflation takes place, prices of goods will no longer be slow to follow variations in exchange rates. If a rapid monetary deflation were to take place (which is clearly improbable), the inertia of the price of goods as compared with exchange rates would cause the ratio to descend considerably below 100.

Foreign Exchanges.

The relation that we have traced between the development of currency inflation, the quotations on the Stock Exchanges, and commodity prices, also exists between the development of currency inflation and the rates of exchange.

In the following table we give the monthly rate of exchange in respect of those foreign countries which have the most stable currencies and with which Italy carries on the greatest amount of business, taking the quotations on the Italian market.

		Paris	London	New York	Switzerland
June	1914	100.35	25.26	5.16	100.22
December	»	103.31	25.86	5.30	101.60
June	1915	109.22	28.53	5.96	110.84
December	»	112.23	31.00	6.57	123.56
June	1916	107.62	30.41	6.37	120.64
December	»	117.20	32.62	6.85	135.18

		Paris	London	New York	Switzerland
June	1917	124.41	33.98	7.13	143.47
December	»	144.87	39.67	8.29	189.90
June	1918	161.02	43.68	9.10	230.70
December	»	116.25	30.25	6.34	130.00
January	1919	116.00	30.31	6.33	129.50
February	»	116.00	30.31	6.33	129.50
March	»	116.52	30.96	6.49	132.30
April	»	124.54	34.64	7.39	151.50
May	»	127.02	37.24	7.90	159.62
June	»	125.43	37.33	8.05	151.32
July	»	121.67	37.55	8.43	151.35
August	»	118.43	39.48	9.24	155.12
September	»	115.95	40.94	9.78	174.86
October	»	118.22	42.56	10.14	181.34
November	»	126.13	48.81	11.87	217.75
December	»	121.92	50.08	13.07	241.67
January	1920	120.51	51.60	13.99	251.31
February	»	128.89	61.77	18.21	296.14
March	»	136.21	70.55	19.03	321.24
April	»	142.40	90.42	22.94	410.50
May	»	134.86	76.92	19.86	352.78
June	»	133.72	67.14	16.89	308.98
July	»	141.13	67.30	17.28	305.53
August	»	147.65	74.77	20.54	341.98
September	»	154.97	80.86	22.98	373.74
October	»	168.32	89.45	25.72	408.33
November	»	165.89	95.13	27.61	427.55
December	»	169.80	99.96	28.57	441.03
January	1921	181.24	105.85	28.25	442.10
February	»	196.81	106.40	27.34	448.12
March	»	185.29	102.51	26.04	446.86
April	»	157.81	85.80	21.65	377.81
May	»	157.92	74.88	18.73	335.63
June	»	161.48	75.77	19.84	339.64
July	»	171.77	80.02	21.90	363.55
August	»	180.92	85.52	23.51	393.09
September	»	172.66	87.82	23.54	404.82
October	»	183.00	97.76	25.33	460.41
November	»	174.45	96.27	24.29	456.82
December	»	176.97	93.95	22.69	439.85
January	1922	187.13	96.97	22.96	445.61
February	»	178.82	89.15	20.38	399.12
March	»	176.39	86.07	19.56	380.16

Just as the gradual increase of notes in circulation has diminished the purchasing power of Italian money as regards goods, capital and services, so it has also decreased the value of the Italian currency in comparison with currencies of foreign countries in which paper inflation has either not taken place, or has done so in a lesser degree than in Italy.

As our table shows, the increase in the rate of exchange was relatively slow during the first years of the war. It became more marked in the last two months of 1917; then the exchange dropped very considerably in July and August, 1918, and remained at quite a low level until March, 1919. Since then there has been a pronounced rise, particularly in respect of the dollar, the rate of which rose in April, 1920, to about 4½ times parity. From May to July, 1920, there was a sudden depreciation which brought the price of the dollar to about 330 % of par. A fresh rise brought the exchange to the highest rate ever registered, the dollar exceeding 550 % of par. Then there was a fresh improvement in the spring of 1921, less marked than the previous one, during which, in May, the price for the dollar fell to 365 %. The curve then rose but more gradually, the rate of the dollar reaching 490 % in October, after which it improved for the third time, during the last months of 1921 and the beginning of 1922. This time, however, the improvement was slower and more tentative, which gives ground for the hope that the curve will become relatively stable, in contrast with the violent fluctuations which have characterised the last four years.

The rise which occurred at the end of 1917 and during the first months of 1918, must be attributed to the paper inflation and the sudden economic crisis caused by the Battle of Caporetto. The improvement which occurred in the second half of 1918 and the first three months of 1919 was due to the policy adopted at that time with a view to stabilising the exchanges. The rise which then ensued, followed by the fluctuations mentioned above, is a result of the inevitable abandonment of the whole policy of the artificial regulation of exchanges and the inflation of circulation, whereas the recent tendency to stability and to improvement would seem to be directly due to the deflation of the currency which has now begun. The slight and merely passing influence felt on the exchanges by the failure of the Banca Italiana di Sconto is a most significant symptom; it shows that the large issue of notes which occurred unexpectedly at the end of 1921 and the beginning of 1922 did not greatly affect the market, but merely led to the creation of hoards, which were later rapidly dispersed.

Great interest has been taken in the rates of exchange in recent years, and public opinion has been much concerned with this question. There has been a tendency to regard the rise in the exchanges as an evil in itself, and not as a mere symptom of abnormal economic conditions. When the currencies of two countries are inflated unequally, a new parity is created between these currencies, which can be estimated approximately by means of the ratio between the index numbers of the prices of commodities, if these index numbers are calculated by the same method and on the same basis. When the degree of inflation in two countries remains stable, and complete freedom of exchange between those two countries exists, the relations between the index numbers of prices and the rate of exchange itself remain fixed, except for slight fluctuations round the new parity. This stability in inflation — and, therefore, in the relation between index numbers and exchanges — is the desideratum required by present conditions, since it removes an element of uncertainty which constitutes a danger to the whole economic life. The instability of currency inflation renders uncertain the development, even in the near future, of the prices of goods, capital and services, and of the exchanges, and the fact that these variations are neither simultaneous nor proportional causes a temporary depreciation of certain elements of economic life to the detriment of others.

The instability of the degree of fiduciary inflation creates conditions favourable to speculation in the price of goods and in the rates of exchange. Doubtless speculation in the exchange has been widely practised during the last few years, but its effects have always been very limited. The view held in many quarters that speculation is the cause of the rise in the exchanges is devoid of foundation; certain fluctuations are due to speculation, but the speculation very often only anticipates the changes, which is not surprising, since all speculation is in reality only the process of reckoning with events which are likely to happen in a more or less distant future. Speculation in exchange is not limited to "professionals" who live more or less in a banking atmosphere; it is also practised by private persons — often by small capitalists — who hoard

notes or other bills, either in the country or abroad, in the hope of a future rise. It is to the collection or dispersal of such hoards that certain fluctuations in recent years are due. Speculation on the exchange is an international phenomenon, but it has affected the Italian exchange, for instance, very much less than the German. The fact that certain fluctuations have occurred simultaneously and in a similar manner in the exchanges of several countries is partly due to the fact that speculation is practised in connection with the currencies of various countries and at the same time affects many different currencies. The fluctuation which occurred in 1920, is a case in point; the remarkable drop in the exchange in 1921 must also be attributed to circumstances of an international nature, and particularly to the large credits granted by countries with a sound currency to States with depreciated currency, with a view to promoting the export of goods and to alleviating the economic crisis.

CONTROL OF FOREIGN EXCHANGES.

Various phases of control during the war and after the war: its effects.

The Brussels Conference (Commission on Currency and Exchange) adopted the following Resolution with regard to the control of the exchanges:—

“Attempts to limit fluctuations in Exchange by imposing control on Exchange operations are futile and mischievous. In so far as they are effective they falsify the market, tend to remove natural correctives to such fluctuations, and interfere with free dealings in forward Exchange which are so necessary to enable traders to eliminate from their calculations a margin to cover risk of exchange, which would otherwise contribute to the rise in prices. Moreover, all Government interference with trade, including Exchange, tends to impede that improvement of the economic conditions of a country by which alone a healthy and stable exchange can be secured.”

In Italy the question of establishing control over the exchanges, in order to regulate the market, to avoid fluctuations if that be possible, and to limit the rise in prices, came to the fore towards the end of 1917, when, following upon the Caporetto disaster, the exchanges suddenly rose, thus still further increasing the economic disturbances of that critical time. It was then that a decision was taken to establish a national Exchange Institute, with a monopoly of the business in foreign currencies. The object of the Institute was to prevent speculation in the exchange — speculation which many people erroneously averred to be one of the chief causes of the tension then existing in the rates of exchange. Nothing but an absolute monopoly of currency operations, eliminating speculation and centralising currency operations abroad, could prevent the sudden minor fluctuations which so frequently occurred. The centralisation made it easier to balance debts and credits abroad by transferring our surplus credits in one country to another country in which our balance showed a deficit. In view of the artificial conditions prevailing throughout the economic life of that time, this balance could be better and more rapidly effected by an official monopoly, than by the usual methods of arbitration employed by individual banks and bankers. As a matter of fact, owing to the loans which it was then contracting with the American and British Governments, the Italian Government was at that time the principal holder and seller of foreign currencies, just as, by reason of its many economic functions, it was either directly or indirectly the principal “consumer” of foreign currencies. In these conditions it became possible for the Exchange Institute to control the market, in that it could without difficulty establish relations with the corresponding official bodies in the other allied countries. In order to assure to the Institute the control of the supply of currencies, it was decided that for many classes of goods, export licences should not be granted by the customs

authorities unless the exporter undertook to hand over to the Institute the foreign currency accruing from the sale of such goods abroad. This obligation, in its original and subsequent forms, involved the export trade in tedious formalities and hindrances of all kinds. With a view to checking the demand for foreign currency, both when the Institute was founded and also later — and above all during periods of crisis in the exchange — the importation of foreign goods was made subject to various restrictions and also to the consent of the Institute. Trade with foreign countries was considerably hindered, and indeed, a régime of this kind was only possible during the war and the period immediately following it, owing to the abnormal situation which made the State the principal customer for most of its industries, and the principal importer and purveyor of many classes of goods. The Exchange Institute came into operation in March, 1918. But, as we have already noticed, its intervention did not prevent the exchanges from continuing their upward trend.

The establishment of a monopoly of the exchange market having thus proved to be inoperative, a fresh policy was adopted — a replica of that in force between France and England. In order to bring down the rates of exchange, the help of England and the United States was called in, and between June and August, 1918, a series of agreements was concluded with the financial administrations of England, the United States and France, and afterwards with those of the neutral countries.

The object of these agreements was to control and stabilise the exchanges by steadily absorbing Italian currency into foreign markets and supplying quantities of foreign currencies to meet the economic needs of Italy. This artificial system remained in force until March, 1919, and was characterised by stable and very low rates of exchange (116.25 to the French franc, 30.31 to the £ sterling and 6.33 to the dollar). In this way the rates were kept at a much lower level than would have been the case in a free market. As the administration could not provide the enormous quantity of currency demanded at these low rates, the system would not work unless the demand were rigorously cut down by the multitudinous restrictions introduced into economic life during the war. In normal times, of course, the holder of a monopoly may fix either his price or the volume of his sales as he pleases, but he cannot do both at once. It was possible to operate this system on a level of prices much lower than would have been the case had economic forces been allowed free play, owing to the fact that the control of the demand and supply of foreign currencies enabled the official price to be maintained at a steady level. The stability and the low exchange rate gave rise to false interpretations of the real state of affairs, and concealed from the public the real cost that had been borne to secure these conditions. The figures given in a preceding paragraph show that at this time the commodity prices abroad were greatly below home prices — a fact which made the importation of goods a very lucrative operation. It is true that restrictions were placed upon imports, but they none the less reached a much higher level than if the difference between home and foreign prices had been lessened or abolished through the existence of a free market in foreign currencies. The stability and the low rate of the exchange were only secured and maintained by increasing our debts to foreign countries and, therefore, at the cost of the national wealth¹.

The régime of inter-allied credits ended in March, 1919, and the credits to maintain and stabilise the exchanges were consequently withdrawn. The exchanges began to rise, slowly

¹ In a note entitled the *Circulation of Paper, Trade and the Foreign Exchanges* (August, 1920) M. Bonaldo Stringher, Director of the Banca d'Italia, pointed out that it was possible for this system to work effectively, because the Italian Treasury was able to dispose for this purpose, between March, 1918, and June, 1919, of American and British credits amounting to 8,900,00 gold lire, and he questioned "whether the extensive credits, causing a considerable increase in our foreign debts to an extent which exceeded our powers of reconstruction, did not perhaps belong to the factors that concealed the real character of the present situation."

at first, then in a more marked manner. The change in the situation necessarily entailed the adoption of fresh legislative measures with regard to exchange transactions. Hostilities having ended, strong opposition was displayed in commercial and industrial circles both to the Exchange Institute and to the whole apparatus of control invented for the purpose of restricting the importation of goods and regulating purchases of currency. It was no longer possible to place a strong curb upon the demand for currency, in order to maintain rates at an artificially reduced level. To do so would have meant contracting fresh foreign debts on an excessively large scale.

As a result of the inevitable increase of foreign trade, the Institute was obliged to refuse an ever-growing demand for currency, even before the inter-allied loans were closed. Moreover, the funds deposited in Italy by foreign banks tended to diminish. The continuance of monopoly became more and more difficult. In the course of the animated discussions to which this serious question gave rise in the spring of 1919, there was a general call for the abolition of the Exchange Institute and for a return to freedom in commercial transactions, leaving the course of exchange subject to the influence of economic factors.

The monopoly of foreign currency operations was, therefore, formally abolished by the Decree of May 13th, 1919, but the Exchange Institute was allowed to remain. It continued to acquire for the Government such foreign currency as was necessary to make the large settlements involved by the commercial operations of a State, which could no longer draw upon inter-allied credits. The chief function of the Institute, however, was to act as a check upon foreign currency transactions, in order to prevent or limit the exportation of capital, and also in order to watch the market, put down speculation and thus keep fluctuations of the rates of exchange within due limits. The Institute's monopoly was abolished, but at the same time freedom was not restored. Permission to undertake currency transactions on their own account was granted only to the banks of issue, to four large private banks, and to a small number of banking establishments and bankers who were already acting as agents for the Institute or subsequently received authorisation from the Minister of the Treasury. Establishments dealing in foreign currency business were still obliged to keep separate accounts and records for operations of this kind, and to submit to the control of the Exchange Institute as regards these operations. It was laid down as a principle that authorised establishments should not sell currency except for payments of goods, either imported, or to be imported, for meeting obligations contracted abroad with the authorisation of the Institute, for repayment of credits in lire granted by foreign banks to Italian banks, for supplying money for the legitimate requirements of persons residing outside Italy, but possessing property therein, or of persons going abroad for business or professional purposes. This control was placed wholly in the hands of the various authorised banks, and was naturally exercised in an unequal and often purely formal manner. It did not succeed in preventing the formation by third parties of stocks of foreign currency for purposes of speculation. For certain special operations the authorisation of the Institute had to be obtained in advance. This system of restrictions chiefly affected the sale of currency by authorised bodies; it was less effective as regards the buying and hoarding of the currency itself. The privilege of engaging in this particular branch of banking, even under surveillance, was in great demand and was considered highly lucrative. The comparatively limited number of holders of the privilege led many of the smaller banks and bankers to demand an extension of the number of authorisations. The privilege lasted for about two years and appears to have proved particularly profitable to the four large banks, and to have led to the formation of innumerable business relations abroad.

Under this new system, exchange rates were no longer periodically fixed by the Exchange Institute, but were determined on the Stock Exchange. Theoretically the rates depended upon the flow of supply and demand; but in practice it became much easier for a small number of persons to carry on those very speculative operations which it was desired

to avoid. The abolition of the monopoly did not at once have any marked influence on the quotations of the exchanges. As is shown by the figures given above, the level remained comparatively low for some months; but, towards the end of the year 1919, the last credits held by the Government became exhausted, the economic situation of Italy became worse, international monetary difficulties increased, and as a result a considerable rise took place. With the exception of the temporary period of depreciation already referred to, that rise continued and became more accentuated in 1920. The new upward movement of the rates was a proof of the ineffectuality of a system of artificial restriction in the face of an economic and monetary situation which inevitably involved a diminution of the purchasing power of Italian currency. Nevertheless, in the course of the year 1920, numerous schemes were proposed in order to improve the exchange by placing various restrictions upon the production, consumption and export of goods, and to enable the Exchange Institute to exercise stricter control over exchange operations. The decree of April 18th, 1920, strengthened the monopoly of the banks and other authorised establishments, but prohibited them from selling to anyone whatever, even to their own branches, commercial bills on foreign countries or from speculating in any manner on the exchange market. This prohibition, however, did not have any great practical effect. Further restrictions on foreign trade were introduced by the decree of April 24th, which prohibited the incurring of obligations abroad in Italian lire for the purchase of goods or for any other reason, without previous authorisation from the Exchange Institute. It authorised the Treasury to reserve to itself the right to acquire, through the Institute, certain specific categories of foreign currencies, and, lastly, it prescribed the currency in which payment of goods exported from Italy should be made, according to the country for which they were destined. The object of this last measure was to prevent the accumulation of depreciated currency in Italy, and, conversely, to stimulate a demand for Italian lire in certain foreign countries. It was based upon the mistaken idea that the effect produced on the currency market varies according to whether a demand for Italian lire is created abroad or a corresponding supply of foreign currency is created in Italy. The obligation to conduct in Italian lire export business transactions with countries having a depreciated currency, proved at times a hindrance to trade. The obligatory delivery of foreign currency to the Institute was first introduced in respect of the export of silk and hay. This obligation was gradually, but very considerably, extended, and proved a hindrance to the trade in the articles concerned, as the outflow of goods across the frontiers was made subject to the production of a certificate declaring the delivery of the appropriate sum in foreign currency to one of the authorised banks, or to giving an undertaking that the sum would be so delivered.

Despite all these measures for the restriction of currency operations, the rates of exchange still showed a pronounced upward tendency. The control of the home market henceforth exercised an ever-diminishing influence, even as regards temporary fluctuations in the rates, owing to the increased freedom permitted in economic affairs as time went on, and it became impossible to exercise any influence on foreign countries. On the other hand, experience of the inefficacy and undesirability of the system of control gave rise to an ever-growing popular demand for complete freedom.

That agitation, begun by small banks, led to a mitigation of the rigour of the system. According to the decree of January 24th, 1921, only the banks of issue had access to the consortium which controlled the Exchange Institute. Their powers were confirmed as regards supervision and control over authorised establishments and over currency purchased on the Stock Exchange, but the requirements with regard to the export of goods were reduced, in particular as regards currency to be used in payment. The Institute was also authorised to allow other relaxations. On the other hand, fresh measures were introduced to tighten the control of the export of capital.

Even in this attenuated form, the hand of the State weighed heavily on exchange operations, and was moreover clearly ineffectual. The economic needs of the country were eventually met by the Decree of June 16th, 1921, which abolished the restrictions, leaving in force only the

regulations regarding the export of capital and the investment of funds abroad. The Exchange Institute maintained only one of its former functions — that of collecting the foreign bills necessary to enable the Treasury to meet State payments abroad. This function is limited, and is likely to become even more so as the Government liquidates its special supply administrations; in normal times it was the duty of a special department of the Treasury, and the day is probably not far distant when the Exchange Institute will have ceased to exist.

The statistical data concerning the purchases and sales of currency effected by the Exchange Institute, which cannot be given here, show that the operations were considerable, particularly as regards the dollar and the pound sterling, throughout the whole period of absolute monopoly, and while the Government was still making large payments abroad. The large decrease which followed, particularly in the second half of 1921, was probably due to the fact that the Treasury had also recourse to other organisations in order to procure currency.

* * *

By putting an end to direct paper inflation, by initiating a movement towards deflation by taking a decisive step towards the improvement of State finances, and by removing the restrictions on exchange operations, Italy has so far fully complied with the essential monetary recommendations of the Brussels Conference. Of late there has been a slight rise in the value of the currency, and under present conditions a period of relative stability of both exchange rates and prices may be anticipated, apart from the fluctuations caused by the usual variations in the volume of demand and supply as regards foreign currencies — variations which in some cases are due to seasonal causes. This stability would be even further assured if we could follow a financial policy of avoiding large issues of Treasury bonds and restricting indirect forms of fiduciary inflation caused by State operations. Apart from any influence which the inter-State agreements at present under discussion may exercise on the exchanges and on monetary relations, it appears as if the approximative stability in the exchange rates and in prices which has either already been attained or is just about to be reached, would be the best result that the monetary policy of Italy could aim at. Such a stability would eliminate from economic life a formidable element of risk. After great changes during the first three years of peace, the distribution of income has now, to a very great extent, been adapted to the new scale of prices, and the great and rapid improvement in our currency, which is in certain circles affirmed to be desirable, would infallibly prove disastrous on account of the upheavals to which it would give rise and the incalculable consequences which would ensue.

Part III.

COMMERCIAL MEASURES.

DEVELOPMENT OF FOREIGN TRADE IN RECENT YEARS.

The economic and material importance of the trade balance: situation before and since the war.

The development of foreign trade from 1913 up to 1920 may be summarised in the following figures (which exclude the trade in precious metals):

	Imports Lire	Exports Lire
1913	3,645,638,975	2,511,638,537
1914	2,923,347,553	2,210,404,199
1915	4,703,550,316	2,533,443,747
1916	8,390,276,088	3,088,279,771
1917	13,990,209,501	3,308,515,235
1918	16,038,674,151	3,344,706,719
1919	16,623,334,212	6,065,742,072
1920	26,853,488,368	11,774,116,058

These figures show a most remarkable progressive increase in the economic volume of the two branches of foreign trade. The enormous increase shown by these figures is, however, chiefly due to the great rise in prices; the actual volume of trade continued to diminish during the years of the war period owing to the diminished production of numerous articles, of the practical difficulties in the way of the conduct of business and of the legal obstacles hampering international trade. The increase which took place in the course of the two years after the armistice was not sufficient to cause the volume of trade in 1920 to reach the level attained in the last year before the war. These statements are supported by quantitative index numbers indicating the variations in the volume of trade.

The following table shows separately the quantitative variations and the price variations by using figures proportional to a basis (100) corresponding to the level of prices and the quantity of goods in the preceding year.

Percentage variations in the volume of trade as compared with the preceding year.

	Imports			Exports		
	Variations in quantity and price	Variations in price	Variations in quantity	Variations in quantity and price	Variations in price	Variations in quantity
1914	80.19	101.43	79.06	88.01	99.66	88.30
1915	160.90	141.19	113.96	114.61	114.30	100.27
1916	178.38	153.72	116.04	121.90	134.70	90.50
1917	166.74	180.93	92.16	107.13	146.46	73.15
1918	114.64	113.74	100.79	101.09	134.68	75.06
1919	103.65	100.65	102.98	181.35	116.90	155.13
1920	161.54	169.29	95.42	194.11	150.88	128.65

By multiplying these annual index numbers together and by expressing the quantities for the year 1913 by 100, we obtain for 1920 the following proportional numbers:

	Imports	Exports
Total variation in the movement of prices and quantities	736.61	468.74
Variation in the movement of prices	771.89	533.83
Variation in the movement of quantities.	95.43	87.80

Although the value of trade in 1920 was more than seven times greater than in 1913 as regards imports, and nearly five times greater as regards exports, the volume of trade shows, nevertheless, as compared with 1913, a decrease of 4.5 % in the case of imports and 12.20 % in the case of exports as compared with 1913.

In order to show for the same period the quantitative variations in the chief economic categories of the goods imported and exported the table below shows index numbers (expressed in all cases as percentages of each preceding year) representing the quantities of goods imported and exported, and in the last column the final index numbers which express the ratio between the movement in 1920 and the movement in 1913.

	1914	1915	1916	1917	1918	1919	1920	% Diff. between 1913 & 1920
Raw materials:								
Imports	83.86	126.39	97.54	66.47	91.29	122.88	94.58	72.92
Exports	92.15	60.25	106.70	66.91	99.86	141.88	130.44	73.26
Semi-manufactured articles:								
Imports	82.36	99.73	112.62	116.69	102.32	79.25	114.36	100.10
Exports	84.71	130.15	85.35	73.14	68.56	212.10	105.42	105.50
Finished products:								
Imports	79.89	66.78	210.95	110.48	88.66	88.95	128.63	126.13
Exports	83.90	132.02	100.14	74.69	62.44	158.45	150.22	123.12
Foodstuffs and live animals:								
Imports	65.23	166.44	107.24	102.30	116.90	111.64	72.19	112.21
Exports	93.88	68.62	72.47	73.58	112.17	97.35	130.10	48.80

Trade in 1920 shows a large decrease as compared with 1913 in the case of raw materials, both imported and exported; semi-manufactured products returned to the 1913 level as regards imports and were slightly above it as regards exports; both the import and export of finished products were considerably greater than in 1913; in the case of foodstuffs and live animals an increase of imports took place, though smaller than might have been expected; the volume of exports, on the contrary, decreased by more than half as compared with 1913.

A further comparison of the volume of trade in 1920 and in 1913 brings to light certain characteristic differences between the commercial world of the year preceding the war and the situation after the armistice. Following the order adopted in the official statistics for 1920, we may observe first of all, as regards *imports*, a large increase in spirits, oils and liquors, due to the increase in purchases of liquid fuel, of which larger quantities are consumed in industry and by motors. Colonial produce shows a rise of 58 %, — the result, chiefly, of large purchases of raw and manufactured tobacco, due to the increase in internal consumption. As regards chemical products there is — in spite of the progress made by home industry — an increase of 15 %, spread over a large number of articles. In the group of hemp, flax and jute, purchases decreased by nearly a quarter, largely on account of the diminution in the quantity of raw materials entering the country. In the case of cotton, the importation of which underwent violent fluctuations during this period, there is a fall of 11 %, due, chiefly, to the diminution in the supplies of raw material; the purchases of finished articles of cotton were in fact larger in 1920 than in the year immediately preceding the war. In the case of wool and woollen articles, the quantitative index number shows an increase of 28 %, largely due to the heavy purchases of raw materials occasioned by the development of the wool industry in Italy. This increase is also due in part to considerable purchases of certain manufactured products, required for the needs of the civil population, for which the demand had greatly diminished during the war. As regards silk articles, Italian imports in 1920 only amounted to one half of the 1913 total; the reduction specially affects purchases of cocoons in Eastern Europe and in Western Asia, and purchases of raw silk in the Far East.

The amount of timber imported fell to two-fifths of the volume in 1913, chiefly as a result of the deficit in the import from Austria. As regards paper, there is a reduction of 30 %, which affects the supplies of wood-pulp in particular. Leather shows an increase of 26 %, the development of the tanning and footwear industries having resulted in more extensive purchases of raw hides.

There were various fluctuations in the mineral and metal trade during the war, and the volume of imports in 1920 only amounted to four-fifths of that registered just before the war, the diminution being mainly in the purchases of scrap iron, cast iron and secondary metals. The category of vehicles shows a volume three times as great as that reached in 1913, chiefly in consequence of very large purchases of railway stock and vessels. As regards minerals (stone, earth, etc.), the trade amounted to less than half the 1913 figure, mainly on account of the heavy diminution in purchases of coal abroad. Increased imports are shown in rubber, as a result of large purchases of raw materials, due to the expansion of industries of this class. Cereals and vegetable foodstuffs show an increase of 16 %, due largely to the increased supplies of grain and flour. There was only a slight change in the trade in animal foodstuffs; arrivals of large animals were much smaller, but on the other hand there was a large increase in imports of fresh and preserved meat. Cheese imports diminished noticeably.

As regards *exports*, a comparison of trade movements in 1920 with those in 1913 leads to very varied results. As regards beverages, the reduction of one-fifth is largely the result of decreased consignments of wine and oil abroad. Under the heading "colonial products" a diminution of 40 % is shown, due mainly to the reduction in the export of manufactured tobacco in consequence of the larger home consumption. A considerable recovery may be observed in the case of many chemical products, especially acid derivatives. The trade in secondary vegetable textiles increased by about one quarter. This increase is attributable mainly to exports of raw

materials, since many manufactured products show a decrease. An increase of 10 % may be seen in cotton articles as a whole — a sign of renewed activity in manufacture and business in the Italian cotton industry. Linen goods show a slight increase, while woven fabrics have decreased. In the silk group there was a serious diminution (28 %), resulting from the decrease in the import of raw, dyed and waste silk; on the other hand, the exports of manufactured silk articles rose in proportion to the increased productive power of the Italian silk-weaving industry. There is no change in the category of hides; the great development in the leather industries is counter-balanced by a large decrease in the export of raw hides and a heavy increase in the export of prepared skins, gloves and footwear. The mineral and metals group shows a decrease in volume of about one-fifth, in respect of a very large variety of raw materials and finished products. The export of vehicles developed to an extraordinary extent, and reached eight times the pre-war total. Motor-cars in particular found good markets abroad. In the group of minerals (stone, earth, etc.), there was a diminution of one quarter, chiefly affecting the export of sulphur and marble. Rubber shows a slight increase, corresponding to the increase in imports. Decreases of one-third and three-quarters may be observed in the export of vegetable and animal foodstuffs respectively, on account of the inadequacy of agricultural production to the wants of the population and of the maintenance of restrictions designed to lessen the difficulties of the food-supply.

To sum up, a comparison between trade in 1920 and in 1913 shows that the food situation became worse, with the result that there was a decrease in the export and an increase in the import of foodstuffs; that there was a diminution in the production and export of a considerable number of silk articles; that the wool, flax, cotton, footwear, rubber and motor-car industries developed in productive power and in volume of business; that there was a noticeable decrease in coal imports, accompanied by an increase in the use of hydraulic power and of liquid fuel; that the two mining industries in which Italy is particularly concerned — sulphur and marble — were losing ground; and that the purchases of metals in foreign countries decreased in consequence of the approaching crisis in the iron and machine industries.

If the differences in the economic and commercial composition of the currents of foreign trade before and after the war are clearly marked, the differences in the geographical orientation of these currents are still more so in the changed economic conditions of the post-war world. In the case of imports, the commercial importance of the United States and the Argentine in providing supplies of foodstuffs and various other goods is at once evident. Nevertheless, this predominant position is partly due to circumstances of a temporary character and is destined to diminish as the consequences of the war become less and less marked. But in view of the extensive and far-reaching changes which have taken place in the course of the last few years in the productive capacity of America, in the economic situation of Italy and in the channels along which international trade flows, it may be assumed that the greater role assumed by the United States in sending supplies to our country is likely to prove a permanent one.

The rise in the importance of the Argentine, since the war, in Italian foreign trade is due to the large purchases of cereals, meat and wool which have been made in that country and the rise is, therefore, essentially temporary. England's share in Italian trade since the war is somewhat smaller than before, chiefly in consequence of the decrease in coal supplies. After the resumption of commercial relations, Germany began operations on a very modest scale, but such a state of affairs is purely transitory, and will certainly change when Germany has regained her economic equilibrium and the legislative hindrances to trade have been abolished; it is, however, improbable that German imports will at once regain their former importance. Arrivals of goods from the Succession States of the Austrian Monarchy have not been very great, but trade with those countries will probably increase quite considerably in the future, in view of the preponderating position enjoyed by Italy in the economic life of those territories.

If we compare the year 1920 with the period immediately preceding the war, we observe in the case of exports a wider distribution of trade; in other words, the percentages of Italian

exports for each of the principal countries are lower than the corresponding figures for the last year before the war; manufactured products and semi-raw materials occupy a more important place among exports than before the war. Although the products of the soil are not yet exported in large quantities, Italian industry has at least rapidly reconquered its former markets, and is engaged in improving its position in many other countries. A comparatively large increase in Italian exports has taken place in the Danubian, Balkan and Levant countries, thanks to the position which Italy has been able to establish in those countries since the war.

Analysis of foreign trade in 1920 and 1921.

The economic crisis which was particularly severe in Italy during 1921 caused a considerable decrease in her trade with foreign countries. This decrease stands out still more clearly if the value, instead of the volume, of trade is taken into consideration; commodity prices having fallen sharply on the international market, the diminution in value will be even greater than the diminution in volume of trade. In the case of Italy, an examination of the movement of trade in 1921 is rendered difficult by the fact that in July, at the time of the introduction of the new customs tariff, new statistical methods were introduced. A new system of classifying goods was adopted, which is far more complicated than that previously in force; it was decided that the goods should be entered at their net weight excluding package, and the principle of a provisional estimate on the basis of the prices of the previous year was abandoned. The trade statistics published for the first half year cannot, therefore, be compared with those for the second; the wide difference between the two systems of classifying goods renders it impossible to elaborate a general review of trade for the whole year. It is a very serious disadvantage in a period which is so important in the economic history of our country.

For the first six months the figures expressing the value of goods are based on prices adopted for 1920 by an administrative commission, which fixes the values to be adopted in respect of the whole of the trade. But the prices for the new statistics (for the second half year) are actual, derived from information given by the importers and exporters, and are based upon the invoices produced by them; they, therefore, give a more approximate idea of the current state of trade and the latest conditions of the market.

As regards the first six months, the statistics so far obtained are only provisional, and are based upon the high prices ruling in 1920. A summary will be found in the following figures, re-calculated by the Confederazione Generale dell' Industria (it should be observed that the total given for exports in 1920 is slightly lower than the official figure).

The goods have been classified according to the economic groups to which they belong.

Lire (000,000's omitted).

	Imports			Exports		
	First half 1920	First half 1921	% Difference	First half 1920	First half 1921	% Difference
Raw materials	5,198.2	4,562.—	— 12.3	853.8	531.6	— 37.8
Semi-manufactured articles. . .	2,455.7	1,621.5	— 34.—	2,052.8	1,877.5	— 8.4
Finished products	2,706.2	1,894.3	— 30.—	2,181.5	2,193.5	+ .6
Foodstuffs	3,636.3	5,376.6	+ 47.8	888.6	679.1	— 25.6
Total	13,996.4	13,454.5	— 3.9	5,976.7	5,281.7	— 11.4

These figures give evidence of an enormous total of imports for the first six months of 1921, scarcely lower than the total for the corresponding six months of the preceding year. Imports for the first six months of 1921 exceeded exports by 8,173,000,000 lire — an adverse balance slightly

less than that recorded in the first six months of 1920. Conclusions drawn from this enormous deficit would, however, be erroneous as these calculations have been made without taking into account the fall in prices. An approximate estimate by the Customs Statistical Department, taking as a basis the prices indicated by importers and exporters between July and September, has resulted in the following figures, which are more modest and also much more approximate.

	Lire (000,000's omitted).		
	First half 1920	First half 1921	Difference
Imports	13,966	8,255	— 5,741
Exports	5,985	3,882	— 2,103
Excess of Imports. . .	8,011	4,373	— 3,638

These figures show a considerable improvement in the balance of trade; the excess of imports over exports, which reached 8 milliard in the first six months of 1920, fell to 4 ½ milliard. The improvement became even more marked in the second half of the year, as will be seen from the following figures, which refer to the period from July to November:

	(Lire 000,000's omitted).					
	Imports			Exports		
	1921	1920	Difference	1921	1920	Difference
July.	556.3	1,796.-	—1,239.6	441.5	769.1	— 327.6
August.	980.7	2,156.5	—1,175.9	586.6	784.5	— 197.9
September	961.6	2,074.3	—1,112.7	658.7	840.8	— 182.1
October	1,101.4	1,943.5	— 842.1	682.7	1,043.1	— 360.3
November	1,146.-	2,140.7	— 994.7	782.1	1,077.6	— 295.5
Total	4,746.-	10,111.-	—5,365.-	3,151.7	4,515.1	—1,363.4

The decrease in imports as compared with the preceding year is far greater than the decrease in exports, and the deficit for these five months is only 1,600 million as against approximately 5,600 million in the corresponding five months of the previous year. For the first eleven months of 1920 the difference amounts approximately to 6 milliard, and is considerably under 7 milliard for the whole year — a very modest total in comparison with the 15 milliard deficit in exports as compared with imports for the whole year 1920.

The changes in the distribution of trade shown in these figures are due partly, and perhaps chiefly, to the different degrees to which the prices of various commodities had fallen; in recent months, also, they are due in part to the new Italian tariff which has restricted imports owing to the higher duties imposed; and partly also to the alterations which have taken place in the general economic situation and in the special situation of the country.

As, unfortunately, no statistics are available which would afford a general view of the movement of commerce for 1921 and of the principal currents of trade, special interest attaches to the following figures, which show, in the case of about 20 different commodities of primary economic importance, the quantities imported for the whole year 1921 and, for the sake of comparison, the quantities of the same commodities imported in 1920 and in 1913.

	1921	1920	1913
Ripe Corn tons	533,991	182,143	787,631
Green Corn "	2,265,781	1,936,227	1,023,102
Maize "	456,325	319,847	351,740
Fresh, frozen and congealed			
Meat quintals	271,992	326,158	91,170
Coffee "	477,775	301,549	286,593
Sugar "	965,472	113,744	62,348
Coal (including consignments on account of reparations) . . . tons	7,461,484	5,619,978	10,834,008
Petrol quintals	974,347	1,215,349	1,153,744
Nitrate of Soda "	178,895	492,048	674,176
Mineral Phosphates tons	567,543	400,001	529,776
Rough and Sawn Timber "	84,727	40,380	189,497
Unprepared Rubber quintals	44,154	68,039	28,443
Scrap Iron "	654,777	1,428,570	3,262,307
Pig Iron "	656,916	1,571,929	2,216,884
Raw Iron in blocks and Steel in ingots "	17,969	224,876	72,876
Copper in blocks and Copper shavings "	209,887	183,545	302,802
Cotton Bales "	1,578,896	1,789,417	2,018,808
Raw Jute "	267,863	276,774	419,774
Greasy Wool "	166,973	262,085	115,496
Scoured Wool "	33,431	32,266	53,588

These figures show that the reduction of the total value of imports from 26,853,000,000 lire in 1920 to about 14,900,000,000 in 1921 is principally due to the fall in the price of goods, for in many articles trade was larger in 1921 than in 1920. This is the case with regard to foodstuffs, which were imported in large quantities, especially in the first six months, owing to the unfavourable results of the 1920 harvest of certain agricultural products. The Food Commission imported considerable quantities of cereals, not merely in order to meet immediate requirements, but also in order to form large reserves, so that the market might be controlled after the re-establishment of freedom of commerce. In the case of coal, imports show a great increase, chiefly due to the quantities received from Germany on account of reparations (2,184,184 tons); on the other hand, imports of petrol underwent a large reduction. Further there was an appreciable diminution in the import of raw materials required for the iron industry—a sign of the intensification of the industrial crisis. Finally a certain reduction in the imports of raw textiles may be observed, due to the diminished activity of these industries.

As regards certain categories of manufactured goods, imports were considerable during the first months of the year. This was indirectly due to the crisis itself, which led certain large producing countries to endeavour to pour their excess goods on to the Italian market, either by granting credits or by concluding sales on the basis of a fixed rate of exchange much lower than the actual rate.

As regards exports, so far as can be judged from the scanty information at our disposal, there was a noticeable diminution in hemp, in the category of raw materials, and in certain textile articles and sulphur, in the category of semi-raw materials. As regards finished products, we

observe an increase in the export of woollen fabrics and articles, due to the attempts made by Italian industry to dispose of its stocks by dispatching a large quantity of goods to Central and Eastern Europe. On the other hand, the export of some textile products, especially silk fabrics, shows a heavy decrease in the early months of the year; the serious reduction in the export figures of foodstuffs during the first six months referred specially to oranges, lemons, vegetables and other fresh garden produce. The exports of Italian agricultural products was unsatisfactory also during the second half-year, in spite of the agreements concluded with Germany and certain other Central European countries.

The deficit of 7 milliards in the trade balance for 1921 was no longer met, as was the case during the war period, by State loans contracted abroad. The balance of payments was adjusted to a large extent by the tourist traffic, which is greatly improving. On the other hand, the amount of money sent home by Italian emigrants decreased on account of the restrictions imposed on Italian emigration by the United States and of the crisis which resulted in wide-spread unemployment in that country. The Bank of Naples calculates the amount of money sent home at a total of 711 ½ million lire in 1921, as compared with 980 ³/₄ million in 1920.

The progressive reduction of the adverse trade balance coincided with the rise in the rate of exchange, which took place in the second half-year; this fact would seem to disprove the argument that the abnormal condition of the rate of exchange is in the last resort due to an unfavourable trade balance rather than to purely monetary causes.

COMMERCIAL POLICY.

The preponderance of protectionist tendencies in international economics at the present time.

In its resolutions regarding international commerce, the Brussels Conference drew attention to the Supreme Council's declaration of March 8th, 1920, to the effect that "the States which have been created or enlarged as a result of the war should at once re-establish full and friendly co-operation, and arrange for the unrestricted interchange of commodities, in order that the essential unity of European economic life may not be impaired by the erection of artificial economic barriers."

The advisability of re-establishing commercial activity between the various countries as soon as possible has frequently been emphasised in other statements and recommendations made in the last few years dealing with the restoration of the countries which have suffered by the war. Unfortunately the commercial policy adopted by the majority of the Governments towards the end of the war and after the Armistice was not inspired with these reasonable principles. There was, indeed a recrudescence of protectionist tendencies, an increased severity in restrictions and prohibitions and a feverish anxiety to close the home market against all tenders of foreign goods. This prohibitive policy showed a marked increase when, owing to the war, industry had developed considerably and the disproportion between production and consumption was forcing the leaders of the economic groups concerned to redouble their efforts to ensure the control of home markets for themselves. The lack of proportion between the capacity of production and the capacity of consumption which is ensuing from the economic crisis will perhaps do much to turn commercial policy into other channels.

The line of action taken by Italy during the period that we are considering corresponds in part with the ruling tendencies, but is also partly inspired by the definite suggestions made by the Brussels Conference.

New customs tariffs.

The commercial treaties concluded between Italy and many other countries have lapsed during the last few years. Preliminary investigations with a view to a complete revision of the customs system had already been started before the war. They have since been resumed. The preparation of the new customs regulations gave rise to most violent discussions and clashes between conflicting interests during the first two years of peace, and after various vicissitudes which we need not recall, a new tariff was adopted and put into force in July, 1921. The Royal Commission which had studied the question had proposed the adoption of a double autonomous tariff, with a scale of duties which would form the irreducible minimum of preferential treatment that could be granted by negotiation. For various reasons, the Government passed an emergency act introducing these reforms, but did not think it advisable to carry out so sweeping an innovation, and, therefore, maintained the former system of a general tariff capable of modification by means of commercial treaties. The new tariff is of a much more protectionist character than the previous tariff in force since the year 1887, but this protectionism is not more stringent than that prevailing elsewhere. The tariff is very detailed; the number of articles involved is increased from 1,200 to about 2,500 and the aim of the system of specification, based on a qualitative analysis of the goods, is in general to increase protection. The duties are fixed in gold, and are convertible into paper at a rate of exchange based on fortnightly quotations. The rates are for the most part those proposed as a minimum by the above-mentioned Royal Commission, but they have been increased by means of co-efficients that were originally determined according to the current level of prices, and that can be modified later by the executive authority in accordance with the variations in the comparative cost of production.

Trade conventions concluded since the war.

The tariff adopted allows negotiations to be conducted and new customs agreements to be concluded with allied and neutral countries when the existing treaties with these countries have either lapsed or, having been denounced, remain in force only as a provisional measure. Such negotiations are obviously fraught with difficulty in view of the prevailing uncertainty with regard to the international economic situation. A painful impression was created when, at the end of October, 1921, France denounced the Franco-Italian Agreement of 1898-1907, to take effect as from February 1st, 1922. Under the terms of this Agreement, Italy conceded most-favoured-nation treatment and reduced duties on various articles in the case of goods coming from France and the French Colonies (with the exception of silk and silk fabrics). France, on her side, applied the minimum tariff to Italian goods (likewise with the exception of silk and silk fabrics). The main reasons which induced France to denounce this Agreement were that Italy had previously denounced almost all her commercial treaties, and that France, therefore, ceased to benefit by the reductions obtained from the most-favoured-nation clause, also that the new Italian customs tariff was higher than the old, not only in actual fact, but also on account of the stipulation regarding payment in gold. It should, however, be observed that, even after the new tariff came into force, Italy maintained integrally, in the case of French goods, the customs reductions stipulated in the agreement of 1898, whereas France had increased her minimum tariff on several occasions — the last of them of quite recent date — by applying higher co-efficients to certain of her important products. The denunciation by the French Government was to take effect on February 1st, 1922, the *status quo* was, however, prolonged until the conclusion of a provisional Agreement, which should hold good until the conditions of trade between the two countries were definitely settled by a regular commercial treaty. Negotiations for drawing up the provisional Agreement are at present in progress, and have almost been concluded, despite the difficulties resulting from the different customs systems of the two countries. The principle of the Agreement would appear to be that France will apply her minimum tariff for Italian goods and that Italy will grant reductions

in the duty on articles of special importance for France. The French Government will also undertake not to alter, during the period of the Agreement, the minimum tariff on certain goods which Italy is particularly desirous of exporting to France. — After lengthy negotiations Spain has finally given up applying to Italian products co-efficients of increase based on the depreciation of the Italian rate of exchange and has allowed Italian goods to be taxed according to the minimum customs tariff (column 2 of the tariff) in exchange for the concession by Italy of the most-favoured-nation clause. — Negotiations are in progress with Canada with a view to avoiding the application of these coefficients. — The commercial treaty of 1900 with Roumania having been denounced as from May 6th, 1921, a provisional Agreement has been concluded, by which the contracting parties reciprocally grant each most favoured nation treatment. This provision is, of course, much less important now than before the war, in view of the small number of conventions at present in force.

With regard to the ex-enemy countries and the new States, the commercial policy adopted by Italy during the years now under review has been directed chiefly towards the establishment of certain exceptions to the existing import and export prohibitions; it would still be premature to enter into negotiations with these countries for the establishment of a permanent customs system. Thus, while conforming strictly to the international obligations imposed by the Peace Treaties, Italy entered into negotiations with Austria and Hungary, with reference in particular to transport questions; more recently, at the beginning of 1922, she negotiated with Austria with a view to modifying the import and export prohibitions on certain articles. — In August, 1921, she concluded an Agreement with Germany — valid for 9 months, with provision for possible extension — according to which the contracting parties undertake to grant each other facilities for the delivery of import and export licences in the case of a large number of articles of importance for the economic life of the respective countries. This Agreement resulted in the removal of a large number of obstacles which still existed in the way of trade between Italy and Germany. But the effects of the general crisis, and the disastrous consequences for Germany of the fall in the mark have hitherto prevented any resumption of business on a large scale, and, so far as can be judged, the Agreement does not seem to have had much practical effect. — As regards the new States, the commercial treaty concluded at Rome on March 23rd, 1921, with Czechoslovakia, is of special importance; it provides for most-favoured-nation treatment between the two countries, and fixes the quantity of goods which may be exchanged in derogation of the prohibitions. The clause providing for most favoured nation treatment is valid until 1925, and the quantities of goods are fixed for a period of one year; they have been fixed in a very liberal manner, in order to promote the export of Italian agricultural products and of some industrial products from Bohemia. — An agreement with Poland was signed in August, 1921, determining the quantities of goods which might be exchanged. — In Jugoslavia, the coming into force of the new autonomous Jugoslav customs tariff was the occasion for the denouncement by the Belgrade Government of the contractual tariffs established in treaties previously signed with Serbia; the countries signatory to these treaties will henceforward enjoy the advantages of the new minimum tariff; in return, Italy will apply her general tariff to goods of Jugoslav origin, subject only to the privilege of most-favoured-nation treatment. Negotiations with a view to more important concessions were subsequently undertaken, but were unsuccessful owing to political difficulties. — Towards the end of December, 1921, a preliminary commercial Agreement was concluded with Russia. This Agreement established the general legal status upon which the relations between the two countries were to be based, but its importance has so far been political rather than commercial.

Abolition of war restrictions.

These restricted and incomplete arrangements which only apply to a certain number of States, do not as yet reveal the trend of Italian commercial policy in the new international

economic situation. The more definite and more general negotiations which are now to be undertaken will perhaps succeed in lessening the difficulties which still hamper trade.

The temporary obstacles placed by the war in the path of trade — obstacles which arose directly out of the war and which certain countries have maintained for the purpose of protection — were gradually abolished by Italy between 1919 and 1921. Certain import restrictions, maintained or recently introduced in order to “protect the rate of exchange”, have not fulfilled their purpose or exercised any perceptible influence on the movement of trade : the “armour of war” in which trade was harnessed has been definitely and completely laid aside.

(Signed) RICCARDO BACHI.

April 30th, 1922.

ANNEX I.

POSITION OF THE ITALIAN MERCANTILE MARINE (VESSELS OF OVER 250 TONS' BURDEN) AT THE BEGINNING OF 1920.

PURPOSES TO WHICH ASSIGNED	ITALIAN VESSELS				VESSELS UNDER SEQUESTRATION				VESSELS UNDER TIME CHARTER				TOTAL				VESSELS CHARTERED FOR A SINGLE VOYAGE	
	a		b		a		b		a		b		a		b		Num- ber	Net Tonnage
	Num- ber	Net Tonnage	Num- ber	Net Tonnage	Num- ber	Net Tonnage	Num- ber	Net Tonnage	Num- ber	Net Tonnage	Num- ber	Net Tonnage	Num- ber	Net Tonnage	Num- ber	Net Tonnage		
	In service or undergoing slight repairs	Not in service	In service or undergoing slight repairs	Not in service	In service or undergoing slight repairs	Not in service	In service or undergoing slight repairs	Not in service	In service or undergoing slight repairs	Not in service	In service or undergoing slight repairs	Not in service	In service or undergoing slight repairs	Not in service	In service or undergoing slight repairs	Not in service		
<i>Vessels under direct Govern- ment control:</i>																		
Fuel Control	35	182,929	2	6,000	1	7,200	—	—	48	300,699	5	41,075	84	490,828	7	47,075	9	55,228
Marine Department (ship- building control)	6	34,200	—	—	2	13,360	—	—	4	28,705	1	7,890	12	78,265	1	7,890	—	—
Sub-Secretariat of Supplies. War Office (Military trans- port)	38	203,302	1	7,950	14	104,605	—	—	37	242,274	—	—	89	550,181	1	7,950	9	55,100
Admiralty (Military ser- vices)	21	35,920	—	—	8	30,488	—	—	—	—	—	—	29	66,408	—	—	—	—
Treasury	8	8,320	—	—	8	5,870	—	—	—	—	—	—	16	14,190	—	—	—	—
Ministry of Agriculture (agr. transport)	10	20,010	—	—	—	—	—	—	—	—	—	—	10	20,010	—	—	—	—
Colonial Office	5	15,650	—	—	—	—	—	—	—	—	—	—	5	15,650	—	—	—	—
Total	123	500,331	3	13,950	33	161,523	—	—	89	571,678	6	48,995	245	1,233,532	9	62,915	18	110,382
<i>Vessels under control per voyage:</i>																		
a) Subsidised Postal ser- vices	62	132,415	—	—	—	—	—	—	—	—	—	—	62	132,415	—	—	—	—
b) Passenger services	20	100,415	—	—	1	9,200	—	—	—	—	—	—	21	109,615	—	—	—	—
c) Various	166	736,144	—	—	10	56,416	—	—	4	14,695	—	—	180	807,255	—	—	—	—
Total	248	968,974	—	—	11	65,616	—	—	4	14,695	—	—	263	1,049,285	—	—	—	—
Vessels not available or awaiting assignment	—	—	2	4,000	—	—	—	—	—	—	—	—	—	—	2	4,000	—	—
Grand total	371	1,469,305	5	17,950	44	227,139	—	—	93	586,373	6	48,965	508	2,282,817	11	66,915	18	110,328
		376 = 1,487,255				44 = 227,139				99 = 635,338				519 = 2,349,732				

ANNEX II.

POSITION OF THE ITALIAN MERCANTILE MARINE (VESSELS OF OVER 250 TONS' BURDEN) AT THE BEGINNING OF 1921.

PURPOSES TO WHICH ASSIGNED	ITALIAN VESSELS			VESSELS UNDER REGISTRATION			VESSELS UNDER TIME CHARTER			TOTAL			VESSELS CHARTERED FOR A SINGLE VOYAGE
	a		b	a		b	a		b	a		b	
	Num- ber	Net Tonnage		In service or undergoing slight repairs	Num- ber		Net Tonnage	In service or undergoing slight repairs		Num- ber	Net Tonnage		
<i>Vessels under direct Govern- ment control:</i>													
Fuel Control	32	197,651	—	—	—	—	—	—	—	—	—	—	—
Marine Department (Ship-building control)	7	451,180	—	—	—	—	—	—	—	—	—	—	—
Supplies Commission . . .	78	574,161	—	—	—	—	—	—	—	—	—	—	—
War Office (Military transport) . . .	9	15,660	—	—	—	—	—	—	—	—	—	—	—
Admiralty (Military Service)	1	1,050	—	—	—	—	—	—	—	—	—	—	—
Treasury	13	28,980	—	—	—	—	—	—	—	—	—	—	—
Total	140	862,682	—	—	—	—	—	—	—	—	—	—	—
<i>Vessels under control per voyage:</i>													
a) Subsidized mail services	64	131,265	—	—	—	—	—	—	—	—	—	—	—
b) Passenger services . . .	21	111,085	3	24,300	1	9,200	—	—	—	—	—	—	—
c) Goods	29	178,726	—	—	—	—	—	—	—	—	—	—	—
d) Various	195	753,004	12	50,120	6	21,846	—	—	—	—	—	—	—
Total	309	1,174,080	15	74,420	19	102,034	1	9,200	—	—	—	—	—
Grand Total	449	2,036,762	15	74,420	32	165,884	1	9,200	17	112,875	—	—	—
			464 = 2,111,182		33 = 175,084		17 = 112,875		514 = 2,399,141				

ANNEX IV.
STATE RAILWAYS.

	1913-14	1919-20	1920-21
Actual length of standard gauge system (at the end of the working year) kilometres	13,684	15,611	15,627
Total mileage covered by trains on the standard gauge system (in train kilometres)	118,686,971	96,493,691	101,411,799
Goods carried weight in tons	41,421,872	39,727,332	38,806,714
Number of wagons	5,026,295	3,788,135	3,871,790
Wagon kilometrage (in thousands of tare-tons)	7,069,885	9,795,568	8,986,470
Rolling Stock (standard gauge) (at the end of the working year)			
Locomotives Number			
Rail motors »	5,153	6,184	6,201
Electric locomotives »		83	80
Electric rail motors »	152	213	239
Bogey carriages »		51	51
2 or 3-axle carriages »	10,078	10,941	3,734
Mail and luggage vans »	364,101	4,480	7,274
Goods wagons »	103,072	145,090	158,221

RECEIPTS FOR PASSENGER AND GOODS TRAFFIC OVER THE RAILWAY SYSTEM

(INCLUDING THE SICILIAN SECONDARY RAILWAYS AND THE STRAITS OF MESSINA SERVICE, BUT EXCLUDING STEAMER SERVICES)
DURING THE WORKING YEARS:

lire (ooo's omitted)

	1913-14	1914-15	1915-16	1916-17	1917-18	1918-19	1919-20	1920-21
Passengers	230,397	199,634	253,288	324,123	404,340	653,295	736,801	1,006,459
Luggage and dogs	10,507	7,090	5,867	6,406	8,267	14,066	30,571	49,076
Express goods service			158,957	319,928	400,279	376,280	197,962	220,173
Accelerated goods service		78,531					62,071	104,638
Ordinary goods service	275,484	289,043	343,034	430,040	444,284	549,448	780,102	1,315,053
Total	577,831	574,298	761,146	1,080,497	1,257,170	1,593,089	1,807,506	2,695,400



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LEAGUE OF NATIONS

BRUSSELS FINANCIAL CONFERENCE 1920

THE RECOMMENDATIONS
AND THEIR
APPLICATION

A Review after Two Years

VOLUME III

PRICE 1s.



ECONOMIC AND FINANCE SECTION

March 1922

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PREFACE

In this volume reports are published from Brazil, Latvia and Poland with reference to the extent to which their Governments have been able to put into execution the various resolutions of the International Financial Conference at Brussels in 1920. These reports, which have been prepared in compliance with the resolution passed by the Second Assembly of the League of Nations, thus constitute a supplement to the two previous volumes published on this subject containing replies from 22 other countries. Unfortunately, they were received too late for insertion in these earlier volumes.

In the Introduction to Volume I will be found a general survey of the progress which has been made since 1920. The complete list of special reports is as follows :

Argentine	Vol. I	Luxemburg	Vol. I
Australia	» I	Netherlands	» I
Austria	» I	New Zealand	» I
Belgium	» I	Norway	» I
Brazil	» III	Poland	» III
Czechoslovakia	» I	Spain	» I
Denmark	» I	Sweden	» I
Finland	» I	Switzerland	» I
Hungary	» I	Union of South Africa	» I
India	» I	United Kingdom	» I
Italy	» II	United States of America	» I
Japan	» I	Uruguay	» I
Latvia	» III		

Geneva, March, 1923.

Brazil.

I. BUDGETARY POSITION.¹

Year	Receipts ²		Expenditure ²	
	Milreis gold	Milreis paper	Milreis gold	Milreis paper
1920	119,382,935	459,752,268	104,357,575	480,044,095
1921	62,149,362	468,235,328	53,034,185	547,588,939
1922	78,060,255	680,672,520	85,931,211	831,193,762

The Brazilian budget as seen above shows a deficit. To meet this deficit, the Government has resorted to the issue of consolidated public debt bonds and has floated short-term loans.

Federal State Debt.

(a) *Internal debt:* The consolidated debt amounts to 1,575,095:400\$000, an increase of 51.1 % compared with the amount on December 31st, 1919.

At the end of 1922, 307,504:427\$274, were assigned to the service of the external debt. There is a floating debt of 863,008:601\$804.

(b) *Foreign debt:*

£	111,930,834
\$	74,403,000
Fr.	322,249,500

If the "dollar" and "franc" debts are converted at par into sterling, it will be seen that there is an increase of 20.53 % compared with the debt on December 31st, 1919.

¹ The budget includes two quite independent sections: Receipts and expenditure in *gold milreis* at the rate of 55 American cents to the milreis; and receipts and expenditure in *paper milreis*.

² Estimates voted by Congress and approved by the President of the Republic.

The following amounts were assigned to the service of the external debt:

Interest	Amortisation	Commission
£ 5,332,597 2s. 2d.	£77,900 10s.	£53,672 4s. 11d.
\$ 5,649,740.00	\$ 2,625,000.00	\$161,498.00
Frs. 14,527,830.00	Frs. —	Frs. 108,958.65

II. MONETARY SITUATION.

The amount of paper money in circulation at the end of November 1922 was 2,226,275:997\$000. This is an increase of 28.75 % compared with December 31st, 1919.

Conversion Fund notes in circulation amounted to 16,097:985\$000, representing a decrease of 16.28 % compared with the circulation on December 31st, 1919.

The minted and bar-gold deposits at the Federal Treasury amounted to 88,297:817\$360, that is 48,250,173 United States dollars. This gold reserve represents an increase of 55.78 % as against the reserve on July 31st, 1920.

The paper money issued during the last three years was put into circulation for special purposes. In the first place, it was issued for the Re-discount Service of the Bank of Brazil. Paper money issued for this purpose only remains in circulation for a limited period. It was used, moreover, to meet obligations contracted by the Federal Government towards the Italian Government. In accordance with an agreement signed on March 10th, 1920, Brazil undertook to open a credit of 100,000:000\$000 in Italy's favour for the purchase of Brazilian products. This arrangement came to an end on March 10th, 1922, and at the present moment accounts are in process of liquidation.

The Government has established an organisation for supervising national and foreign banks. This organisation has recently been slightly modified, in that greater freedom is accorded for exchange operations.

A Re-discount Department has been established at the Bank of Brazil. The bank has also set up clearing-houses for cheques in the towns of Rio de Janeiro, São-Paulo, Santos, Porto Alegre, Bahia and Recife. Latterly, the bank has decided to create an Agricultural Loans Department.

Finally the Finance Law of 1923 authorises the Government to establish a Bank of Issue.

III. ECONOMIC SITUATION.

In 1919, the commercial balance was distinctly in the country's favour. Accordingly there was a rise in the value of Brazilian money; the value of the milreis was higher than before the war. This movement was, however, of short duration.

The fall in prices, which was accentuated in the latter half of 1920, together with a considerable increase in imports, resulted in a decrease in export prices and a surplus of imports amounting to £16,823,000. In twelve months the milreis had depreciated to the extent of 44 %. In March 1921 the fall in the price of coffee became so alarming that the Government was forced to intervene on the market. As is well known, the position of the coffee market has a considerable influence on the whole economic life of Brazil; coffee constitutes, in fact, 60 % of the country's total exports. The Government, therefore, decided to buy heavily. For this purpose it contracted a loan of £9,000,000 secured by coffee deposited in London. The operation was completely successful; the price of coffee (per 10 kilos), which had fallen in March 1921 to 7\$700, rose fairly rapidly. At the end of August it had increased by 66 %; at the end of October by 79 %; in December 1921 by 98.5 %. At the end of 1922 the price of coffee had trebled. The value of the total Brazilian exports reached £58,586,898 sterling in 1921. There was still, however, a surplus of imports, which exceeded exports by £1,881,102, though progress had been made, since the difference between the two totals was 89 % less than in 1920.

During the first nine months of 1922, exports exceeded imports to the value of £15,890,000. It may, therefore, be estimated that by the end of the year the country's trade balance will be favourable.

The rate for milreis has remained very low., at about 7d., which is equal to a sterling premium of 128.66 % on the 1913 rate. This is a result of three well-known factors: excessive fiduciary inflation, a budget deficit and exports insufficient to balance accounts.

But these facts do not represent the whole situation. Brazil, a country of immense natural resources, which have not yet been exploited, continues to develop with remarkable and ever-increasing rapidity. But the depression, to which the above figures bear witness, does not prevent Brazilian industry from making great progress. A satisfactory picture of the economic condition of the country can, therefore, only be presented if, in addition to the data given above, account is taken of the data relating to industry, agriculture and domestic trade. Account must also be taken of the important public works carried out by the State during the last three years, namely, the irrigation of vast areas in the north of the country, the construction of railways and roads, the development of ports, etc.

These facts taken together show how great are the means of recuperation possessed by Brazil. The Government is making every effort to assist, by adopting energetic measures of economy in public expenditure, by greater strictness in the collection of taxes and by a firm determination to limit fiduciary inflation and to restore the indispensable balance of the budget.

PARIS, *January* 1923.

Latvia.

I. BUDGETARY MEASURES.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*
2. *Whether expenditure on armaments has been reduced.*
3. *The extent of unproductive extraordinary expenditure.*
4. *The extent of productive extraordinary expenditure.*

Before the war, when Latvia (then a Russian province) had not been devastated by armies of occupation, her budget showed a considerable active balance. In the years immediately preceding the war, the net revenue reached 80 million gold francs yearly. Thus, according to the official data of the Russian Ministry of Finance, the revenue of Latvia for the year 1913 was 88,054,576 gold roubles (or 235.1 million gold francs), but the expenditure only 54,324,205 gold roubles (or 145 million gold francs).

That portion of the Russian budget which refers only to Latvia (gold roubles being turned into gold francs) is given below :

Revenue of Latvia in 1913.

	Gold francs
Direct taxes	22,071,624
Indirect taxes	115,587,005
Customs	24,721,370
State monopolies	67,819,308
Sale of State property	17,766
Repayment of advances by State	3,835,055
Various revenues	734,461
Arrears	5,383
	<hr/>
Total of ordinary revenue	234,791,972
Extraordinary revenue	313,746
	<hr/>
Grand total	235,105,718

Expenditure of Latvia in 1913.

	Gold francs
Ministry of the Interior	9,748,485
Ministry of Justice	4,988,681
Ministry of Finance	22,668,364
The Holy Synod	1,368,981
Ministry of the Imperial Court	30,446
Ministry of Public Instruction	7,751,451
Ministry of Railways and Communications	54,917,676
Ministry of Agriculture	3,896,958
Ministry of Commerce and Industry	5,352,079
State Treasury	76,848
Ministry of War	19,988,589
Ministry of Marine.	9,862,959
Control of State Accounts	763,927
Administration of State Credit	285,217
	<hr/>
Total of ordinary expenditure	141,700,661
Extraordinary expenditure	3,104,665
	<hr/>
Grand total	144,805,326

It will be seen that Latvia not only covered all her expenses, but paid about 90 million gold francs of net revenue into the Russian State Treasury.

Now that Latvia has suffered from war and revolution, the expenditure must needs be greater than before the war, while the revenue, owing to the comparative standstill in industry and commerce, is smaller. During the first years of the independence of Latvia, the greatest item of expenditure was the army. Another important item of expenditure is, and has been, the reconstruction of devastated areas.

Expenditure (including the service of the debt) and revenue.

	Gold francs		Gold francs
For 1920-21 financial year: actual revenue	121,503,516	actual expenditure	144,888,846
» 1921-22 » » » »	126,095,227	» »	121,472,716
» 1922-23 » » estim. »	191,707,297	estim. »	179,646,664

Expenditure on armaments.

Financial year	Gold francs
1920-21	22,300,907
1921-22	19,642,956
1922-23 (estimated)	24,677,717

The budget of 1922-23 is more normal and without deficit. It is as follows :

State Revenue for 1922-23.

ORDINARY REVENUE :	Gold francs
The Cabinet of Ministers and State Office	22,009
Ministry for Foreign Affairs	708,026
Ministry of Justice	294,680
Ministry of the Interior	1,706,125
Ministry of Public Instruction	866,290
Ministry of Finance	105,593,140
Ministry of Agriculture	18,180,580
Statistical Bureau	20,920
Ministry of Communications	28,459,050
Ministry of Defence	129,390
State Control	3,390
Ministry of Labour	38,800
Total	<hr/> 156,022,400 <hr/>
 EXTRAORDINARY REVENUE :	
Ministry of Agriculture	8,102,240
State Credit	4,720,000
Revenue from State credit operations and budget savings	22,862,657
Total	<hr/> 35,684,897 <hr/>
Grand total of State revenue	<hr/> 191,707,297 <hr/>

State Expenditure for 1922-23.

ORDINARY EXPENDITURE :	Gold francs
Constituent Assembly and Parliament	917,829
Cabinet of Ministers and State Office	342,280
Ministry for Foreign Affairs	1,624,317
Ministry of Justice	3,302,209
Ministry of the Interior	8,081,959
Ministry of Public Instruction	7,828,152
Ministry of Finance	35,691,408
Ministry of Agriculture	9,781,368
Statistical Bureau	112,553
Ministry of Communications	27,464,179
Ministry of Labour	3,096,578
Ministry of Defence	23,053,520
State Control	453,355
State Credit	6,277,100
Total	<hr/> 128,026,807 <hr/>

EXTRAORDINARY EXPENDITURE :

	Gold francs
Constituent Assembly and Parliament	330,000
Government Office	170,000
Ministry for Foreign Affairs	206,999
Ministry of Justice	34,130
Ministry of the Interior	664,255
Ministry of Public Instruction	138,961
Ministry of Finance	1,050,000
Ministry of Agriculture	1,054,221
Ministry of Communications	5,834,095
Ministry of Defence	1,624,196
State Credit	16,713,000
Special Account for unforeseen expenses	23,800,000
	<hr/>
Total	51,619,857
	<hr/>
Grand total of State expenditure	179,646,664
Balance	12,060,633
	<hr/>
Total	191,707,297

Classifying the budget according to categories, we get the following items:

State Revenue for 1922-23 (classified).

Direct taxes	8,643,432
Indirect taxes	15,144,346
Customs	30,100,000
Revenue from State lands and forests	24,833,810
Revenue from State undertakings	25,675,016
Revenue from State monopolies	60,826,300
Various revenues	3,621,735
Revenue from State credit operations and budget savings	22,862,657
	<hr/>
Total	191,707,296

State Expenditure for 1922-23 (classified).

Government	36,098,485
Culture	7,967,112
Social work	3,057,387
State undertakings (railways, monopolies, etc.)	53,813,965
Economic reconstruction	4,670,000
Loans to communal institutions	1,118,000
Capitalisation of autonomous State undertakings	10,925,000
National defence	24,677,717
State debt	13,519,000
Unforeseen expenditure	3,000,000
Arrears	20,800,000
	<hr/>
Total	179,646,666

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

In determining wages and salaries, the Government has up to now been guided by the index of the minimum standard of living for one person, as worked out by the Ministry of Labour. The minimum standard of living was fixed at 3,024 gramme-calories, and the index calculated by taking the equivalent value of foodstuffs according to existing market prices for 50 per cent., and reckoning 50 per cent. for other needs (rent, clothing, fuel, light, and miscellaneous items). This minimum standard of living has been taken as a basis for the wages of officials of the 20th category, and the ratios between the 20th and 1st categories as 1 : 4.7. The relations between the lower and higher categories, after including also ministers, professors, ambassadors, etc., who before this stood outside the categories, have somewhat changed. This system, of course, has many defects. On the one hand, an official has also to maintain his family. According to statistics there are from 1 to 5 members to a family who have to be maintained by each official. The state grants for the maintenance of each member only 10 per cent. of the wages; the parents being excluded, which allowance, naturally, does not cover the actual expenses. On the other hand, at the end of 1920, and in the first part of 1921, the cost of living increased; therefore, the wages of officials of the 18th-20th categories were below the standard of living. But taking into consideration the difficult financial position of the State, the Government could not go beyond the limits of the budget by raising the wages according to the growth of the cost of living. Nevertheless, in 1921 the wages of officials were thrice increased, but this was done by payments in kind, and did not exceed the budget economics. At present, in view of the improvement of the State's financial position, and since it will be possible to cover the increase without exceeding the savings of the budget, it is intended to increase the wages of officials.

Moreover, the Government has granted officials several long-term advances to be repaid by instalments.

6. *The existence of subsidies on bread and other foodstuffs, coal and other materials.*

Up to November 1921, the Government issued to officials subsidies in the form of foodstuffs, apparel, fuel, etc. Payments in kind were intended, on the one hand, to improve the position of the officials, and, on the other hand, to regulate the local market prices. The materials had been purchased and prepared by the Ministry of Supply. The Government issued the goods to officials at cost-prices and even cheaper, including the value of the goods in the wages. Foodstuffs (flour, herrings, lard, etc.) were issued monthly, and once a year cloth for wearing apparel, a pair of boots, linen cloth, and firewood. As the prices of foodstuffs gradually went down, the need for payments in kind diminished, and it even happened that on the open market the prices of the issued products were lower than those asked by the Government. From November 1st, 1921, therefore, the payments in kind were abolished, and since then the equivalent is being paid out in cash. Now the officials get only firewood at cost-price to the Government, which should not be regarded as a special subsidy, but as the means of liquidating the firewood stocks of the Ministry of Agriculture.

7. *Charges for unemployment.*

The Latvian Government does not grant any direct subsidies to the unemployed, but endeavours to ease their situation by organising labour exchanges and public works.

Labour exchanges have been founded in all the largest Latvian centres, viz. at Riga,

Liepaja (Libau), Daugavpils (Dvinsk), Jelgava (Mitau), Tukums (Tuckum), Ventspils (Windau), and the Riga Strand. Since the labour exchanges are only able to procure employment for a small percentage of workers (about 2 per cent.), the Government supports them by organising public works. Public works have been carried out on the largest scale in Riga. Next in order comes Liepaja (Libau), and then the other towns. During 1921-22 in Riga the number of workpeople employed in the public works averaged 26 per cent. of the number of workpeople registered at the labour exchanges. In the whole of Latvia the percentage was higher, and amounted to 137 per cent. Many useful works have been started and completed, viz., levelling trenches, laying out recreation grounds, strengthening sandhills at the seashore, draining swamps, digging channels, constructing causeways, building bridges, repairing buildings, etc.

Unskilled labourers constitute the greater proportion of the unemployed, the number of qualified labourers being comparatively inconsiderable. Since May 1922 there has been a marked improvement, because a great number of the unemployed have left the towns for work in the country. Thus, the total number of workpeople registered in Riga during April as unemployed was approximately 6,440, of whom in May 4,885 remained and on June 1st only 2,147. In Liepaja (Libau) the total number of unemployed was 1,603 on June 1st, as compared with 2,240 on May 1st, and 3,623 on April 1st, a great percentage of the remaining unemployed being invalids, people advanced in years, women and children, and in general people with a low capacity of work. The question has been raised of lodging a part in almshouses and organising workshops for the remainder.

8. *The financial position of public undertakings.*

At the present time the only monopolies are of flax and spirits, the hide monopoly having been abolished in the first half of last year. The figures given below show that a profit was derived from the flax and spirit monopolies, and a loss from the hide monopoly. This loss was caused by the liquidation of the hide monopoly, since after the liquidation there remained large stocks of hides, boots, and harness to the total value of about 2,000,000 gold francs. These stocks are now being sold.

Of the State undertakings, the railway budget shows a deficit, which is due to the fact that, after the war and the invasion by the communists, the railways were in a very bad condition. The renewal of the railways required large sums. The railways are now working, so that, for example, for the financial year 1921-22 the deficit is only 45,303 gold francs. The Government undertaking for the exploitation and supply of peat has been liquidated.

Financial position of the chief State undertakings for the financial years 1920/21 and 1921/22.

	(Gold Francs)		
	Estimated for financial year 1920/21	Actual accounts for 1920/21	Estimated for 1921/22
A. STATE MONOPOLIES.			
(1) Flax monopoly.			
Gross revenue	33,702,500	16,513,854	23,220,000
Expenditure on exploitation	16,358,462	11,349,212	17,426,229
Net revenue	+ 17,344,038	+ 5,164,642	+ 5,793,771

(2) *Hide monopoly.*

	(Gold francs)		
	Estimated for financial year 1920/21	Actual accounts for 1920/21	Estimated for 1921/22
Gross revenue	4,089,077	318,396	1,438,056
Expenditure on exploitation	3,938,358	2,506,441	1,114,308
Profit or deficit	+ 150,719	— 2,188,045	+ 323,748

(3) *Spirit monopoly.*

Gross revenue	9,104,811	8,018,108	20,865,311
Expenditure on exploitation	3,802,327	3,507,631	6,106,341
Net revenue	+ 5,302,484	+ 4,510,477	+ 14,758,970

B. STATE UNDERTAKINGS.

(1) *Railways.*

Gross revenue	11,402,706	7,822,384	17,868,852
Expenditure on exploitation	15,398,139	16,656,029	17,914,155
Net deficit	— 3,995,433	— 8,833,645	— 45,303

(2) *Posts, telegraphs and telephones.*

Gross revenue	1,538,462	2,338,478	3,686,065
Expenditure on exploitation	2,192,218	1,660,570	2,899,806
Profit or deficit	— 653,756	+ 677,908	+ 786,259

(3) *Exploitation of forests.*

Gross revenue	13,028,846	2,720,730	5,081,967
Expenditure on exploitation	9,319,137	6,050,067	1,808,257
Profit or deficit	+ 3,709,709	— 3,329,337	+ 3,273,710

(4) *Operations of supply.*

Gross revenue	57,375,363	5,021,996	—
Expenditure on exploitation	55,234,897	15,319,343	—
Profit or deficit	+ 2,140,466	— 10,297,347	—

(5) *Exploitation of peat.*

Gross revenue	982,076	829,958	—
Expenditure on exploitation	942,355	821,047	—
Net revenue	+ 39,721	+ 8,911	+ 24,590

(6) *Exploitation of State ships.*

Gross revenue	2,035,384	2,007,441	—
Expenditure on exploitation	1,920,000	1,881,538	—
Net revenue	+ 115,384	+ 125,903	—

	(Gold francs)		
	Estimated for financial year 1920/21	Actual accounts for 1920/21	Estimated for 1921/22
(7) <i>State land and forests.</i>			
Gross revenue	4,705,612	3,184,668	20,736,566
Expenditure on exploitation	3,825,715	3,076,909	12,143,448
Net revenue	+ 879,897	+ 107,759	+ 8,593,118

9. *The introduction of new taxation.*

No new taxes have been introduced by the Government, but on the contrary such taxes as were detrimental to economic life have been abolished as, for example, the 1 per cent. duty on the export of foreign currency, the duty on cheques, and exchange of money. In the other fiscal laws, several amendments have been made, the scales of the taxes being even decreased in some cases.

10. *Methods of raising money by loans, whether by (a) long-term loans, (b) short-term loans in the open market, (c) loans direct from the central bank leading to further new inflation.*

On December 6th, 1918, the National Council passed the law for the "5% Short Loan of Latvia's Independence" with a term of 15 years. The total amount of this loan was 10,000,000 Russian roubles. After the issue of Latvian money had begun, and in conformity with the law of March 18th, 1920, the loan was converted into Latvian roubles, two Russian roubles being considered equal to one Latvian rouble. The loan was raised partly by compulsory, and partly by voluntary, subscriptions in the beginning of the year 1920.

On March 18th, 1920, the National Council passed the law for the "4% Premium Loan" to the total amount of 50,000,000 Latvian roubles and with a term of 50 years. By October 1st, 1922, only 13,619,700 roubles of that loan had been raised. No other internal loans have been floated.

Interest and premiums on internal loans have been paid regularly.

Latvian external loans are comparatively small and, therefore, their influence on the economic life of the State is not particularly marked. These loans are mostly outstanding debts for food-stuffs and ammunition which had been received from abroad in the course of the first years of Latvia's independence. (See table below.)

THE LATVIAN STATE EXTERNAL DEBT ON OCTOBER 1ST, 1922.

To whom due	Total amount of the debt	Paid off		To be paid
		Capital	Interest	
United States of America . .	\$ 2,521,869.32	—	126,266.19	2,521,869.32
American Relief Administrat.	\$ 2,610,417.82	—	—	2,610,417.82
Norwegian Government . . .	Kr. 6,000,000.—	—	904,418.94	6,000,000.—
— do —	„ 737,558.43	—	66,414.39	737,558.43
British Government	£20,169 1s. 10d.	—	1,815 4s. 6d.	20,169 1s. 10d.
French "	Fr. 11,631,139.01	9,889,622.40	—	1,741,516.61
Lloyds Bank, Ltd. London	£ 775,000	596,600	20,008	178,400

The Government is not indebted to the Bank of Latvia. Under the statutes of the Bank, credits for the requirements of the Government are strictly limited. Loans may be raised only if the Government mortgages its gold stocks at the Bank or hands over its foreign bills.

11. *The influence of foreign loans and trade balances.*

The foreign debts are so small that their repayment has not had any considerable influence on the foreign trade balance.

12. *The effect of local and provincial finance on the budget of the State.*

The finances of the local administrations, especially during the first years of Latvia's independence, were in a very bad condition, and the Government was obliged to issue loans to the total of 3,084,070 gold francs. In addition, subsidies and loans have been granted to industry, agriculture, banks, and for other requirements.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The amount of paper currency at present in circulation reaches 2,419 million Latvian roubles, or 48 million gold francs. The first issue of Latvian roubles was made in 1919, in order to meet the expenses involved by national defence, 1 Latvian rouble being made equal to 2 German marks (paper) which were at the time in circulation in Latvia. Owing to the general inflation of currency, this ratio soon disappeared. The Latvian rouble fell more than the German mark, but in 1921, as a result of economy in State expenditure, increased taxation, and an improvement of the trade balance, the exchange value of the Latvian rouble recovered to such an extent that since November 12th it has been stable, being equal to 02 of a gold franc, i.e. 50 Latvian roubles to a gold franc. This rate of exchange is accepted by the Bank of Latvia as a basis for financial operations at home and abroad, as it corresponds to the actual value of the Latvian rouble in circulation and in private business transactions. The Latvian currency at present may be regarded as stable in regard to gold. (See table below.)

CIRCULATION OF THE STATE TREASURY NOTES.

Year	Month	(Latvian roubles)	
		Total issue at the end of the month	In circulation at the end of the year
1919	April	1,480,000.—	
	July	3,304,600.—	
	August	8,599,590.—	
	September	34,058,445.—	
	October	56,511,625.—	
	November	100,138,295.—	
	December	123,557,182.—	123,557,182.—

Year	Month	(Latvian roubles)	
		Total issue at the end of the month	In circulation at the end of the year
1920	January	156,440,981.—	
	February	193,592,981.—	
	March	232,802,101.—	
	April	324,517,356.—	
	May	389,267,646.—	
	June	484,269,467.40	
	July	696,354,172.90	
	August	841,414,481.—	
	September	858,175,831.—	
	October	882,175,831.—	
	November	889,661,831.—	
	December	1,030,743,531.—	907,186,349.—
1921	January	1,142,243,521.—	
	February	1,339,243,531.—	
	March	1,535,275,831.—	
	April	1,859,725,831.—	
	May	1,988,285,831.—	
	June	2,194,028,131.—	
	July	2,305,238,131.—	
	August	2,243,730,131.—	
	September	2,086,994,624.50	
	October	2,129,189,481.—	
	November	2,228,614,481.—	
	December	2,464,574,481.—	1,433,830,950.—
1922	January	2,468,974,481.—	
	February	2,487,914,481.—	
	March	2,418,974,481.—	
	April	2,418,974,481.—	
	May	2,418,974,481.—	
	June	2,418,974,481.—	
	July	2,418,974,481.—	
	August	2,418,974,481.—	
	September	2,418,974,481.—	
Total issue allowed		2,520,000,000.—	roubles.
Withdrawn from circulation		100,000,000.—	„

In August 1922, a monetary law was passed and in September 1922 the statutes of the bank of issue (Bank of Latvia) were published. The law concerning money provides that the unit of Latvian money is the gold lat, equal to one gold franc. The text of the law is as follows:

1. The Latvian money system is based on gold. The money unit is one lat, containing two million nine hundred and three thousand two hundred and twenty-six ten-millionths (.2903226) of one gramme of pure gold. The Latvian lat is divided into one hundred centimes.

2. The State only has the right to coin metal money and to circulate it. The Minister of Finance supervises the minting and issue of the new money.

3. Gold money shall be coined of gold belonging to the State and also of gold delivered by private persons. Gold delivered by private persons for minting shall be accepted at a price determined by the Minister of Finance, if the gold is delivered in bars of gold money of other

States containing the percentage of gold fixed by the Minister of Finance and if the quantity of gold delivered is not less than one hundred grammes.

4. Gold money shall be minted in coins of ten and twenty gold lats.

5. The gold money shall contain nine hundred out of one thousand parts of pure gold, .001% "remedy" being allowed (.899—.901). The weight of the ten-lat coin shall be three grammes and two hundred and twenty-five thousand eight hundred and five millionth parts (3.225805 of one gramme. Twenty lats—six grammes and forty-five thousand one hundred and sixty one one-hundred-thousandth parts (6.45161) of one gramme. The "remedy" allowed in the weight of the money shall be as follows : for coins of ten lats—three one-thousandth parts of the weight, and for coins of twenty lats—two one-thousandth parts of the weight.

6. Besides the gold money, small coins shall also be minted of metal, designed by the Cabinet of Ministers upon the proposal of the Minister of Finance.

The Government has already ordered small metal coins in Switzerland. They are being minted of bronze and nickel. Bronze coins will be of 1, 2, and 5 centimes, and nickel coins of 10, 20, and 50 centimes. This money will be put into circulation at the end of the current year.

The provisions of the statutes of the bank of issue (Bank of Latvia) in regard to the issue of banknotes are as follows :

Only the Bank of Latvia shall have the right to issue banknotes. The banknotes shall be issued in lats, and they shall be covered to their full nominal value :

(1) If the amount of bank-notes issued does not exceed one hundred million lats—to the extent of not less than fifty per cent. by gold, or reliable and stable foreign currency, and the remainder by reliable short-term bills of exchange ;

(2) If the amount of bank-notes issued exceeds one hundred million lats but does not exceed one hundred and fifty million lats, the amount in excess of one hundred million lats shall be covered to the extent of seventy-five per cent. by gold, or reliable and stable foreign currency, and twenty-five per cent. by reliable short-term bills of exchange ;

(3) Issues of bank-notes in excess of one hundred and fifty million lats shall be covered to their full value by gold, or reliable and stable foreign currency.

On demand of bank-note holders, the Bank shall at any time redeem the bank-notes issued in gold. The bank-notes shall at any time be exchanged for gold, one lat being reckoned as .2903226 grammes of pure gold.

The bank of issue (Bank of Latvia) began its activities on November 1st. The Bank is subject to a special Council which is quite independent.

2. *The influence of Government expenditure on currency.*

3. *The repayment of floating debt and the effects thereof.*

The State loans do not influence the currency, because the issue of paper money has been stopped. Likewise, the currency is not influenced by the repayment of debts and interest.

4. *The connection between the Government and the Central Bank of Issue.* (See Part II, paragraph 1.)

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

The Bank of Latvia has not yet ceased granting credits to trade and industry.

6. *The existence of any artificial control of exchange with a description of its character and its effects.*

On the Exchange at Riga a special Quotation Commission has been established on which the Minister of Finance has only the right of veto. The transactions of the Bank of Latvia have a definite influence on the exchange. Since the Bank endeavours to maintain the stability of the Latvian currency by aid of its reserves, the exchange is guided by the rates at which the Bank purchases and sells foreign bills.

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports or exports or of special permits; the abolition or lowering of import or export duties, etc.*

A. *Export.*

The first regulations concerning the export trade were published by the Latvian Government on December 4th, 1918, prescribing that goods might be exported only under a special licence, issued by the Ministry of Trade and Industry. When issuing export licences, the Ministry strictly observed the local needs and allowed the export only of such goods as were not required by Latvia herself. There were no special export prohibition lists. The scale of export duties was worked out gradually and, later on, the system of the exchange of currency received for goods exported was also introduced, *i.e.*—a part (25-75%) of the foreign currency received for exported goods was to be exchanged at the State Treasury for Latvian money at the existing official rate of exchange in Riga. In 1919 a State monopoly of flax, linseed, and hides was introduced, and the export of these goods by private persons was prohibited.

Such arrangements, with slight modifications, remained in force until March 7th, 1921, when the Ministry of Trade and Industry issued an export free list. The list contained 31 groups of commodities—the staple Latvian manufactures—which might be exported without special Government licences. For other goods, the licence system continued in force, but the compulsory exchange of currency was abolished, except for hides, timber, and seeds.

On July 27th, 1921, the hide and linseed monopolies were abolished but the export of hides by private persons was allowed only from October 23rd and subject to a fixed export duty.

From July 1st, 1921, the export of dairy produce, eggs, bacon, fowl, fish, and fruit was also allowed.

On October 15th, 1921, a new export tariff came into force. With the introduction of this tariff, all other measures of control were cancelled. The export of goods and articles not mentioned in the tariff was permitted without licences and without duty, with the exception of such goods as remained a State monopoly.

This tariff was finally worked out and supplemented on the basis of the law of the Constituent Assembly concerning export duties, which continues in force as from February 7th, 1922. Apart from this tariff, export from Latvia may be regarded as freed from all restrictions.

B. *Import.*

Import duties on the chief import articles were for the first time imposed by the law of April 6th, 1919, according to which certain imported goods (raw materials and foodstuffs) were freed from customs duties, but the remaining goods were subject to customs duties to the extent of 2 to 100 per cent. On November 19th, 1920, this law was amended, the goods for importation into Latvia being divided into three categories. The first category included goods which were considered of prime necessity: *i.e.* raw materials, machinery, agricultural implements, artificial manures, chief foodstuffs, coal, naphtha and products thereof, chemicals for industrial purposes, etc., and were allowed for importation into Latvia without licences or limitations. The second category included goods the import of which was strictly prohibited, such as articles of luxury, alcoholic beverages, confectionery, etc. The third category included goods which were not regarded as of prime necessity, the so-called "tolerated goods" which might be imported under special licence from the Ministry of Trade and Industry in each individual case on paying the fixed customs duties. In 1921 the Government altered some of the tariff rates and, on March 7th, made certain changes in the import lists, leaving in force the partly modified import prohibition list, but gradually removing the licence system for the so-called "tolerated goods". It was intended to admit these later without a licence on payment of the respective import duties. The licence system was finally annulled by the customs tariff which came into force on July 20th, 1921, by virtue of which the list of goods prohibited from importation was also abolished. On May 26th, 1922, the revised customs tariff passed by the Constituent Assembly was published, which, on the whole, lowers the rates of the preceding tariff and is at present the only Government Act which regulates the import trade.

C. *Transit Traffic.*

Transit traffic through Latvia to all foreign countries is freed from all customs duties. The transit of goods may be effected by land-, rail- and waterways. If the goods are conveyed by rail, the transport through Latvian territory is conducted and supervised by the respective customs-houses. If the transit takes place by water or land routes other than rail, the importer has to deposit with the customs-house a sum equal to the amount of duties which should be paid on the imported goods. The transport is not subject to any supervision. The deposited money is refunded on the presentation of a certificate issued by another customs-house testifying the re-export of the goods.

D. *Foreign Currency.*

By virtue of the law published on July 1st, 1921, foreign currency might be exported under a special licence from the Ministry of Finance or its concessioned banks. Exception was made with regard to travellers, who had the right to export foreign currency without the above-mentioned permit, if the total amount did not exceed 100 gold francs per person. On the issue of the permits, an export duty of 1 per cent. of the value was levied. Money in transit was not subject to this duty or other restrictions. On November 5th, 1922, this law was abolished, and the export and import of foreign currency is now quite free from any restriction.

3. *The conclusion of (a) commercial conventions; (b) transport conventions.*

(a) *Commercial conventions.*

Up to now the Latvian Government has definitely concluded only one commercial agreement, *i.e.* with Hungary.

Negotiations are, however, proceeding with nearly all European Powers. The draft of a commercial agreement with Germany has already been mutually agreed to, but owing to some unsettled questions touching war-loss compensations due to Latvia from Germany, the agreement has not yet been ratified. Draft agreements have also been exchanged with Great Britain and negotiations are in progress. It is also proposed to enter into a customs union with Esthonia. All negotiations are being conducted on the basis of a scheme drawn up by the Cabinet of Ministers for commercial agreements, except in the case of Great Britain and Germany, with whom negotiations were begun before the scheme was worked out.

(b) *Transport conventions.*

Transport conventions have been concluded with all neighbouring countries. A mutual convention for transport of goods and passengers has been concluded with Esthonia and Lithuania. Conventions of the same nature have been concluded with Russia, Germany, and Poland. The conventions with all the countries mentioned, except that with Germany, were a combination of the regulations of the former Russian conventions and the scheme drawn up by the Central Bureau of International Transport by rail. The convention with Germany is wholly based on the regulations of Berne. Conventions have also been entered into with Germany, Belgium, France, and Great Britain for the establishment of direct communication between Riga-Berlin-Brussels-London, taking as a basis the regulations of Berne. At the present time the regulations of Berne are being amended and adjusted to Latvian requirements. As soon as the final draft is elaborated, a convention for conveying goods will be concluded with the countries referred to above.

January 21st, 1923.

Poland

I. BUDGETARY MEASURES.

Since 1920 the Diet and Government have concentrated their efforts upon securing budgetary equilibrium. It is with this object in view that the Diet adopted — in addition to the usual measures for determining and controlling the revenue and expenditure of the State — Article 10 of the Polish Constitution, which provides that all proposals and bills — whether put forward by the Government or by the Diet — which entail expenditure on the part of the State, must make provision for meeting the proposed expenditure.

Further, on December 16th, 1921, the legislative Diet adopted the following resolution: "Until budgetary equilibrium has been established, no expenditure shall be voted by the Diet without the approval of the Minister of Finance." A similar resolution — without any time-limit, however, — referring to decisions of the Council of Ministers, is contained in the law of December 17th, 1921, regarding ways and means of improving the national finances. This law also grants to the Finance Minister wide powers enabling him to supervise the organisation of State enterprises, to suppress them, to confirm the appointment of officials in all the Ministries and to enter into contracts affecting the State finances.

The resolution of the Diet of December 16th, 1921, calls upon the Government to reorganise the work of the administrations by diminishing the number of Government departments and by reducing the number of officials by 20 %. Further, a large number of orders have been issued for the purpose of enforcing economy.

Notwithstanding all that has been done to reduce the expenditure and to increase the revenue of the State, it has not yet been possible to balance the budget, for, in spite of the increase of revenue and the reduction of expenditure, the attempts to enforce economy have been paralysed by the fall in the Polish mark (see Chapter II). Thus, the receipts from taxes in 1921 show an increase in the proportion of 1:74.4 as compared with 1919, whereas the value of the Polish mark in United States dollars had fallen 79.2 % in January 1921. Moreover, it is extremely difficult to apply a uniform system of taxation in Poland. The three sections of the country, having belonged formerly to three different States, possess different financial systems. A beginning has, however, already been made in the work of unifying the fiscal system.

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

The budget estimates for 1921 and 1922 were as follows:

	1921		1922	
	In millions of Polish marks	In millions of U. S. dollars according to the rate of exchange in January 1921	In millions of Polish marks	In millions of U. S. dollars according to the rate of exchange in January 1922
Ordinary expenditure.	III,042.7	140.2	439,983.3	128.8
Ordinary revenue.	99,758.1	126.0	347,054.7	101.6
Deficit	II,284.5	14.2	92,928.6	27.2
Percentage of budget represented by deficit	10.2		21.1	

The increase in the budget deficit for the year 1922 as compared with 1921 has been caused chiefly by a new method of classifying ordinary and extraordinary expenditure, and the total deficit of the ordinary and extraordinary budgets (excluding loans) is 22.5 % in 1922 as compared with 35.3 % in 1921.

2. *Whether expenditure on armaments has been reduced.*

The expenditure of the Ministry of War, which in 1919 represented more than half of the total expenditure, has been considerably reduced and amounted to the following figures in the budget estimates:

Year	Ordinary expenditure	Extraordinary expenditure	Total in millions of Polish marks	Total in millions of U. S. dollars according to the rate of exchange in Jan. of the year in question	Percentage of total expenditure
1921	28,501.1	32,532.2	61,033.3	77.1	29.2
1922	95,035.9	57,813.3	152,849.2	44.7	25.8

Thus reckoned in dollars, the expenditure of the Ministry of War was reduced by 32,317,172 dollars in 1922 as compared with 1921, *i.e.*, by 43.2 %.

3. *Proportion of unproductive extraordinary expenditure.*

Unproductive extraordinary expenditure was as follows according to the budget estimates:

Year	In millions of Polish marks	In millions of U. S. dollars according to the rate of exchange in January of the year in question	As percentage of total extraordinary expenditure	As percentage of total ordinary and extraordinary expenditure
1921	69,965.3	8.8	71.5	33.5
1922	40,254.0	11.8	26.5	6.8

Thus, reckoned in dollars, unproductive extraordinary expenditure was much lower in 1922 both absolutely and also in relation to extraordinary expenditure and to the total of ordinary and extraordinary expenditure.

4. *Proportion of productive extraordinary expenditure.*

Productive extraordinary expenditure was as follows according to the budget estimates:

Year	In millions of Polish marks	In millions of U. S. dollars according to rate of exchange in January of the year in question	As percentage of total extraordinary expenditure	As percentage of total ordinary and extraordinary expenditure
1921	27,953.2	35.3	28.5	13.4
1922	111,396.9	32.6	73.5	18.8

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in cost of living, and the effects of this policy on budget conditions.*

The remuneration of civil officials is fixed by the law of July 13th, 1920. It consists of a fixed salary plus bonuses calculated according to the number of years' service, evidence of advanced studies, and the increase in the cost of living. The whole country has been divided into "zones of dearness" and the last-mentioned bonus varies according to the zone to which the region inhabited by the official belongs. The bonus also depends upon his family ties and his rank. The co-efficient upon which the general level of the cost-of-living bonus depends is fixed by the Council of Ministers in accordance with the changing factors of the economic situation. The decisions of the Council of Ministers do not, however, depend upon the variations in the cost of living tabulated by the Central Statistical Office or upon the index numbers of prices.

Since the introduction of the above-mentioned law, the co-efficients of increase in the cost of living have been raised several times. Changes in the relation of the cost of living in different districts have resulted in a reduction of the number of "zones of dearness".

The abolition of the Food Supply Offices has resulted in the suppression of bonuses in kind which were not provided for by law, but which had been distributed up to that date.

The following table shows the remuneration of an official at Warsaw in the case of a married man with one child:

For July of each year	Remuneration according to rank (in Polish marks)				
	III	V	VII	IX	XI
1920	10,100	7,490	5,320	4,012	2,730
1921	57,390	40,676	31,500	24,006	17,484
1922	277,393	181,293	131,497	91,812	53,117

If the salaries of Polish officials in Austria in January 1914 are represented by the figure 1,000, the "real wages" are as follows:

For July of each year	III	V	VII	IX	XI
1921	85	157	230	299	475
1922	134	238	314	373	471

Since the remuneration of officials represents more than half of the general expenditure of the State, any increase in salaries very considerably increases the deficit, as the revenue of the State cannot be increased simultaneously in the same proportion.

6. *The existence of subsidies on bread and other foodstuffs, coal and other raw materials.*

Agriculture has made great progress in Poland during the last few years, as is shown by the following table, from which the reduction in uncultivated land may be seen :

Uncultivated Land

District	1919	1920	1921	1922
	%	%	%	%
Old Congress Poland	9.5	7.9	2.0	0.5
Eastern Poland	68.5	31.0	18.0	7.3
Little Poland (formerly Galicia)	30.8	17.0	5.7	0.8

The development of agricultural production made it possible in the first half of 1921 gradually to reduce Government intervention in the matter of controlling supplies, to remove (by the Law of July 7th, 1921) the restrictions upon internal commerce in cereals and, finally, to liquidate the affairs of the Ministry of Food, which, together with the offices for the purchase and distribution of various articles of consumption, was abolished by the Law of December 17th, 1921, as from January 1st, 1922.

The production of coal in those parts of Poland which formerly belonged to Russia and Austria has increased considerably (in certain months of 1922 it even exceeded the pre-war production) with the result that it was possible, by a Decree of the Ministry of Industry and Commerce of July 13th, 1921, to introduce within the country as from October 1st, 1921, freedom of commerce in various kinds of fuel, such as anthracite, coke, lignite and briquettes.

In consequence of the introduction of freedom of commerce as regards foodstuffs and coal, the expenditure of the State for supplies to towns, workmen, etc., was no longer necessary, and the budget for 1922 only contains very slight charges in connection with the liquidation of the offices concerned.

It is only the deficit on the post and telegraph services (see Section 8) which still constitutes a heavy burden on the finances of the State.

7. *Charges for unemployment.*

In 1919 and during part of 1920, the Government was obliged, in consequence of the economic and political situation, to distribute large grants to the unemployed.

The gradual recovery of industry (in the country as a whole there were 222,297 unemployed in January 1920, and 78,298 in June of the same year, while in April 1922 the figure was 54,028) made it possible to abolish unemployment grants in 1920, so that at the present time — apart from ordinary expenditure for pensions and allowances for invalids and the aged, etc. — the State has to meet only expenditure with regard to the repatriation of Poles from Russia.

8. *The financial position of public undertakings.*

The depreciation of the Polish mark reacted unfavourably upon the revenue obtained from State undertakings, for, while expenses increased in proportion to the increase in salaries and in the price of raw materials, etc., receipts did not increase on the same scale ; it was extremely difficult for the Government to undertake the responsibility of raising prices, inasmuch as public opinion regarded any increase in rates either on the railways or for postal services as being the cause of a corresponding increase in the cost of living. To-day the Government admits the necessity of operating the railways and administering the Post Office on economic principles and of avoiding a deficit, and believes that it will be able to achieve this object by gradually raising rates and by effecting reasonable reductions in expenditure.

The following provisional data show the receipts and expenses of the State (with the exception of one undertaking) according to the budget figures :

(In thousands of Polish marks).

	1/VII 1919 to 31/III 1920	1/IV 1920 to 31/XII 1920	1921
Expenses	1,773,248	8,678,666	69,868,648
Receipts	760,523	4,088,517	37,617,179
Deficit in Polish marks	1,012,725	4,590,149	32,251,469
Percentage deficit	57.1	52.9	46.2

The above table comprises the cost of installations, including the cost of construction of new railway lines, but not the cost of interest and amortisation of capital.

It will be seen that the extent to which expenditure is being covered by revenue is constantly increasing.

The expenditure and revenue of the Ministry of Posts and Telegraphs (which also deals with the telephone service) amounted to the following figures in thousands of Polish marks :

	1920	1921
Expenses	834,621	7,262,463
Receipts	504,392	4,987,918
Deficit in marks.	330,229	2,274,545
Percentage deficit	39.6	31.3

As in the case of the railways, the deficit on the postal services diminished in 1921.

9. *The introduction of new taxation.*

A whole series of new taxes has been created since 1920, and existing taxes have been largely increased. An extraordinary tax was imposed by the Law of December 16th, 1921. The chief effect

of this tax is to multiply the amounts due by the taxpayers — owners of land, immovable property and industrial enterprises — in accordance with co-efficients established by the law in question. Although this tax is not very heavy, it has noticeably reduced the State deficit, as may be seen from the following table :

(In millions of Polish marks).

1922, Month.	Ordinary and extraordinary expenditure	Ordinary & extraordinary revenue		Deficit	
		Total	from tax	Total	as percentage of expenditure
January	34,055.6	17,146.1	306.2	16,909.5	49.7
February	40,684.3	28,848.7	4,058.4	11,835.6	29.1
March	48,258.8	45,267.1	20,373.6	2,991.7	6.2
April	32,928.4	32,761.1	14,728.4	167.3	0.5

The tax on profits arising from the purchase of immovable property and the paying off of mortgages dating from before the war was instituted by the Law of March 31st, 1922. This tax is imposed upon persons who acquired immovable property after January 1st, 1919, and on persons who have paid off mortgages created before January 1st, 1915, and have thus benefited by the fall in the Polish mark.

The Law of December 17th, 1921, instituted an industrial tax throughout the country — a measure which marks the first step towards unifying the financial system in the three different sections of Poland.

The Law of April 4th, 1922, considerably simplifies the Law of July 16th, 1920, regarding income tax by adapting the tax to the alterations which take place in the value of the mark.

The taxes on land and immovable property have twice been increased (in 1920 and 1921).

The tax on war profits has been extended so as to apply to all profits made in 1919.

In order to establish a proper relation between indirect taxation and the purchasing value of the Polish mark, the Council of Ministers was authorised by the Law of May 10th, 1921, to increase these taxes so as to make them correspond in value to the taxes imposed on the same articles in 1912-14, which were based upon the prices of those articles at those dates.

10. *Methods of raising money by loans, whether by (a) long-term loans; (b) short-term loans in the open market; (c) loans direct from the central banks, leading to further new inflation.*

The long-term loans of the Polish Republic at the end of 1920 and 1921 are shown in the following table (no long-term loan was contracted in 1919):

Character of loan		1920	1921
5% long-term loan, 1920	marks	5,212,476,700	10,844,182,700
4% premium loan	"	930,256,000	1,991,614,000
Total of internal loans	"	6,142,732,700	12,835,796,700
6% loan (in dollars).	\$	18,200,000	18,200,000

The subscription lists for the 1920 5% long-term loan were opened in April 1920 and have not yet been closed. This loan must be entirely paid off in the course of the next 45 years.

The subscription lists for the 4% lottery loan were opened in September 1920 and closed in April 1922. Weekly drawings take place during the first 20 years, commencing on October 2nd, 1920, and in each of these there is a winning lot of 1,000,000 marks. During the succeeding

20 years (1940-1960), the bonds of the premium loan will be repaid at their nominal value at the time of drawing.

The subscription lists for the Polish dollar loan were opened in May and closed in October 1920.

The following is a list of the short-term loans as they stood at the end of the years 1919, 1920 and 1921:

(In Polish marks)

Loan	1919	1920	1921
5% bonds, 1918	2,032,052,224	418,246,092	155,979,994
5% short-term loan	—	2,129,336,100	2,129,336,100
4% Treasury bonds (Series I)	—	947,376,000	485,482,000
5% Treasury bonds (Series II)	—	—	14,622,715,000
Total of short-term internal loans	2,032,052,224	3,494,958,192	17,393,513,094
Short-term United States dollar loans according to the rate of exchange at the end of December 1921	\$ 187,947,665.42	263,803,203.04	265,179,610.67

The 1918 5% bonds were repayable in 1919; some of these bonds, however, have not yet been presented for payment or for exchange against scrip of the 1920 loan.

The 1920 5% short-term loan is repayable five years after the date of issue; the subscription lists for this loan were closed on October 31st, 1920.

The first series of Treasury bonds matures in two years and the second series in one year.

The following is a list of the foreign loans which have been raised in various countries according to the data available on December 31st, 1921:

United States	166,257,964 dollars
(i.e. approximately 60% of the total external Polish debt).	
France	783,858,404 French francs
(i.e. 22% of the total amount).	
Great Britain	£ 4,374,849
(i.e. 7% of the total amount).	
Italy	17,428,232 lire
(i.e. 3% of the total amount)	36,325,490 gold francs
	1,259,605 French francs
	18,218,686 Dutch gulden
The Netherlands	
(i.e. 2.5% of the total amount).	
Norway	16,497,417 Norwegian krs.
(i.e. 1% of the total amount).	
Denmark	358,849 Danish krs.
Sweden	173,000 Swedish krs.
Switzerland	73,600 Swiss francs.

These loans were contracted in the various countries, not as a rule in the open market, but with Governments or private institutions or commercial houses.

The total amount of foreign loans in existence on December 31st, 1921, includes a loan contracted with the United States Relief Administration amounting to 1,265,076,074 Swiss francs and a similar loan contracted in Europe amounting to 107,154,361 Swiss francs. (The conditions for loans of this kind in America are not the same as they are in Europe.)

The foreign loans were contracted almost exclusively in goods, 60% of which are articles of primary necessity, 28% military supplies and only 7.7% articles required for State enterprises.

The maturity dates of long- and short-term loans were as follows on December 31st, 1921:

Date of maturity	Amount of debt (In Swiss francs)	% of total debt
1921	126,072,567	9.733
1922	276,369,233	21.347
1923	277,220,771	21.413
1924	156,234,899	12.063
1925	230,074,715	17.764
1926	119,466,424	9.233
1927	6,218,473	0.480
1928	5,104,350	0.394
1929	5,104,350	0.394
1940	93,366,000	7.209

Negotiations are now proceeding between the Polish Government and the States concerned with regard to the consolidation of the foreign debt.

Being unable to raise loans in the ordinary market, either in Poland or abroad, the Government has been forced, in order to cover the deficit, to apply to the bank of issue (P.K.K.P.). The movement of debt under this head is as follows:

January 1st, 1920	6,825	millions of Polish marks.
January 1st, 1921	59,625	» » »
January 1st, 1922	221,000	» » »
June 1st, 1922.	217,000	» » »

II. *The influence of foreign loans and trade balances.*

The foreign loans were contracted, as we have already mentioned, almost exclusively in goods. Consequently, they did not exercise a direct influence upon the exchange rate of the Polish mark, or increase, even at the moment when the loan was raised, the amount of foreign currency held, but they made it possible to obtain foodstuffs, armaments, etc. on credit, and in this way indirectly decreased the demand for foreign currency. It is, of course, true that at the present time our foreign engagements are exercising an unfavourable influence on the exchange rate of the Polish mark. It should, however, be observed that, as compared with the debts of other States, the foreign debt of Poland is not very large.

The unfavourable balance of trade also affects the state of Polish finances.

This balance constitutes the most important part of the general Polish balance-sheet, and, therefore, contributes largely to the depreciation of the mark; a further result is to be seen in an increase in Polish expenditure abroad, reckoned in marks, and a corresponding increase in prices within the country. The decrease in the purchasing power of the mark within the country causes an increase in the expenditure of the State, since the revenue cannot be increased in the same proportion, and a deficit is thus caused.

Stress should, however, be laid upon the fact that the Polish balance of trade is constantly improving, especially since the beginning of the current year (1922), and that articles of general consumption have ceased to be imported and have even been exported; but the complete re-establishment of the balance of trade is not possible in the near future for want of the large quantity of capital indispensable for the reconstruction of the economic organisation destroyed during the war. In the present circumstances, a deficit can only be avoided by the contraction of very substantial foreign loans.

12. *The effect of local and provincial finance on the budget of the State.*

The fall of the Polish mark has had an unfavourable effect upon communal and municipal finances, and especially upon the finances of the towns. As in the case of the State, the revenue of the communes is not sufficient to cover expenditure.

In that large part of the Republic of Poland which formerly belonged to Russia, municipal and communal institutions had only just been created, and these, lacking, as they did, a well-developed financial system, had a hard task before them. The State was, therefore, compelled to come to their aid, and it began by granting loans to the towns, since the municipalities, which were only then in process of formation, could not count upon obtaining private credit.

The following table shows approximately (in millions of marks) the loans granted to the towns in two districts:

Year	Former Russian Poland	Little Poland	Total
1919	56.1	24.2	80.3
1920	403.6	153.5	557.1
1921	2,132.4	572.1	2,704.5

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

2. *The influence of Government expenditure on currency.*

The fluctuations of the Polish mark during the years 1920-1921 and the first half of 1922 are shown in the following table (the figures given represent the average rate each month on the Warsaw Stock Exchange):

Polish marks to the United States dollar.

	1920	1921	1922
January.	131.50	710.00	3,168.00
February	153.00	855.00	3,704.00
March.	158.93	852.59	3,916.00
April	169.25	828.75	3,958.00
May	181.06	925.12	3,982.00

Polish marks to the United States dollar.

	1920	1921	1922
June	159.12	1,549.50	4,320.00
July	171.12	2,220.00	
August	204.50	2,442.50	
September.	244.00	4,455.00	
October.	283.75	4,137.50	
November.	410.00	3,307.50	
December.	552.50	3,186.25	

The reasons for this very heavy fall in the value of the mark are both economic and political. Poland commenced her existence as an independent State in conditions of the greatest difficulty. Two-thirds of the country had been either ruined by military operations or exhausted by an extreme measure of exploitation on the part of those in occupation.

Approximately one-quarter of the area of arable land remained uncultivated; industry and trade were destroyed. An enormous amount of capital would have been required to carry out a scheme of reconstruction. Further, the country was ruined, the population was impoverished to the last degree and, therefore, incapable of furnishing the material means which were required either by taxation or by an internal loan, and foreign credit was practically unobtainable owing to the fact, above all, that Poland did not possess clearly defined frontiers until 1921.

The balance of trade showed deficits in every direction and it was even necessary to import cereals and other articles of consumption, although Poland is chiefly an agricultural country. In these conditions, therefore, in order to provide for its expenditure, which was insufficiently covered by the receipts obtained from foreign loans, the Government only had one means at its disposal — the issue of notes: it employed this means on a large scale and thereby brought about a very heavy depreciation in the exchange rate of the Polish mark.

It was only in the latter months of 1921, from October onwards, that the value of the Polish mark improved. This improvement was due to the union of part of Upper Silesia with Poland, and to the impression produced abroad by M. Michalski's scheme for financial reconstruction.

The increase in the note issue, as compared with the increase in the State debt to the P.K.K.P., is shown in the following table:

		(In millions of Polish marks)	
		Note issue	State debt to the P. K. K. P.
1920	January 1st . . .	5,316.3	6,825.0
	April 1st	10,690.6	14,775.0
	July 1st.	21,730.1	27,625.0
	October 1st . . .	33,203.5	40,625.0
1921	January 1st . . .	49,361.5	59,625.0
	April 1st	74,087.4	93,625.0
	July 1st.	102,697.3	130,625.0
	October 1st . . .	152,792.1	178,000.0
1922	January 1st . . .	229,537.6	221,000.0
	February 1st. . .	239,615.3	227,350.0
	March 1st. . . .	247,209.5	230,600.0
	April 1st	250,665.5	232,100.0
	May 1st.	260,553.8	220,000.0
	June 1st.	276,001.1	217,000.0

Until towards the end of 1921 the State debt was greater than the total note circulation; in 1922 this proportion was reversed, owing to the energetic efforts made by the P.K.K.P. at

that time to assist the industry of the country by discounting bills of exchange and by making loans on security (see Section 5).

3. *The repayment of floating debt and the effects thereof.*

During the whole of this period the current debts increased; praiseworthy attempts were, however, made to reduce the State debt to the P.K.K.P. (see previous section, April-May 1922). Although these attempts had temporarily a favourable effect, they could not be systematically followed up until the fundamental cause of inflation — the deficit — had been removed.

The reduction of the State debt in April and May of this year made a favourable impression and led to effective results; it was no longer necessary to cover current expenditure by an increased issue of paper, and the continuance of the issue during this month was solely intended to encourage production.

4. *The connection between the Government and the Central Bank of Issue.*

The P.K.K.P., which was formed during the German occupation in 1916, was recognised by the Decree of the Chief of State dated December 7th, 1918, as the sole Bank of Issue of the Polish State until the creation of the Bank of Poland. The administration of the Bank is in the hands of a Board, consisting of a Director and his deputy, both appointed by the President of the Council of Ministers on the nomination of the Minister of Finance. The Minister of Finance and the President of the Council have the right to require information regarding the business done by the Bank. The issue of Polish marks is carried out by the P.K.K.P. on behalf of the Polish State and under the control of the Government, *i.e.* of the Minister of Finance. The profits of the P.K.K.P. are paid into the reserve funds, and the manner in which these funds shall be employed is decided by the Diet.

In accordance with the decision of the Diet dated February 13th, 1920, the issue of notes by the P.K.K.P., and the loans contracted with this Bank by the State, are subject to the approval of the Diet.

Proposals have been put forward on various occasions for the reconstitution of the P.K.K.P. as a Bank of Poland; these proposals have, however, been postponed until the introduction of a new Polish monetary unit.

5. *The restriction of granting of credits either by means of the rate of interest or in other ways.*

The discount rate required by the P.K.K.P. for bills at 90 days was 6 % in 1920 and part of 1921 (up to September 13th). From September 13th to the present time, the discount rate has been 7 %, and is thus higher than the rates of other European banks of issue. This fact would seem calculated to attract foreign capital to Poland. When premium loan certificates are given as security, the discount rate of the P.K.K.P. is 7 %; for ordinary securities it is 8 %, and for State loan certificates 5 ½ %.

In discounting bills and granting loans, the P.K.K.P. not only exacts conditions of absolute security, but also takes into consideration the utility of the loans from the general economic standpoint, and is particularly careful to discourage any attempt at speculation. In principle the P.K.K.P. discounts bills of exchange and grants loans only when security is offered; if, however, the security in question consists of goods in the possession of a commercial establishment which is responsible for them, the Bank must obtain the authorisation of the Minister of Finance before carrying out the loan.

The bills discounted and the loans made by the P.K.K.P. were as follows:

		Bills discounted	Loans
1920	January 1st	3.9	243.8
	April 1st	8.2	319.1
	July 1st.	161.4	488.2
	October 1st	333.9	1,862.9
1921	January 1st	611.6	3,999.2
	April 1st	781.0	4,745.7
	July 1st	1,557.3	5,306.5
	October 1st	6,237.3	9,878.6
1922	January 1st	15,324.4	19,300.0
	February 1st.	15,951.6	21,776.9
	March 1st.	19,555.0	22,327.7
	April 1st	25,451.1	25,473.3
	May 1st.	28,668.8	26,063.7
	June 1st.	34,555.0	26,067.0

In comparing the figures for the various months, the fluctuations of the Polish mark must be taken into consideration. The great increase in the credits granted by the Bank at the end of 1921 and at the beginning of 1922 was due to the necessity of assisting industry, which was passing, during this period, through a severe crisis caused by the rise in the Polish mark. At that time the private banks were not in a position to carry out this task without the help of the P.K.K.P.

The Government had to choose between an increase in the note issue (*i.e.* a fresh issue from the P.K.K.P.) in order to furnish credits to industry and, on the other hand, a refusal of credit, which would lead to unemployment and thence inevitably to State unemployment allowances and an increase in the deficit and the State debt. It rightly chose the first solution. The crisis is now past; the increase in the discount and loan rates is due to the normal development of economic life. It must be regarded as a favourable sign that the discounts show a tendency to exceed the loans — a tendency which, according to the general anticipations of all banks of issue, will become stronger — whereas the contrary was the case until the end of February 1922.

There exists as a State credit establishment, in addition to the P.K.K.P., the Post Office Savings Bank, which, under guarantee from private banks, grants loans to industrial establishments in order to provide them with working capital. These loans are now granted for six monthly periods at the rate of 10 % per annum to the P.K.O. (Post Office Savings Bank) and at 3 % to the guaranteeing bank. The total amount of the loans granted to industrial establishments under the above conditions between January 1st and October 31st was 9,882 millions of marks. The total amount of the credits issued by the P.K.O. now exceeds 21 milliards of marks.

The State Reconstruction Bank opens credits for the reconstruction of industries which were destroyed or damaged owing to the war. Mention should also be made of the following official or semi-official establishments which open credits: the "Bank of Poland"; the "State Agricultural Bank", the "Building Bank", the "Commercial Bank", the "Credit Establishment of the towns in Little Poland", and the "Discount Bank of Posen". Among all these forms of credit, credits for new installations can only be very small, in view of the financial position, which is closely connected with the state of the exchange.

6. *The existence of any artificial control of exchange, with a description of its character and its effects.*

A Decree by the Minister of Finance and the Minister for former Prussian Poland, dated December 31st, 1920, abolished the "Currency Commission," which fixed the rates of exchange

and gave authorisation to banks for the sale of foreign currencies to institutions, commercial firms and private individuals. It was, however, impossible to pass, without a period of transition, from active State intervention to absolute freedom in currency transactions, particularly in view of the strong tendencies which were then visible towards speculation and the hoarding of foreign currencies.

Accordingly, the system adopted under the above-mentioned Decree for the control of the exchange is designed to place as little restriction as possible on currency transactions due to the normal requirements of economic life, while it is intended to prevent the purchase of foreign currencies for purposes of speculation or hoarding.

The regulation of the rates of exchange has thus been abandoned by the State and left to the Stock Exchanges, but the sale of foreign currencies to private individuals and firms has been restricted to joint-stock banks or other specially authorised financial establishments; these establishments must make enquiries and decide whether the purchase of the currencies is economically justified and is due to the necessity of carrying out payments abroad.

The purchase of foreign currencies at the above-mentioned establishments constitutes in itself an authorisation to export the sum purchased. The regulations referred to are carried out by the Ministry of Finance. By this method the entire control of transactions in foreign currencies is entrusted to the banks (foreign exchange banks) which, as a general rule, know their clients and refrain, in their own interests, from making too many difficulties for them; in short, the restrictions imposed on transactions in foreign currencies are not very serious, and merely form obstacles to any attempt at speculation or the purchase of currencies for purposes of hoarding.

Foreign exchange banks may sell foreign currencies to individuals and private commercial firms for the following purposes only:

- (a) Fulfilment of obligations undertaken abroad in connection with the legal importation of goods;
- (b) Payment of accounts in respect of goods legally imported;
- (c) Furnishing cover for costs of forwarding and transport of goods;
- (d) Payment of foreign debts contracted for economic reasons which can be duly substantiated¹;
- (e) Payment of foreign insurance premiums arising out of legal insurance contracts;
- (f) Payment of travelling expenses up to 1,000 Swiss francs (or its equivalent in other currencies) per person for each journey, provided that special mention of travelling abroad is made on the passport; in the case of journeys to the district of the Free City of Danzig, the mention is made on the internal passport, and in this case journeys must not be made more than once a month;
- (g) Payment of cost of subsistence up to 1,500 Swiss francs (or its equivalent in other currencies) per month for each family, for persons staying abroad, if satisfactory reasons are given;
- (h) Payment of cost of maintenance of offices of Polish commercial enterprises abroad, if their existence can be justified from the point of view of national and economic interest;
- (i) Any other purposes which can be economically justified, if payments not exceeding 1,000 Swiss francs (or its equivalent in other foreign currencies) have to be carried out abroad. For larger sums the previous authorisation of the Ministry of Finance, or of the offices to which it delegates such powers, is required.

¹ Including foreign debts contracted by foreign capital invested in Poland.

The payment of foreign accounts in Polish marks on behalf of firms and persons domiciled in Poland, and the payment of such part of foreign accounts as relates to Poland, may only be carried out through the foreign exchange banks, and must be justified as being one of the forms of foreign transactions mentioned above under (a), (b), (c), (d), (e), or (i).

Payments in Polish marks on behalf of individuals and firms domiciled abroad can only be carried out through the foreign exchange banks, but are subject to no other restriction.

In other financial establishments, the sale of foreign currencies for the payment of foreign accounts may only be carried out on the authority of the Ministry of Finance or the departments authorised by it. This authority must be obtained specially for each case.

The opening of credits in Polish marks to foreign firms requires, in every case, the previous authorisation of the Ministry of Finance, or of the departments delegated by it.

The exportation of currencies which were not purchased at foreign exchange banks is permitted without special authorisation, up to an amount of 1,000 Swiss francs (or its equivalent in other foreign currencies.)

For the exportation of sums not exceeding 3,000 Swiss francs or its equivalent in other foreign currencies, a permit must be obtained from the P.K.K.P., or one of its branches. These permits must be issued on presentation of a foreign passport. Permits for larger sums are issued by the Ministry of Finance or its auxiliary offices.

The exportation of Polish marks in cash, cheques, money orders or bills of exchange is authorised without special permit up to a total of 100,000 Polish marks per person on any one occasion, provided that the total amount of Polish marks exported by a single person during one month must not exceed 300,000. Permits for the exportation of marks up to a total of 300,000 are issued by the P.K.K.P. or its branches.

For larger sums permits are issued by the Ministry of Finance or its departments.

The exportation of certificates bearing interest or dividends, or the sale of such certificates to persons or firms whose head offices are situated abroad, or the deposit of such certificates as security, requires the special authorisation of the Ministry of Finance or its subordinate offices. Such permits may also be granted as a general rule for certain kinds of securities or to certain establishments. No difficulties as a rule are raised against the issue of such permits.

The sale abroad of bills on Poland can only be carried out by the foreign exchange banks, which are obliged to notify the Ministry of Finance of all transactions of this nature. Such transactions can only be carried out by other firms or persons upon the issue of a permit by the Ministry of Finance or one of its subordinate offices.

The Ministry of Finance appoints special delegates in the nearer Polish economic centres to deal with all matters relating to the application of the regulations for transactions in foreign currencies and exchanges.

The above-mentioned regulations for the control of currencies and exchanges are binding upon foreigners, subject to the following reservations.

Contracts drawn in foreign currencies are invalid if both parties are Poles domiciled in Poland; if, however, at least one of the parties is a foreigner or domiciled abroad, transactions of this nature are valid.

Foreigners holding bank-notes deposited in Poland are subject to the same regulations as Polish holders; greater facilities are, however, granted to foreigners for the issue of exportation permits.

7. *The causes and effects of deflation.*

Deflation cannot take place in Poland, as it has been impossible to restore the equilibrium of the budget and to obtain a credit balance of payments.

III. COMMERCIAL MEASURES.

1. *The abolition or the establishment of prohibitions on imports or exports, or of special permits: the abolition or lowering of import or export duties, etc.*

In the matter of international exchanges, the Polish Government has endeavoured as far as possible to put into practice the principles laid down in Section II of the resolutions adopted by the Committee on International Trade at the Brussels Financial Conference, to the effect that the exchange of goods should be free from all restrictions in order that no artificial economic obstacles may be raised to impair the unity of European economic life. Owing, however, to the European war, during which Polish territory was a theatre of hostilities and was occupied by foreign troops, and owing to the two years of military operations in the East, the Polish authorities have been obliged to subject exportation to a certain control, since the country has only a limited quantity of certain articles, particularly cereals. The authorities have also been obliged by the same causes to restrict importation, owing to the precarious position of the balance of trade. These considerations led to the creation of the Import and Export Commissions, which issued special permits for the importation, exportation and transit of all goods (Decree of February 7th, 1919). In order to keep pace with the continually accelerating fall in the mark in May and July 1920, it became necessary to prohibit the importation of luxuries (under the Decree of February 20th, 1920, the import duties on these articles were payable in gold only). The list of these articles has been revised twice — in June 1921 and in February 1922.

The prohibition of luxuries — food, cosmetics, tobacco, etc. — is still in force. Since the conclusion of the military operations in the East and the slow but definite return to normal conditions of production, the Polish Government has been obliged, in order to promote the production of these various articles, to facilitate the supply of raw materials and the purchase of indispensable machinery from abroad, and to bring the import tariffs into line with these requirements. In view of the poverty of the country, all import duties were abolished as early as November 1919, on articles which are indispensable to reconstruction, on industrial materials, which have been destroyed and which the country could not yet supply or manufacture in sufficient quantities (*e.g.* building materials, coal, certain chemical products, certain ores, precious and other metals, textiles, parts of machines, etc.) and on articles of primary necessity (cereals, fresh vegetables, salt, meat, fish, cattle, etc.). In November 1919 the normal co-efficient of compensation reached 200%, and in February 1920, 900%, while the differential co-efficient of compensation reached 4,900% and 14,900% respectively. Between November 1919 and the middle of 1922 the differential import duties were revised nine times. In order to protect the development of the national industry, articles manufactured in the country received no differential treatment in regard to import duties. In order, however, to check the increase in the cost of living, the Government did not raise the co-efficient of compensation to a rate corresponding to the fall in the mark, as may be seen from the following table.:

FIXED CO-EFFICIENT OF COMPENSATION.

Date of entry into force	Percentage co-efficient of exchange compensation	Co-efficient	Value of the \$	
			In Polish marks	As multiples of par
January 10th, 1920 . . .	200	3	135	32.15
February 20th, 1920 . . .	900	10	156	37.14
February 10th, 1921 . . .	1,900	20	778	185.12
July 14th, 1921	14,900	150	1,908	454.17
November 5th, 1921 . . .	39,900	400	2,788	663.69
December 24th, 1921 . . .	49,900	500	2,945	701.19

CO-EFFICIENT OF COMPENSATION ON LUXURIES.

Date of entry into force	Percentage co-efficient of exchange compensation	Co-efficient	Value of the \$	
			In Polish marks	As multiples of par
June 8th, 1921	14,900	150	1,180	280.95
August 14th, 1921	19,900	200	1,908	454.17
September 20th, 1921	29,900	300	4,753	1,131.50
November 5th, 1921	79,900	800	2,788	663.69

Import permits for the prohibited articles referred to above are issued by the Import and Export Office, which was set up under the Law of July 15th, 1920, while the Decree of June 23rd, 1921, amending the Decree of August 31st, 1920, rendered it no longer compulsory to obtain import and export permits for articles not mentioned in the lists of prohibited articles. Under the Law of July 15th, 1920, the articles imported and exported are divided into three categories : (1) articles which may be imported and exported without permit, (2) articles for which importation or exportation permits are required, (3) articles the importation or exportation of which is absolutely prohibited (e.g., importation of explosives, poisons, infected animals or plants, etc.). This division into three categories has been in force since November 20th, 1920. The restrictions on exportation are more stringent, particularly as regards the raw materials and cereals (mentioned above) which are necessary for the foundation and maintenance of national industry. As may be seen from the following table, there would be a risk that these raw materials might be exported in large quantities, owing to the considerable difference between prices in Poland and abroad.

PRICES IN DOLLARS PER 100 KGS. PAID BY THE CORN EXCHANGES OF THE RESPECTIVE COUNTRIES¹.

Rye

Country	1920				1921					
	IX	X	XI	XII	I	II	III	IV	V	VI
United States	3.88	3.14	2.96	3.15	3.41	4.08	4.20	4.22	4.15	3.54
Czechoslovakia	3.88	3.14	2.96	3.15	5.26	5.85	5.14	5.22	4.75	4.48
Germany	3.88	2.62	2.23	2.87	3.21	3.54	3.88	3.88	3.78	3.70
Poland	1.41	2.40	2.33	2.59	2.68	2.50	2.67	3.22	3.64	3.86

¹ The prices, as reckoned in the currencies of the respective countries, are converted into United States dollars at the current rate of exchange. The table represents the average of the figures thus obtained.

Wheat.

Country	1920				1921					
	IX	X	XI	XII	I	II	III	IV	V	VI
United States	5.16	4.48	4.42	4.74	4.62	5.42	5.41	5.60	5.45	4.82
Czechoslovakia	5.16	4.48	4.42	4.74	5.46	6.18	5.78	6.26	6.38	6.21
Germany	5.16	3.50	2.92	3.66	4.06	4.66	5.18	5.26	4.96	4.88
Poland	5.16	3.13	2.72	4.03	3.92	3.69	4.30	4.75	5.15	5.40

In June, August, September and October, 1921, the exportation without a special permit of the following articles only was prohibited : cereals, flour, meal, fresh and dried vegetables, sugar, yeast, salt, meat, lard, fodder, manure, hides, seeds, osiers, rags, flax, hemp, wooden sleepers, coal, ores, iron and steel. Precious metals are not included in this list. In June 1921 all export duties were abolished except those on petroleum and its derivatives, the exportation of which is regulated by a decision of the Central Petroleum Office. In 1922 an additional export duty on eggs was introduced.

From the above general statement it must be concluded that the Polish Government is endeavouring, as regards international commerce, to discard the principle of regulation in favour of that of free trade. During the present year, in particular, the Government intends to allow the exportation of cereals.

(2) *The existence (or abolition) of price discrimination against foreign trade.*

All States are treated uniformly in principle, with the exception of certain cases for which provision is made in treaties and conventions.

(3) *The conclusion of (a) commercial conventions, (b) transport conventions.*

Poland has concluded the following international conventions :

I. *Commercial Conventions.*

A. **RATIFIED :**

- (1) Commercial convention between Poland and France. (Signed on February 6th, 1922, ratified by the Diet on May 12th, 1922).
- (2) Commercial convention between Poland and Roumania. (Signed on July 1st, 1922, ratified by the Diet on July 28th, 1922).
- (3) Commercial convention between Poland and Switzerland. (Signed on June 26th, 1922, ratified by the Diet on July 28th, 1922).
- (4) Commercial convention between Poland and Italy. (Signed on May 12th, 1922, ratified by the Diet on July 28th, 1922).
- (5) Commercial convention between Poland and Memel. (Signed on June 6th, 1922, ratified by the Diet on September 26th, 1922).

B. NOT YET RATIFIED.

- (1) Agreement with Austria on commercial compensation. (Signed on March 17th, 1920).
- (2) Convention of July 5th, 1890, on the international publication of customs tariff (Signed by Poland on November 25th, 1920).
- (3) Convention with Hungary on commercial compensation. (Signed on February 11th, 1921).
- (4) Commercial Convention between Poland and Czechoslovakia. (Signed on October 20th, 1921).

II. *Other Economic Agreements.*

A. RATIFIED.

- (1) Agreement relating to the protection and restriction of rights of industrial ownership annulled during the war. (Poland adhered to this convention on June 30th, 1920, and it was ratified by the Diet on July 7th, 1921).
- (2) Convention on cold storage. (Poland adhered to this convention on June 21st, 1920 and it was ratified by the Diet on October 28th, 1921).
- (3) Agreement between Poland and France relating to the regulation of the petroleum industry. (Signed on February 6th, 1922, ratified on May 12th, 1922).
- (4) Agreement between Poland and Germany relating to the clearing of postal cheques. (Signed on May 15th, 1922, ratified by the Diet on May 24th, 1922).

B. NOT YET RATIFIED.

1. Provisional agreement relating to the management of agricultural establishments on the Polono-German Frontier. (Signed on July 17th, 1920).
2. Agreement between Poland and France relating to savings banks. (Signed on October 14th, 1920).

III. *Mixed Agreements.*

A. RATIFIED.

1. Agreement between Poland and Danzig. (Signed as a convention on November 9th, 1920, ratified by the Diet on December 17th, 1921).
2. Convention between Poland and Germany relating to Upper Silesia. (Signed on May 15th, 1922, ratified by the Diet on May 24th, 1922).

IV. *Peace Treaties.*

A. RATIFIED.

1. Peace Treaty between Poland on the one part and Russia and the Ukraine on the other part. (Signed on March 18th, 1921, ratified on April 15th, 1921).

B. NOT YET RATIFIED.

1. Treaty of Sèvres or Treaty of Austrian Succession. (Signed on August 10th, 1920)

V. *Agreements relating to Communications.*

A. RATIFIED.

1. Convention between Poland and the Free City of Danzig on the one part and Germany on the other part, relating to freedom of transit between East Prussia and the remainder of Germany. (Signed on April 21st, 1921, ratified by the Diet on January 24th, 1922).
2. Agreement between Poland and Germany relating to facilities for frontier traffic. (Signed on April 29th, 1922, ratified by the Diet on July 28th, 1922).
3. Barcelona Convention of April 20th, 1921, on freedom of transit. (Ratified on August 4th 1922).
4. Barcelona Convention of April 20th, 1921, on the construction of navigable waterways. (Ratified by the Diet on August 4th, 1922).
5. Convention on air communications. (Poland adhered on October 13th, 1919. Ratified by the Diet on September 23rd 1922).
6. Paris Convention of October 11th, 1909, on motor transit. (Ratified by the Diet on September 26th, 1922).

B. NOT YET RATIFIED.

1. Berne Railway Conventions of 1900, 1885 and 1907. (Signed on August 4th, 1920).
2. Railway agreement with Czechoslovakia. (Signed on June 24th, 1920).
3. Railway agreement with Austria.
4. " " " Roumania.
5. " " " Hungary.
6. Berne Convention on railway traffic. (Poland adhered to this convention on February 24th, 1922).

February 3rd, 1923.

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LEAGUE OF NATIONS

BRUSSELS FINANCIAL CONFERENCE 1920

THE RECOMMENDATIONS

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A Review after Two Years

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(Reports concerning Bulgaria and France).

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PREFACE.

The present volume, which completes the series of reports upon the application of the financial principles laid down by the International Financial Conference at Brussels, contains statements prepared by the Bulgarian and French Governments. These reports, as has already been recorded in the Introduction to Volume I and in the Preface to the third volume, have been drawn up in compliance with the resolutions passed by the Second Assembly of the League of Nations requesting the publication of information on the measures which have been taken with a view to applying the principles recommended in 1920.

The contents of the earlier volumes of this series are as follows:

Volume I. (a) Introduction giving a general survey of the progress which has been made, including information concerning both those countries from which special reports have and those countries from which special reports have not been received.

(b) Reports concerning:

Argentine	Netherlands
Australia	New Zealand
Austria	Norway
Belgium	Spain
Czechoslovakia	Sweden
Denmark	Switzerland
Finland	Union of South Africa
Hungary	United Kingdom
India	United States of America
Japan	Uruguay.
Luxemburg	

Volume II. Report concerning Italy.

Volume III. Reports concerning Brazil, Latvia and Poland.

Bulgaria.

I. BUDGETARY MEASURES.

The State revenue of Bulgaria for the financial year 1922-23 amounted to 4,345,740,000 leva, distributed as follows:

1. Direct taxes	620,500,000	leva
2. Indirect taxes	1,719,500,000	»
3. Fees and dues	198,050,000	»
4. Fines and confiscations	26,300,000	»
5. Receipts from railways and ports	609,000,000	»
6. Receipts from Posts, Telegraphs and Telephones	121,000,000	»
7. Receipts from State lands, investments, etc.	713,600,000	»
8. Sums paid by the Communes and Departments for salaries of teachers	157,290,000	»
9. Miscellaneous	155,500,000	»
10. Carried over from closed accounts	25,000,000	»

Total receipts 4,345,740,000 leva

The State expenditure for the same year amounted to 4,646,163,413 leva, distributed as follows:

	Leva		
	Salaries and various appropriations	Other expenditure	Total
1. Central Government	7,814,660	19,051,250	26,865,910
2. Public Debt	801,800	1,172,227,012	1,173,028,812
3. Central Audit Office	5,306,620	930,340	6,236,960
4. Ministry of Foreign Affairs	34,049,720	54,241,620	88,291,340
5. Ministry of the Interior and Public Health:			
(a) Administration and Police	77,293,080	40,596,500	117,889,580
(b) Directorate of Public Health	35,310,190	106,498,000	141,808,190
6. Ministry of Education	334,235,130	97,897,855	432,132,985
7. Ministry of Finance	114,759,390	77,276,806	192,036,196
8. Ministry of Justice	55,008,450	31,778,700	86,787,150
9. Ministry of War	272,914,100	269,599,000	542,513,100
<i>Carried forward</i>	937,493,140	1,870,097,083	2,807,590,223

Leva			
	Salaries and various appropriations	Other expenditure	Total
<i>Brought forward . . .</i>	937,493,140	1,870,097,083	2,807,590,223
10. Ministry of Commerce, Industry and Labour.	80,508,000	241,628,500	322,136,500
11. Ministry of Agriculture and State Lands	65,472,830	67,418,400	132,891,230
12. Ministry of Public Works, Ways and Communications:			
(a) General Directorate of Ways and Construction. . .	30,359,000	152,260,000	182,619,000
(b) General Directorate of Com- pulsory Labour	29,300,000	175,045,000	204,345,000
13. Ministry of Railways, Posts and Telegraphs:			
(a) General Directorate of Rail- ways and Ports	228,433,585	226,151,205	454,584,790
(b) General Directorate of Posts and Telegraphs, Tele- phones and Air Transport	69,615,270	51,881,400	121,496,670
Total	1,441,181,825	2,784,481,588	4,225,663,413
14. Expenditure incurred in carrying out the Treaty of Peace			420,500,000
Total			4,646,163,413

The payments made to officials and State employees are quite inadequate to relieve them from the extreme and increasing poverty into which all servants of the State are plunged.

The following tables show the efforts which the Bulgarian Government has been making to assist its employees.

TABLE I.

showing the amount of annual expenditure necessary for the maintenance of an average household, based on the average market prices during the years 1900, 1905, 1910, 1915, 1918 and 1919, according to the table of average requirements drawn up in the period 1908-1912.

	Total expenditure of an average household during					
	1900	1905	1910	1915	1918	1919
	in leva					
1. Food, heating, lighting.	705	758	945	1,412	8,399	12,177
2. Clothes and footwear	250	259	300	574	3,500	7,462
3. Housing.	360	480	720	840	840	840
Total	1,315	1,497	1,965	2,826	12,739	20,479
Total less housing.	955	1,017	1,245	1,986	11,899	19,639

	Increase in the cost of living as compared with 1900					
	1900	1905	1910	1915	1918	1919
1. Food, heating, lighting.	100	107.5	134.0	200.1	1,190.5	1,725.9
2. Clothes and footwear	100	103.6	120.0	229.6	1,400.0	2,984.8
3. Housing.	100	133.3	200.0	233.3	235.3	233.3
Total	100	113.8	149.4	214.8	968.7	1,557.3
Total less housing.	100	106.5	130.4	208.0	1,246.0	2,056.4

TABLE II

showing the Cost-of-living Subsidies granted by the State.

A. *For the period July 1st, 1916, to December 31st, 1917.*

Leva

Category of official	Basic annual salary	Monthly Cost-of-living Subsidy		
		1st category : Bachelors or widowers without children	2nd category : Married men without children	3rd category : married men or wid- owers with children
I	6,001 and upwards	40	60	80
II	4,801 to 6,000	35	50	70
III	3,601 to 4,800	30	45	60
IV	2,401 to 3,600	25	35	50
V	2,400 and less	20	30	40

B. *For the period from January 1st, 1918, to November 1st, 1918.*

Leva

Category of official	Basic monthly salary	Monthly Cost-of-living Subsidy			
		1st category : Bachelors or widowers without children	2nd category : Married men without children	3rd category : Married men or widowers with 1 or 2 children	4th category : Married men or widowers with more than 2 children
I	401 and upwards	120	150	180	210
II	301 to 400	100	130	160	190
III	201 to 300	80	110	140	170
IV	101 to 200	60	90	120	150
V	Up to 100 leva	40	70	100	130

C. For the period November 1st, 1918, to September 30th, 1919.

Leva

Category of official	Basic monthly salary	Monthly Cost-of-living Subsidy				
		1st categ. Bachelors or widowers without children	2nd categ. Married men without children	3rd categ. Married men or widowers with 1 or 2 children	4th categ. Married men or widowers with 3 or 4 children	5th categ. Married men or widowers with 5 or more children
I	400 and upwards	300	350	400	450	500
II	300 to 400	250	300	350	400	450
III	200 to 300	200	250	300	350	400
IV	100 to 200	150	200	250	300	350
V	Up to 100 inclusive	100	150	200	250	300

D. From October 1st, 1919, to March 31st, 1922.

(According to the Statute for Officials.)

Leva

Categ. of official	Basic monthly salary	1st categ. Bachelors or widowers without children	2nd categ. Married men without children	3rd categ. Married men or widowers with 1 or 2 children	4th categ. Married men or widowers with 3 or 4 children	5th categ. Married men or widowers with 5 or more children
I	500 & upwards	300	350	400	450	500
II	400 to 500	250	300	350	400	450
III	300 to 400	200	250	300	350	400
IV	200 to 300	150	200	250	300	350

E. From April 1st, 1922, to present day.

(According to the Statute for Officials.)

Leva

Category according to the tables of salaries	1st categ. Bachelors or widowers without children	2nd categ. Married men without children	3rd categ. Married men or widowers with 1 or 2 children	4th categ. Married men or widowers with 3 or 4 children	5th categ. Married men or widowers with 5 or more children
VI	50	100	150	200	250
V	100	150	200	250	300
IV	150	200	250	300	350
III	200	250	300	350	400
II	250	300	350	400	450
I	300	350	400	450	500

In addition to these grants, the officials are at present ¹ receiving a bonus amounting to 30 % of their basic salary plus cost-of-living subsidy.

The total State expenditure shown under the heading Salaries of Officials, 1,441,181,825 leva, for the year 1922-23, thus represents somewhat less than a third of the total State expenditure. The amount spent under this heading before the war was scarcely a quarter of the total State expenditure. As the cost of living has increased many times over in comparison with the pre-war period, the position of the officials still leaves much to be desired, in spite of all the efforts made by the Government.

II. MONETARY MEASURES.

1. *The increase or decrease of the note circulation.*

The only money in circulation in Bulgaria is bank-notes which cannot be exchanged for specie at the counters of the National Bank (Law of January 3rd, 1919). At the present moment the National Bank is only a buyer, and not a seller, of gold coins and silver. This situation as regards the circulation of money within the country has prevailed since the wars.

The increase in the note circulation since 1920 can be seen from the following table:

Leva (000's omitted).

Years and months	Metallic Reserve			Fiduciary Circulation	Advances to Treasury
	Gold	Silver	Total		
1920 March .	36,999	17,141	54,140	3,139,011	2,005,513
June . .	37,028	17,013	54,041	3,406,531	2,228,812
Sept. . .	37,032	16,949	53,981	3,456,136	2,326,289
Dec. . .	37,075	16,910	53,985	3,354,139	2,891,748
1921 March .	37,244	20,723	57,967	3,216,879	2,831,401
June . .	37,809	24,380	62,189	3,159,290	3,136,130
Sept. . .	37,883	21,910	59,793	3,414,597	3,462,386
Dec. . .	38,005	20,866	58,871	3,615,439	3,702,329
1922 March .	38,138	19,995	58,133	3,734,308	3,920,885
June . .	38,163	19,563	57,726	3,800,625	4,206,804
Sept. . .	38,345	19,011	57,356	3,941,391	3,936,167
Dec. . .	38,420	18,412	56,832	3,885,990	3,770,335
1923 March .	38,563	16,845	55,408	3,902,467	4,103,064

¹ March 1923.

The following foreign assets served as cover for the circulation:

Leva (ooo's omitted).

Years and months		Foreign securities	Foreign bills	Foreign correspondents
1920	March	29,085	349,427	984,595
	June	34,858	292,297	1,237,542
	September	34,243	273,167	1,402,467
	December	14,023	273,167	1,307,377
1921	March	5,438	263,755	1,184,320
	June	4,385	292,653	998,397
	September	4,329	294,678	1,098,958
	December	2,435	65,717	1,080,855
1922	March	2,108	34,042	969,693
	June	1,820	34,560	850,937
	September	1,440	2,083	838,910
	December	1,322	2,142	795,820
1923	March	624	52	664,125

2. *The influence of Government expenditure on currency.*

The note circulation has increased, and has lost its relationship to the cover, chiefly owing to advances made to the State during and after the wars. The heavy State expenditure during the wars was covered by the National Bank by means of successive issues of notes. After the Great War, owing to the economic ruin of the country, the State was not in a position to cover its expenditure by its revenue and the budget accordingly showed deficits. These deficits in the post-war budgets, which were swollen by the payments due to the war, were again met by the National Bank by means of fresh issues of notes. These facts will be seen at once from a study of the figures which show the note circulation and the liabilities incurred by the State towards the National Bank. It may be seen that the notes in circulation and the liabilities of the Treasury have increased simultaneously and with equal rapidity. The payments which had to be met by the Treasury included also pre-war foreign debts and annuities, which were partly in arrears, loans, etc., and reparations.

4. *The connection between the Government and the central bank of issue.*

The covering of State expenditure by the Central Bank of Issue was facilitated by the fact that this institution is under the control of the State and acts as the Banker of the State. It encashes revenues and makes payments on behalf of the State (Law of October 3rd, 1907). If the payments made by the Bank on behalf of the State exceed the State revenue held by the Bank, the State pays interest on the difference. This interest was paid at the rate of 5½ %, the first 10,000,000 leva being free of interest. Subsequently the interest on the liabilities in question was fixed at the following rates: the first 10,000,000 free of interest; from that figure up to 40,000,000, 5 %; above 40,000,000, 5½ %. On January 1st, 1919, the interest was reduced to 4 %. Since April 13th, 1922, the interest on the liabilities of the State to the Bank on an amount equal to twice the original capital of the Bank has been fixed at 4 %, and on the remainder of the debt at 3 %, the first 10 millions continuing to be exempt from interest.

6. *The existence of any artificial control of exchange, with a description of its character and its effects.*

Dealings in foreign exchange were under the absolute control of the Central Exchange Institute, which was established in connection with the National Bank at the end of 1918. This Central Exchange Institute having the exclusive right of buying or selling foreign exchange, assisted the State by obtaining for it the foreign currencies required for repaying its foreign obligations. The establishment of this Office has, however, encouraged the illegal export of notes, and consequently the improvement in the exchange rate of the lev, which was one of the objects for which it was created, has not been realised. For this reason the Law creating it was modified in 1921 so as to allow greater freedom for dealings in exchange. All that has been retained of this Law is the provision by which every exporter is bound to hand over one-third of the value of the goods exported, at the rate of exchange fixed by the Central Office (usually 8 % to 10 % below the market rate).

Foreigners who hold Bulgarian bank-notes are not subject to any special regulations except that persons or banks who have deposits in Bulgarian banks, but who do not possess estate or reside in Bulgaria, are liable to have a portion of the interest and dividends due to them retained in accordance with the scale laid down by the Revenue Law.

III. COMMERCIAL POLICY.

1. *The abolition or the establishment of prohibitions on imports or exports, or of special permits; the abolition or lowering of import or export duties, etc.*

Restrictions on imports and exports have been in force in Bulgaria under the Law on Social Insurance which appeared in the Official Journal of April 27th, 1918; this law lays down that special import and export licences have to be obtained in every case. Other restrictions have been imposed by a law prohibiting the import of articles which are not objects of primary necessity; under this law the importation of luxury articles and objects which are not of primary necessity is prohibited.

The strictness of the regime established by the Social Insurance Law was subsequently diminished, the import of articles being allowed free of licence from September 21st, 1920 (on which date that part of the law affecting imports was repealed), and export being allowed free of licence from January 4th, 1921 (when the part of the law dealing with exports was also repealed). Since these dates the only restrictions on imports have been those resulting from the law prohibiting the importation of articles other than those of primary necessity, and on exports, those resulting from the Customs Tariff Law regarding exports.

By Decrees Nos. 4, 6 and 10 of January 26th, March 23rd and May 6th, 1921, the import prohibitions in respect of many articles the introduction of which was prohibited under the law concerning articles which are not objects of primary necessity, have been repealed; and the Customs Tariff Laws of March 5th, April 11th, and June 25th, 1921, regarding exports made a further considerable reduction in the number of articles affected by the export prohibitions.

As regards the customs regime to which imports and exports are subjected, it is important to note the following points:

Between August 9th, 1920, and August 9th, 1921, goods coming from the Entente countries and neutral States were, in conformity with Article 151 of the Treaty of Neuilly, taxed according

to the conventional tariff which came into force on July 28th, 1914; and the import duties were collected for the period between August 9th, 1920, and January 1st, 1921, in gold leva at the rate of 100 gold leva to 700 paper leva, and for the period January 1st, 1921, to August 9th, 1921, at the rate of 100 gold leva to 900 paper leva.

From August 9th, 1921, to April 11th, 1922, imports were taxed under the autonomous tariff of 1904, the duties being doubled and collected in gold leva at the rate of 100 gold leva to 900 paper leva for the period August 9th, 1921, to November 1st, 1921, and at the rate of 100 gold leva to 1,200 paper leva for the period November 1st, 1921, to April 11th, 1922.

Since April 11th, 1922, a new autonomous import tariff has come into force. Under this tariff the duties on luxury articles are higher, while those on articles which are of primary necessity for the people and for industry are even lower than they were before April 11th, 1922.

The export duties were relatively much higher up to March 8th, 1921, than they are at present.

It will be seen from the above that the restrictions on imports and exports in Bulgaria have been considerably relaxed and that the country is gradually working back to the pre-war situation.

An examination of the statistics shows, for example, that imports for the period of 12 months from July 1st, 1920, to July 1st, 1921, amounted to only one-third, as regards quantity, of the average annual imports for the normal years 1909-11, while their value was 15 times as great; similarly, the exports for the same period amounted to only two-sevenths as regards quantity of the average annual exports for the above years, while their value was 12 times as great.

This decrease has not, however, been caused by restrictions or by customs tariffs, but is due, particularly in the case of imports, to the extraordinary rise in the price of goods and the gradual impoverishment of the people, who have been compelled, for this reason, to reduce their requirements to a minimum, and also to the depreciation of the lev. The decrease in exports is due to the fact that the whole economic system of the country was disorganised after the war, while at the same time production was diminished, with the result that it became necessary to retain a great part of the raw materials and manufactured products of the country in order to supply the needs of consumers.

March 15 th, 1923.

France

I. — BUDGETARY MEASURES.

Statement of budgetary developments from the summer of 1920, with special reference to the following points:

1. *How far the ordinary expenditure (including the service of the debt) has been covered by ordinary revenue.*

A clear idea of French budget administration since the war can readily be formed from certain tables attached hereto.

Tables I and II (pp. 24-27) show the actual budgets voted by Parliament in the annual finance laws. They represent, in a manner, the financial policy of the Government.

Item 6 in Table II, showing the estimates for extraordinary revenue, should be specially noted. This extraordinary revenue is of two kinds: effective receipts, which are limited to a few years only, and receipts intended to make good the deficit in the budget which, in default of increased yields, must be procured by means of treasury transactions.

Table I to some extent shows the composition of the French budgets since the war: the ordinary budget, the extraordinary budget (discontinued in 1922), appended budgets in connection with the general budget, special budget for certain services in Alsace and Lorraine (a temporary arrangement, discontinued in 1921), budget for recoverable expenditure, begun in 1920 and containing exclusively expenditure chargeable to Germany.

Table II (Receipts) refers to the ordinary budget alone. The extraordinary budget could only be covered by borrowing. The receipts and expenditure contained in the appended budgets and those for Alsace and Lorraine are balanced by transferring any surplus to, or making good any deficit from, the general budget. Owing to Germany's practical bankruptcy, the special budget for recoverable expenditure shows no receipts except certain receipts corresponding to those known in the English budget system as receipts in appropriations in aid (*recettes d'ordre*). Payments by Germany have not even sufficed to cover all advances in the special account for the maintenance of the troops of occupation. This account is included in Table I as it is voted annually by Parliament in the same way as the special budget.

It will be seen from Table III (p. 28), in the absence of closed accounts, that the difficulties of centralising the accounts which were due to the war still make it impossible to show the total sums voted for each financial period either under the terms of the finance law itself or of subsequent laws modifying sums already authorised, that is to say, either increasing them by supplementary credits or curtailing them by cancelling credits already voted.

The maximum sum already expended, or to be expended, is thus shown under three separate headings: ordinary expenditure, extraordinary expenditure and expenditure recoverable from Germany. Another column gives the maximum sum that may be paid out in each financial period for the service of the debt, the civil services and the army and navy.

The figures given represent the limits which must not be exceeded; large economies will be shown in the law closing the accounts, which will, to a certain degree, make good the supplementary credits and reduce the gap between the actual results and the initial estimates.

The actual expenditure in 1913, on the basis of the closed accounts for that year, and the total sums voted during the financial period of the war have been inserted in the same table, for purposes of comparison.

Tables IV to VIII (pp. 29-32) likewise show the actual results as regards receipts. From these tables it is possible to obtain with sufficient accuracy, in the case of each category of revenue: (a) the surplus or deficit as compared with the estimates in the finance laws; and (b) the progress made from one year to another.

Table IX (pp. 33-34) gives an abridged balance sheet of the special accounts not included in the budgets; these accounts had a marked effect upon treasury transactions up to last year.

Finally, Table X (p. 35) affords a survey, from year to year, of France's financial achievements up to December 31st, 1922, as regards reparation of damage to individuals or property for which Germany is responsible under the terms of the Treaty of Peace, and shows as separate items the revenues utilised and the objects for which the money was employed.

It is thought desirable to recapitulate and comment on a few of the facts which may be inferred from this body of figures.

A. — *Total of the Budgets.*

The French State expended in 1913 a total sum which was hardly in excess of 5 milliards (omitting the appended budgets, which deal mainly with accountancy questions), whereas in 1922 it expended nearly 26 milliards, in addition to some 11 milliards representing the Treasury's immediate share in the advance which France is still making on behalf of Germany in spite of the latter's default. If allowance be made for funds supplied from sources other than the State treasury — but for which the Treasury is ultimately responsible — in order to supplement this last advance, the aggregate will be found to exceed 40 milliards.

It should, however, be noted also that, since the close of hostilities, the State authorities have made great efforts to reduce military expenditure and expenditure on administration and reconstruction, and, in spite of the increasing burdens due to the war debt, they have been able to curtail the total expenditure shown in the purely French budget. This budget has decreased from 31.2 millions authorised in 1920 to 27.5 millions in 1921, and to about 26 millions in 1922.

It should be added that a Reform and Retrenchment Commission is now at work, whose object it is, not only to abolish all useless expenditure, but to make proposals for remodelling the public services so as to adjust results to costs.

B. — *Estimated Expenditure. Supplementary Votes. Budget Control.*

The large supplementary votes during the last three years have claimed the attention of the public. Their gross total — 9,338 millions — has been, or will be, reduced to about 7,333 millions as a result of decisions to cancel certain credits already voted. The separate items may be given as follows:

(a) Votes for compulsory expenditure, the total of which can only be roughly estimated and not fixed: 4,561 millions.

(b) Votes in excess of specific credits, attributable in part to the ordering departments, but also due to various causes not under their control: 3,256 millions, including a subsidy amounting to 1,304 millions to the food supplies account with a view to permitting sales to be made at a loss in certain fixed cases, so as to avoid an excessive rise in prices (1920).

(c) Unforeseen expenditure or expenditure due to enlargement of services: 1,522 millions.

In the present circumstances even the most careful estimates cannot take into consideration economic vicissitudes due to the consequences of international problems still unsolved, or of new measures of all kinds which may have to be decided upon during any given financial period ; but we must at any rate dispel the excessive optimism shown in certain estimates and not allow ourselves to be misled by over-confidence in framing the budget. It was with a view to guarding against these dangers that Parliament voted the provisions contained in the Finance Law of April 30th, 1921, Articles 40 to 45, and supplemented them by the Law of August 10th, 1922. These measures refer more especially to the responsibility of Government agents who pay out moneys in excess of the credits or authorisations received from the Treasury, to regulations in regard to procedure for payments in advance, to strengthening the powers of controllers of accounts, who are directly responsible to the Minister of Finance and must be consulted with regard to the drafting and application of finance laws.

C. — *Estimated Receipts. Comparison with results.*

In spite of the difficulties encountered in the economic reconstruction of the country, which has not yet received the payments to which it is entitled under the terms of the Treaty of Peace, and in spite of the crisis in 1921 which greatly reduced the volume of trade, it may be said that, taken as a whole, the yield of the taxes and other forms of revenue, both permanent and temporary, has exceeded the estimates contained in the finance laws.

As regards the total *permanent* receipts of the State other than direct taxes, it will be seen from Tables IV and V (compare also Table II) that in 1921 and 1922 the deficits, the total of which is relatively insignificant, are much smaller than the surpluses of 1919 and 1920 (24.41 per cent. and 19.10 per cent.). We are dealing here with the sums actually recovered.

For direct taxes (in French administrative language these mean only the taxes assessed and levied by means of schedules containing the taxpayer's name and do not include all the charges falling direct upon capital or income) it is convenient to take for purposes of comparison, not the actual receipts, a large portion of which are, owing to the late issue of the schedules, intercalated in the accounts for subsequent years, but the actual totals contained in the assessment lists.

If we consider (Table VI) the lists for each financial period, omitting the years in which the tax was first introduced, it will be seen that the estimates in the Finance Law for 1920 have been covered to an appreciable extent, and that in 1921 there was a surplus of 1,466 millions, *i.e.*, 73.3%, while in 1922 the surplus was, on December 31st, more than 730 millions or about 30%. These figures, moreover, have been greatly exceeded at the present date owing to the assessment lists which remained to be issued before the close of the financial period. These results cover all direct taxes: the portion of the old "contributions" due to the State, taxes on income and taxes assimilated to direct taxes.

The new taxes on income introduced in 1916 (the general income tax) and in 1918 (scheduled taxes on commercial and industrial profits, on professional incomes, salaries, wages and agricultural profits) may be more advantageously studied from another point of view, taking into account the period of five years (six years in the case of death) granted to the administration

for recovering the tax due on income received in any given year. In this connection Table VII shows the total yield from schedules issued before December 31st, 1922, arranged according to the years in which the tax was levied since 1916, and compares it with the estimated annual yield submitted to Parliament at the time when the organic laws were passed. It will be seen that every year shows a considerable surplus varying from 25% to about 100%. A comparison of the totals is also instructive. It is convenient to stop at the year 1921, owing to the position reached on December 31st last in connection with the initial work of issuing the schedules for 1922. The estimates laid before Parliament amounted to 4,347 million francs. The yield from the schedules reached, at the end of last year (and numerous payments will, no doubt, be recovered in the next four years), a total of 6,267 million francs, giving a total surplus of 44%.

Finally, Table VIII shows that, although the exceptional revenue received year by year from the extraordinary tax on war profits (about 16 milliards from schedules issued up to December 31st last) does not correspond to the estimates for each year, the total of these receipts exceeded the estimates in the successive budgets. The total yield from the liquidation of stocks from the first year also does not appear to differ appreciably from the estimates shown under ways and means in the finance laws.

D. — *Improved Yield from Taxes. Comparison of Permanent Receipts with Receipts in 1913.*

If we compare, in connection with the total *permanent* revenue of the State other than the revenue from direct taxes, the returns in 1922 with the final receipts in 1913, it will be seen (Table IV) that the former are four times the latter.

For the reasons given above, the most convenient year for purposes of comparison for direct taxes is 1921. The receipts from schedules issued for the financial period 1921 amount to $5 \frac{1}{3}$ times those of 1913.

In the first category of receipts, it should be noted that, although taxes levied by the Office for Registration (succession duties, duties on transfer of property, stamp duties, etc.) have only reached at present $3 \frac{3}{4}$ times the 1913 yield, the receipts collected under the scheduled tax on income received from transferable securities are 7.4 times as high.

The Customs at present bring in only 2.10 times their pre-war yield, although imports, even including manufactured commodities, reckoned in weight, are the same as in 1913 and their value in francs is multiplied by an appreciably higher coefficient. This is corroborative evidence that France, in her anxiety not to obstruct international commerce (which is, moreover, necessary for the revival of her prosperity), has not, on the whole, increased her previous ordinary Customs duties or her protective tariff.

It may be shown that there has never been at any moment during the last three years or in any important chapter of the budget, with perhaps a single exception (Customs in 1921), a setback to the growth of the various public receipts and revenues. This progress has, in point of fact, never met with any serious temporary check except in the case of Customs and the business turn-over tax, and there the result was due to the commercial crisis of 1921, and also, in regard to the second source of revenue (which is a complete novelty), to the necessity of devising a suitable administrative organisation.

There were also no less serious difficulties in the case of the new taxes on income. The unlooked-for results which have been obtained during the few years which have elapsed since the introduction of this tax and which contrast with the stagnation or slow development of the old "contributions" based on schedules or on external indications of wealth, which cannot be sufficiently quickly adjusted to the rapid variation in economic conditions and the value of money, testify to the magnificent effort to adapt themselves to altered circumstances already achieved by the revenue authorities and the public.

E. — *Progress towards Budgetary Unity.*

France has gradually returned, since 1919, to the principles of a sound conduct of finance, which consists in grouping all receipts and all expenditure to be met by the State within a single annual budget. The extraordinary budget, which was maintained by borrowing, was discontinued in 1922. As a matter of general interest, some reference may be made to the "extraordinary expenditure" therein, which is now, when continued, inserted in the general amalgamated budget. Under this head may be grouped: execution of works in connection with economic development, and the repair of railways, both of which were undertakings rendered necessary by the war, but which could not be charged to the account of Germany; subsidies, intended as a rule for the same purpose, charged to the provisional budget for Alsace and Lorraine; maintenance of refugees; subsidies to the special food supplies accounts; military expenditure due to foreign operations which France had to undertake; initial expenditure for the High Commissioner's office in Syria; bonuses to State officials on account of high cost of living.

The retention of the budget for recoverable expenditure was inevitable; it is in a way a result of the provisions of the Treaty of Peace.

The unity of the budget was also broken this year, as hitherto, by the special services instituted since the war for the purpose of providing for certain exceptional transactions which the State was obliged to undertake, and which could not be dealt with by the regular procedure for the annual budgets. These will be explained subsequently.

In the same connection, attention should be drawn to the endeavours, which will no doubt shortly be successfully concluded, to audit the accounts for the war period, as these were very imperfectly kept owing to the overwhelming number of the transactions affected, to difficulties in connection with the invaded territories, the employment of reserves constituted abroad and the issue of countless treasury securities, etc., and also to the effort to establish separate accounts for the fiscal periods subsequent to 1920.

F. — *Results obtained from the endeavours to establish a balance in the Budget.
Proportion of Expenditure covered by the Normal and Permanent Receipts.*

Permanent receipts during the last financial period prior to the war balanced expenditure almost exactly — 4,907 against 5,067 million francs.

The deficit during the war years reached or even exceeded 80 %.

The totals for the budgets since 1920, as passed by Parliament, may be given as follows, in millions of francs:

		Revenue.		Expenditure.	Difference.
1920.	Normal	13,355	Ordinary	21,761	— 8,406
	Exceptional	6,915	Extraordinary	5,420	+ 1,495
	Total	20,270	Total	27,181	— 6,911
1921.	Normal	17,625	Ordinary	23,263	— 5,638
	Exceptional	5,228	Extraordinary	3,236	+ 1,992
	Total	22,853	Total	26,499	— 3,646
1922.	Normal	19,832	Ordinary	23,334	— 3,502
	Exceptional	3,550	Extraordinary	1,354	+ 2,196
	Total	23,382	Total	24,688	— 1,306

The difference between revenue and expenditure in the French general budget has accordingly been considerably reduced.

The draft budget for 1923, which was laid before Parliament a year ago, was prudently drawn up so as to allow for a decline in revenue during the commercial crisis, and foreshadowed a considerably increased deficiency in normal revenue. But owing to the surpluses from taxes during the first four months of the year, it is already possible to forecast far less unfavourable conditions as regards the balance.

Although the general budget is swollen by expenditure on reconstruction due to the war and by a portion of the annual cost associated with reconstruction loans, it is unhappily far from covering the burdens imposed upon France for assuring both her national economic activities and the repair — which is still too slow — of the losses inflicted by the invader. It can, however, even now be said that the position has improved. Whilst in 1920 ordinary revenue represented 26 % of all receipts from taxes or loans, demanded by the State from the country either directly or indirectly, in 1922 the sums received from ordinary revenue are almost exactly equal to the amount collected by borrowing.

G. — *Annual burden of the Public Debt.*

After the liberation of her territory, France was obliged to add reconstruction loans to the burdens of her war debt. The capital increase in the public debt during these latter years forms the subject of the answer given in a subsequent passage to Question 10.

With regard to the annual service of the debt, Table III shows that it increased from 1,355 millions in 1913, representing less than 27 % of the budget, to 12,957 millions — 49.20 % of the total vote in 1922 — this referring only to that portion which was inserted in the general budget. These figures include interest and annuities of all kinds, and pensions other than disablement pensions and pensions for relatives of victims of the war.

H. — *Appended Budgets.*

Some of the appended budgets (the Mint, National Printing Office, State manufactures in Alsace and Lorraine) repay to the general budget increasing surpluses, which amount at present to about 100 millions. Others are able to balance their accounts or retain their surplus as a grant in aid (Central School, National Savings Bank). Others, which are intended to ensure certain public services, receive important subsidies from the general budget: State powder-magazines, Legion of Honour; Naval Disablement Fund. The State railways and the Alsace-Lorraine system (the present regime of the latter is only provisional) are placed in regard to the general budget in a situation which is in every respect analogous to that of systems exploited by companies holding concessions: they obtain funds either directly, by issuing bonds, or by securing short-term advances from the Treasury (see reply to Question 8 below).

I. *Special Services.*

(a) *Pre-war.*

The special pre-war services no longer occupy any considerable place in the present national balance sheet. The receipts in respect of these services are practically equal to expenditure and amount to 250 millions per year.

(b) *Created since the war.*

No particulars can be given here regarding the numerous accounts of the special Treasury services created since 1914. Table IX supplies an abridged list of these accounts, together with a statement of the balances as on December 31st, 1922.

As is explained below, the very large sums represented by these balances indicate rather the magnitude and complexity of the entries which still remain to be adjusted than the actual cash position with regard to the individual accounts.

* * *

One of the accounts in question deserves individual consideration, since it necessitates the same parliamentary appropriations and is subject to the same parliamentary supervision as a budget proper, and really constitutes a kind of supplement to the special budget of expenditure recoverable under the Treaties of Peace. The account in question relates to the maintenance of the armies of occupation abroad. If all the credits which have been granted for the various years are taken into account, the expenditure which is, or ought to be, debited to this account amounts to:

1,790	millions for	1919
644	»	» 1920
786	»	» 1921
527	»	» 1922.

This total has been partially met out of deliveries made by Germany.

* * *

Among the other special accounts there are a number which merely represent book-keeping transactions and not actual receipts or expenditure over and above the budget figures. Even the other accounts contain a great number of entries which do not represent either disbursements in cash (this applies to certain advances granted to foreign Governments in the form of materials debited to the budgets, or in the form of bonds, guarantee credits which were voted but not realised, etc.) nor actual receipts (sums allocated from the budgets for working capital, or for covering the deficits totally or partially).

Moreover, numerous transactions relating both to revenue and expenditure carried out in foreign countries (the accounts relating to food supplies, to petrol and mineral oil and the Mercantile Marine), or calling for difficult operations of analysis or auditing (redemption of token money), could only be entered in the central national accounts after considerable delay.

That being the case, the figures given below should be regarded as intended merely to convey an idea of the relative magnitude of the actual burdens which the Treasury has had to assume as a result of the too-numerous extra-budgetary operations, which were first undertaken during the war, and the execution of which has been continued during the past three years.

Total excess expenditure in respect of annual operations effected on account of special Treasury services from 1920-22, in millions of francs:

1920	1921	1922
5,092	2,714	500 (approx.)

During the war, the excess of expenditure over receipts was mainly due to advances of all kinds made to foreign Governments, to the necessity of supplying the civil population with corn and flour and to the reconstruction of railways of general and local concern begun in 1919.

During 1920 and 1921, provision was also made for further advances to foreign Governments, for the continuance of the measures for feeding the civil population until the close of the bad agricultural year 1920-21, for reconstruction work on railways, the exchange at par of the German currency in Alsace-Lorraine and the notes issued by towns in the invaded areas, payments in advance in respect of food supplies made to Germany against deliveries of coal (Spa Agreement), etc.

In addition to various appropriations and certain repayments which reduced expenditure (we omit all mention of the receipts from the Extraordinary Tax which were transferred from the special account and credited to the successive budgets), it will be seen that in 1920 and 1921 the liabilities of the special services were reduced by the proceeds of the liquidation of the stocks ceded by America, by the receipts from petrol and mineral oil and receipts from various accounts of the Mercantile Marine and maritime insurance (realised before payment, or before the expenditure relating thereto was entered in the central accounts).

The special services, created after the outbreak of the war, imposed a burden upon the French Treasury down to 1921 which was all the more irksome in view of the fact that it was impossible to classify receipts and expenditure, with any degree of certainty, owing to the commercial character of this work. The unavoidable obscurity of the accounts of these services, which had been accentuated by the flux and reflux of the invasion, by the difficulty of finding a competent staff and of retaining or replacing it after demobilisation, is one of the causes which still militate against the production of a clear and accurate financial balance sheet for the country.

There can be no question, however, that the State was fully justified, at the outset, in taking these measures, the financial history of which may be appropriately traced in the accounts of the special services. The State alone possessed in its own hands, and as a result of the direct support afforded it by the Allies, adequate means to carry out successfully the vast work of purchasing, transporting and distributing supplies, which was necessary to preserve the country from privation.

The most important special accounts in this connection — those relating to the supply of cereals and transport by sea — the history of which will be summarised in the reply to Question 6 — will, when finally closed, show deficits, which were, however, not unforeseen. But even at the present time there is reason to believe that the accounts relating to petrol and mineral oil, chemical supplies and the national boot and shoe supply will be balanced, or even show surpluses. The same statement may be hazarded with respect to the coal account (purchases, transport, equalisation of price), for the management of which the State railways system and, at a later date, the national Coal Office were responsible.

At all events, the auditing of the special accounts has for a long time past engaged the attention of the national authorities, who have adopted a series of measures to accelerate the work. As early as 1921, the principle was formulated that the special services, which are still actively engaged in carrying out undertakings involving the actual collection or disbursement of money, should, from that date, be subject to the rules of budgetary procedure. Almost all the accounts, from this point of view, have, however, already been practically closed, the majority at the beginning of 1922 and the remainder during or at the end of that year. They merely remain open for the purpose of revising entries, paying arrears and also recovering monies due. With a view to hastening this liquidation and accelerating payments, where such remain to be made, a single department for auditing the special Treasury accounts has just been constituted, under the direction of a single head of department and a single accountant responsible to the Minister of Finance. This department has already wound up the food-supplies accounts, and should at an early date finally wind up the remainder.

Special budget of recoverable expenditure.

This budget, which dates from 1920, was framed to give a clear account of the operations relating to State expenditure which should be met, under the Treaty, by repayments from Germany. It should be observed that the "recoverable" expenditure by no means represented the whole of the annual charges imposed on the public finances of France as a result of the aggression of the Central Empires, since the obligation placed by the treaties upon the latter is not that of integral restoration and restitution, but merely of making good the losses inflicted in French territory on persons or property to an amount to be assessed by the Reparation Commission.

Moreover, the expenditure given in the three budgets framed in 1920, 1921 and 1922, relating to recoverable expenditure, does not give any indication of the total sums which France has, hitherto, devoted to the payment of war pensions and the restoration of the invaded regions. The special budget was first introduced as recently as 1920, and it contains, in addition to certain items of capital expenditure, the charges for the amortisation of large sums which had either to be given to the sufferers in the invaded regions in the form of rentes, bonds, etc., or borrowed by them or on their behalf in return for promises of annual payments, with a view to accelerating to the utmost extent of the country's available resources this great work of national reconstruction.

Further, a considerable proportion of the total funds which the Treasury obtained directly to meet the aggregate public charges of France has actually, in default of any payment for this purpose on the part of the debtor States, been devoted to pensions and compensation. The interest on these sums is not included in the budget of recoverable expenditure; hitherto it has been returned in the combined charges of the national debt entered in the general budget. The result is that the general budget shows additional expenditure, which will shortly amount to four milliard francs per annum, a sum which, both by law and the rules of sound logic, should be regarded as an addition to the existing claim of France on Germany.

The Ministry of the Liberated Regions gives an approximate estimate, at the present time, of the compensation for loss due to the victims of the ten devastated departments alone as about 85,790 million paper francs. The items of this total are as follows:

Requisitions by the enemy	8,770 million francs
Movable property	18,408 " "
Fixed property	58,612 " "

The payments effected on the capital represented by these damages, whether in cash, kind, annuities, bonds, or promises of annual payments, amount to about 48 % of the total sum.

It has been shown, moreover, that the financial efforts made by the country in every form (direct appropriation of national funds, or the State guarantee of loans raised) to make good the failure of Germany, debtor under the Treaty which she has signed, had, on December 31st, 1922, reached the sum of about 98 milliards, the items of which are given in Table X, in accordance with the nature of the expenditure.

As regards this effort, it is well known that the actual payments made by Germany to France in cash, requisitioned paper marks or deliveries in kind have not, when the advances made as the result of the Spa Agreement have been deducted, exceeded 1,541 million gold marks, or a sum less than the costs of the French army of occupation down to that date.

Similarly, it is desirable to point out that the amount of recoverable expenditure not yet settled may amount to about 84 milliards. In this sum the present value of pensions which still remain to be paid is represented merely by 35 milliards, the remainder being required for repairs to property belonging to private persons (43½ milliards), to State undertakings (3½ milliards), etc.

In conclusion, it would appear desirable to point out by means of a few significant figures the results obtained in connection with the restoration of territories which suffered from invasion and systematic devastation by the enemy.

Losses to be made good	Original Number or Amount	Position on 31. XII. 1920 (restored to their original condition or again brought under cultivation)	Position on 31. XII. 1921 (id.)	Position on 31. XII. 1922 (id.)
Houses destroyed or seriously damaged (number)	741,993	278,834	355,479	553,977
Persons restored to their homes in the devastated regions (number)	4,690,183 (population before the war)	3,288,152	3,965,913	4,074,970
Agricultural land rendered wholly incapable of cultivation (hectares)	3,306,350	1,007,240	1,474,796	1,698,200
Factories destroyed or seriously damaged (number)	22,900	18,091	19,442	19,967
Roads to be entirely remade (kilometres)	58,697	8,965	22,074	32,650
Public Works (number)	6,123	2,653	3,688	5,189

The reconstruction of railways and navigable waterways was naturally undertaken as a matter of urgency, and 95 % of the work has at present been completed. It should, however, be noted that the restoration of the more important industries has been achieved only to an extent varying from 65 to 80 % and in the case of many branches of industry on an average scarcely more than 50 % of the pre-war figures. The work of restoring the coal-mines which were systematically dismantled or flooded by the enemy will require years of patient labour and has not yet reached the last-mentioned proportion.

* * *

Finally, the enormous loss of wealth suffered by France during the war, a loss to which she had to consent in order to defend her invaded territory, should not be measured merely by the havoc wrought by the enemy in the occupied areas. In the struggle which she carried on with her Allies, she furnished the largest number of men. For every thirty of her inhabitants one died or was reported missing. Out of an able-bodied male population of twelve millions, 8,400,000 were mobilised, and of this number nearly 1,400,000 died and about 700,000 returned

home maimed. This is the explanation of the serious delays in repairing the country's economic machinery and restoring its agricultural productivity immediately after the Armistice, at a time when it only had command of diminished revenues and greatly reduced man-power.

In spite of the continuous progress shown in the annual statistics, the agricultural wealth of France, which rendered her self-supporting as regards food-stuffs during an average year, is very far from being restored. The area under wheat, which in 1923 amounts to 5,527,000 hectares — *i.e.*, 400,000 more than in 1922 — still falls short by a million hectares of the area under cultivation before the war. The work of reconstituting live-stock is making equally rapid progress, although the losses sustained since 1913 have not been made good; the figures are as follows, in thousands:

	1913	1918	1923
Cattle	14,790	12,250	13,575
Pigs	7,035	3,980	5,195
Horses	3,220	2,235	2,780
Sheep	16,130	8,990	9,780

The work which has been already achieved, however, affords ground for hoping that the deficit in food-stuffs will shortly disappear, a deficit which cannot fail to add a further heavy burden to the foreign debts bequeathed by the war.

TABLE I
THE BUDGETS IN 1920, 1921, 1922
(Expenditure).

I. ORDINARY BUDGET.

Francs.

	1920 (law of July 31st, 1920)	1921 (law of April 30th, 1921)	1922 (law of Dec. 31st, 1921)	1923 (Government es- timate submitted in April 1922 for information)
Public Debt.	11,633,173,852	11,248,295,158	12,647,161,236	11,501,420,365
Executive.	37,609,820	40,564,930	40,564,930	41,212,530
Ministries, General Services . .	7,628,766,904	9,385,774,120	9,350,949,959	10,221,021,077
Costs of Administration, collec- tion of taxes and public revenue.	2,369,737,350	2,457,921,669	2,454,425,723	1,213,707,515
Repayments, restitutions and bad debts.	91,820,000	130,414,100	194,857,100	202,314,800
Total expenditure Ordinary Bud- get.	21,761,107,926	23,262,969,977	24,687,958,948	23,179,676,287

II. EXTRAORDINARY BUDGET.

Public Debt.	200,000,000	200,000,000	—	—
Ministries, General Services. . .	5,034,382,891	2,948,759,391	—	—
Costs of Administration, etc. . .	110,920,000	12,450,000	—	—
Repayments, etc.	75,000,000	75,000,000	—	—
Total Expenditure Extraordi- nary Budget.	5,420,302,891	3,236,209,391		

III. BUDGETS APPENDED TO THE GENERAL BUDGET FOR BOOK-KEEPING PURPOSES.

Mint	45,061,000	29,850,500	37,677,500	36,107,450
National Printing Press.	40,084,800	46,084,380	40,450,500	40,048,100
Legion of Honour	18,606,411	45,298,350	44,280,486	43,548,343
State factories in Alsace and Lorraine	—	—	151,455,000	162,355,000
State Powder Magazines	98,376,500	96,996,500	171,631,700	159,185,110
<i>Carried forward</i>	202,128,711	218,229,730	445,495,186	441,244,003

TABLE I (continued).

III. BUDGETS APPENDED TO THE GENERAL BUDGET FOR BOOK-KEEPING PURPOSES (continued).

Francs

	1920 (law of July 31st, 1920)	1921 (law of April 30th, 1921)	1922 (law of Dec. 31st, 1921)	1923 (Government es- timate submitted in April 1922 for information)
<i>Brought forward</i>	202,128,711	218,229,730	445,495,186	441,244,003
Central School of Arts and Ma- nufactures	2,536,582	3,265,982	3,902,682	3,004,032
National Savings Bank	88,045,441	103,402,840	118,251,413	133,256,586
National Naval Disablement Fund.	27,991,410	83,008,106	85,710,636	87,443,794
Posts and Telegraphs.	—	—	—	1,830,995,413
State Railways	2,372,944,700	2,204,560,100	2,195,133,400	1,963,557,200
Alsace and Lorraine State Rail- ways	—	—	804,563,700	770,321,000
Reunion Railways and Port . . .	7,672,760	8,895,000	7,937,000	8,389,300
Total Expenditure Appended Budgets.	2,701,319,604	2,621,361,758	3,660,994,017	5,238,211,328

IV. SPECIAL BUDGET FOR ALSACE AND LORRAINE.

	1920 (April 1st to Mar. 31st, 1921) (Decree of November 3rd, 1920)	1921 (April 1st to Dec. 31st, 1921) (Decree of March 31st, 1921)	1922	1923
Single Budget	708,157,250	—	—	—
Ordinary Budget.	—	167,910,242	—	—
Extraordinary Budget	—	290,344,430	—	—
	708,157,250	458,254,672		

V. SPECIAL BUDGET FOR EXPENDITURE RECOVERABLE OUT OF PAYMENTS TO BE RECEIVED IN EXECUTION OF THE TREATIES OF PEACE.

	Law of July 31st, 1920	Law of April 30th, 1921	Law of March 31st, 1922	Government Draft (April 1923)
Total Expenditure	20,751,127,598	15,317,184,792	10,558,534,377	13,373,828,423

VI. "MAINTENANCE OF THE TROOPS OF OCCUPATION" SPECIAL ACCOUNT.

Total Expenditure	703,111,000	595,527,700	527,816,000	512,929,400
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TABLE II
ORDINARY BUDGET.
ESTIMATED REVENUE.
Francs

	Law of July 31st, 1920	Law of Apr. 30th, 1921	Law of Dec. 31st, 1921	Draft Budget submitted by Government 1923
I. — RECEIPTS COLLECTED IN FRANCE:				
§ 1. <i>Taxes and revenue:</i>				
Direct Taxes and "Centimes d'Etat"	1,823,621,199	1,893,433,195	2,389,527,076	2,861,379,918
Taxes assimilated to direct taxes	99,036,275	106,682,213	117,622,751	121,760,298
Registration Duties	1,512,341,500	2,566,258,000	2,952,903,500	2,914,990,500
Stamp Duties	320,654,500	443,343,500	528,275,000	581,118,500
Tax on Stock Exchange Transactions	16,083,500	33,010,500	33,743,500	19,540,000
Tax on income derived from transferable securities . .	341,244,500	660,549,000	736,834,500	821,426,000
Special tax on payments . .	516,250,000			
Luxury tax on transactions between non-traders . . .		12,000,000	13,000,000	13,134,000
Turnover Tax	2,084,333,000	2,900,000,000	3,045,000,000	2,500,000,000
Customs ¹	1,791,365,000	2,344,385,000	2,706,912,000	1,923,181,000
Indirect Taxes ¹	1,534,902,300	2,508,863,000	2,686,596,000	2,682,049,500
Sugar Excise	367,250,000	432,815,000	542,620,000	519,120,000
Total	10,407,081,774	13,901,339,408	15,753,034,327	14,957,699,716
§ 2. <i>Yield of State monopolies and industrial undertakings:</i>				
Received by Administration of Indirect Taxation . . .	1,064,113,000	1,412,479,000	1,802,056,000	1,836,878,000
Posts, Telegraph and Telephones	929,800,250	1,098,556,600	1,086,481,900	—
Received from sundry undertakings	4,502,270	14,212,080	21,641,848	18,408,248
Total	1,998,415,520	2,525,247,680	2,910,179,748	1,855,287,248
<i>Carried forward</i>	12,405,497,294	16,426,587,088	18,663,214,075	16,812,986,964

¹ The Ways and Means Table inserted in each budget law includes the tax on the consumption of salt, the duty on the consumption of colonial produce and coffee substitutes, the tax on the manufacture of crude mineral oils, the inland tax on petrol and the inland tax on benzol under the heading of Customs receipts and also of receipts from indirect taxes, the Revenue, Customs and Indirect Taxation administrations being concurrently responsible for collecting these duties and taxes. The statistics for taxes collected, however, show them separately.

TABLE II (continued).

ORDINARY BUDGET (continued).

ESTIMATED REVENUE (continued).

Francs.

	Law of July 31st, 1920	Law of Apr. 30th, 1921	Law of Dec. 31st, 1921	Draft Budget submitted by Government 1923
<i>Brought forward . .</i>	12,405,497,294	16,426,587,088	18,663,214,075	16,812,986,964
§ 3. <i>Yield and Revenue from State Lands</i>	142,667,500	145,349,500	183,330,900	176,222,400
§ 4. <i>"Recettes d'ordre" and re- ceipts reducing expenditure</i>	489,615,037	507,177,897	797,218,937	848,704,523
§ 5. <i>Sundry Receipts</i>	235,607,300	159,667,600	176,461,000	212,213,500
§ 6. <i>Exceptional Revenue:</i>				
(a) <i>War Profits</i>	4,000,000,000	4,000,000,000	3,050,000,000	1,100,000,000
(b) <i>Liquidation of Stocks . .</i>	2,915,000,000	1,200,000,000	500,000,000	125,000,000
(c) <i>Deducted from surpluses for the 1920 period (1920 Budget) — Short-term Bonds (1921 Budget) — Issue of Treasury Bonds (1922 Budget) — Deducted from loans (1923 Draft Budget)</i>	1,500,000,000	450,000,000	1,320,000,000	3,900,000,000 ¹
<i>Total . .</i>	8,415,000,000	5,650,000,000	4,870,000,000	5,125,000,000
II. — <i>RECEIPTS COLLECTED IN ALSACE AND LORRAINE . .</i>	76,000,000	407,520,000	—	—
III. — <i>RECEIPTS COLLECTED IN ALGERIA</i>	5,856,000	6,282,000	11,110,000	10,332,000
<i>Total . .</i>	21,770,243,131	23,302,584,085	24,701,334,912	23,185,459,387

¹ Estimate made when Draft Budget was submitted by Government, May 1922. There can be no doubt that the surpluses already realised will make it possible to reduce the sum entered under "Deducted from Loans" in the budget which has not yet been passed by the Chambers.

TABLE III.

CREDITS GRANTED BETWEEN AUGUST 1st, 1914, AND MAY 1st, 1923
(Compared with 1913 Closed Accounts).

Francs.

Laws	Ordinary Civil Expenditure		Military expenditure and other exceptional war expenditure	Total
	Debt Service	Other Expenditure		
Results of 1913 Financial Period (for comparison)	1,355,485,622	1,903,867,746	1,807,577,852	5,066,931,220
Various Laws (1914 Financial Period, Supplementary Credits for the War Period)	59,626,763	128,881,725	6,400,925,761	6,589,434,249
1915 Financial Period	1,899,393,673	2,449,686,102	18,455,406,750	22,804,486,525
1916 "	3,333,015,879	2,371,725,031	27,240,404,259	32,945,145,169
1917 "	4,863,686,400	2,750,104,103	34,065,809,126	41,679,599,629
1918 "	7,087,677,888	3,401,679,123	44,947,748,089	54,537,105,100
1919 "	7,986,823,151	5,228,374,327	35,823,476,970	49,038,674,448
Totals for Financial Periods 1914-1919	25,230,223,754	16,330,450,411	166,933,779,955	207,594,445,120

Laws	Ordinary Expenditure			Extraordinary Expenditure			Special Budget	Total	Remarks
	Debt Service	Military Expenditure	Other Expenditure	Debt	Military Expenditure	Other Expenditure			
1920									
Various laws	11,825,580,176	4,283,651,647	7,447,867,055	200,000,000	2,409,260,074	4,988,657,703	21,254,304,021	52,499,320,676	Final figures
1921									
Law of April 30th, 1921 (budget)	11,248,295,158	4,162,633,153	7,852,041,666	200,000,000	1,455,889,485	1,580,319,906	—	26,499,179,368	
Law of May 31st, 1921 (budget)	637,581,722	99,124,196	137,430,559	—	172,293,745	446,449,737	15,317,184,792	15,317,184,792	
Other laws	11,885,876,880	4,063,508,957	7,714,611,107	—	1,628,183,230	2,026,769,643	941,870,740	1,961,641,189	
Totals for 1921	310,199,000	554,109,221	170,269,886	—	447,864,023	167,159,575	461,276,174	2,110,877,879	
1922									
Law of December 31st, 1921 (budget)	12,647,161,236	3,860,035,664	6,826,931,994	—	552,432,209	801,397,845	—	24,687,958,948	
Law of March 31st, 1922 (budget)	310,199,000	554,109,221	170,269,886	—	447,864,023	167,159,575	10,558,534,377	10,558,534,377	
Other laws	12,957,360,236	4,414,144,885	6,997,201,880	—	1,000,296,232	968,557,420	11,019,810,551	37,357,371,204	
Totals for 1922									Final figures

Provis. figures

TABLE IV.
ORDINARY TAXES AND RECEIPTS INCLUDED IN STATE BUDGET OTHER THAN DIRECT TAXES.¹
(AMOUNTS COLLECTED ANNUALLY.)
Francs.

	1913	1919	1920	1921	1922
A. Taxes on Capital and Income:					
Registration Receipts ²	833,677,000	1,874,217,500	2,718,049,000	2,705,416,000	2,960,455,000
Stamp Duties	239,631,500	311,454,000	515,923,000	569,326,000	615,499,000
Tax on Stock Exchange transactions	9,842,500	7,159,500	24,623,500	19,425,000	26,095,000
Tax on income derived from transferable securities	138,049,000	290,249,000	567,595,000	926,425,000	1,017,853,000
Total	1,221,200,000	2,483,080,000	3,826,100,500	4,214,592,000	4,619,902,000
B. Taxes on commercial transactions and luxury tax:					
Special tax on payments and luxury tax on alcohol	—	629,144,500	804,432,000	—	—
Turnover tax	—	—	942,187,500	1,897,457,000	2,280,266,000
Luxury Tax	—	—	—	13,114,000	20,438,000
Total	—	629,144,500	1,746,619,500	1,910,571,000	2,300,704,000
C. Taxes on Commodities:					
Customs	754,382,000	1,475,583,000	1,591,516,000	1,192,066,000	1,610,952,000
Indirect taxes (Beverage, transport, etc., taxes)	673,928,000	1,202,732,000	1,699,373,000	2,404,415,000	2,606,545,000
Tax on manufacture of crude mineral oil	1,983,000	—	—	—	—
Tax on colonial produce and food substitutes	—	103,329,000	141,589,000	177,134,000	183,975,000
Tax on salt	35,239,000	31,778,000	33,182,000	32,376,000	36,016,000
Tax on sugar	179,591,000	360,585,000	429,466,000	352,045,000	564,140,000
Tax on motor spirit and petroleum	—	—	88,358,000	166,705,000	234,617,000
Tax on benzol	—	—	955,000	13,097,000	12,475,000
Total	1,645,123,000	3,174,007,000	3,984,439,000	4,338,738,000	5,247,790,000
D. Gross Receipts from revenue monopolies:					
Lucifer matches, tobacco and gunpowder	609,609,000	1,045,939,000	1,586,267,000	1,703,563,000	1,777,238,000
E. Gross Receipts from other monopolies and undertakings:					
Posts, Telegraphs and Telephones	404,808,500	582,780,000	912,731,000	1,059,389,000	1,136,586,000
Sundry	1,359,500	2,506,400	3,046,800	6,854,500	5,696,400
Total	406,168,000	585,286,400	915,777,800	1,066,243,500	1,142,282,400
Gross total from taxes (other than direct taxes) and monopolies	3,882,100,000	7,917,456,900	12,059,203,800	13,233,707,500	15,087,946,400
F. Yield and revenue from State lands, sundry receipts, exceptional and book receipts (excluding receipts from liquidation of war stock)	135,133,500	449,665,800	728,019,200	924,847,500	1,101,164,000

¹ Almost all taxes and receipts shown in A to E in this table are collected before being ascertained; the only comparison required therefore from a statistical point of view is with the amounts actually collected in the year. The receipts grouped in F, however, invariably show an appreciable increase owing to the accountancy operations conducted before the close of the financial period; in all cases the results shown above are minimum results.

² It may be of interest if the yield from death duties and duties on deeds of gift, which, in their aggregate, form a genuine tax of a personal and graduated type on capital, are shown separately. The yield from these taxes was 357,010,000 francs in 1913 and reached 758,457,500 francs, 928,294,000 francs, 893,025,000 francs and 997,454,000 francs in the four last years respectively.

TABLE V.

COMPARISON OF RECEIPTS ACTUALLY COLLECTED WITH BUDGET ESTIMATES
(PERMANENT TAXES AND REVENUE).

A comparison of the returns from permanent budgetary taxes and revenue other than direct taxes with the corresponding budget estimates shows:

		Francs.		
In 1913	an aggregate surplus of	293,027,000	repres.	7.29% over the estimates
» 1919	» » » »	1,642,243,000	»	24.41% » » »
» 1920	» » » »	2,050,567,510	»	19.10% » » »
» 1921	an aggregate deficit of	639,093,200	»	4.51% less than the estimates
» 1922	» » » »	287,863,700	»	1.75% » » » »

TABLE VI.

YIELD FROM DIRECT TAXES OF ALL KINDS WHICH FORM PERMANENT REVENUES
FOR THE STATE.

Comparison of the Schedules issued.

Francs.				
Budget Period	Income Tax (schedules issued) for each period)	Old direct taxes and land tax (final yield of schedules)	Assimilated Taxes (final yield of schedules)	Totals
1913	—	584,033,600	65,505,900	649,539,500
1919	869,323,000	267,426,700	111,885,200	1,248,634,900
1920	1,306,864,200	502,347,000	104,660,000	1,913,871,200
1921	2,792,348,700	549,014,700	125,231,000	3,466,594,400
1922 ²	2,587,678,600	656,641,900 ³		3,244,320,500 ⁴

¹ The deficit, in the last two years, is largely made good by the surplus shown by the final figures for the yield from the direct tax schedules. See the two tables referring to the yield from income tax.

² Position ascertained on December 31st. Schedules will be issued up to April 30th, 1923.

³ Provisional result given inclusively in the statistics on December 31st, 1922.

⁴ The final result for the 1922 period will be considerably higher than in the 1921 period.

TABLE VII.

TABLE SHOWING THE NUMBER OF ENTRIES AND TOTAL OF INCOME TAX SCHEDULES (OTHER THAN THE LAND TAX AND THE TAX ON INCOME DERIVED FROM TRANSFERABLE SECURITIES) ISSUED SINCE THE INTRODUCTION OF THESE TAXES DOWN TO DECEMBER 31st, 1922.¹

Years for which assessments were drawn up.	Years in which income tax was paid.	Type of Tax.	Number of entries or claims for payment included in the schedules.	Estimate of the annual yield as stated in Parliament when the organic laws were voted.	Inclusive yield of schedules issued up to December 31st, 1922.	Percentage of surplus over estimates.
				Frs.	Frs.	%
1916	1915	Genl. Tax	270,259 ²	40,000,000	51,288,800	+ 28.22
1917	1916	Genl. Tax	474,897	140,000,000	269,936,700	+ 92.81
1818	1917	Sched. Tax	2,754,408	223,000,000	331,981,900	+ 48.87
		Genl. Tax	582,502	450,000,000	556,880,000	+ 23.75
1919	1918	Sched. Tax	1,504,661	258,000,000	380,664,800	+ 47.54
		Genl. Tax	672,403	450,000,000	574,680,100	+ 27.71
1920	1919	Sched. Tax	2,372,852	593,000,000	787,664,800	+ 32.83
		Genl. Tax	481,357 ³	800,000,000	936,597,200	+ 17.07
1921	1920	Sched. Tax	3,520,736	593,000,000	1,160,203,300	+ 95.65
		Genl. Tax	827,301	800,000,000	1,217,551,500	+ 52.93
1922	1921	Sched. Tax	3,754,120	800,000,000	1,081,099,000 ⁴	+ 35.14
		Genl. Tax	910,196	1,000,000,000	993,925,200 ⁴	— 0.61
1923	1922	Sched. Tax	—	1,050,000,000	—	—
		Genl. Tax	—	1,200,000,000	—	—

¹ The three departments of the Moselle, Bas-Rhin and Haut-Rhin, being still under a special direct-taxation system, are not included in the above table.

² Persons subject to the general tax are fewer in number than entries in the schedules, owing to supplementary assessments made in consequence of subsequent revision.

³ Decrease owing to the raising of the minimum exemption from frs. 3,000 to 6,000, to the deduction for married taxpayers, raised from frs. 2,000 to 3,000 and to the reduction per person supported by the taxpayer, raised from frs. 1,000 to 2,000.

⁴ On January 1st, 1923, many schedules had still to be issued for the 1922 Financial Period.

TABLE VIII.

EXTRAORDINARY TAX ON WAR PROFITS.

Position with regard to Issue of Schedules and Collection of the Tax.

Total amount contained in schedules issued since introduction of the tax on December 31st, 1922	Fr.	16,043,511,900
Approximate amount to be claimed	»	12,807,716,000
Collected	»	9,644,447,900
The inclusive estimate of the yield from the tax in the successive budgets from 1917 to 1922 did not exceed	Fr.	12,730,000,000
Hence the total amount contained in schedules issued exceeds the inclusive estimate of the yield from the tax by about 26 %.		

The Administration anticipates at present that an estimate amounting to 2,000,000,000 from this tax may be entered in the 1923 budget.

Liquidation of War Stocks.

	Budget Estimates	Collected
	Frs.	Frs.
1919	—	1,207,000,000
1920	2,915,000,000	1,649,572,000
1921	1,200,000,000	1,501,582,500
1922	500,000,000	464,763,200
1923	125,000,000	—

TABLE IX.

SPECIAL TREASURY SERVICES INTRODUCED SINCE AUGUST 1ST, 1914.
POSITION ON DECEMBER 31ST, 1922.

Description of Account	Balance on December 31, 1922	
	Creditor	Debtor
	Francs	
Advances to foreign governments or establishments ¹		12,424,637,000 ¹
Material ceded to foreign governments ²		761,549,000 ²
Food Supplies Accounts : A. Wheat and flour supplies to the civil population (Laws passed between 1915 and 1918) ³		3,612,183,000 ³
B. National bread supply (1920-1921 agricultural year) ⁴		238,042,000 ⁴
Motor spirit and petrol service ⁵	1,238,665,000 ⁵	
Mercantile Marine Accounts: I. Sea Transport:		
Section A — Transports (Laws of February 10th and December 22nd, 1918)	318,966,000	}
Section B — Purchase and construction of ships (Law of December 22nd, 1918)	321,056,000	
Section C — Enemy vessels worked by the French Government (Convention of January 16, 1919)	69,969,000	
II. Fleet administered by State (Law of December 29th, 1919)	12,099,000	
Maritime insurance against war risks (optional and compulsory)	115,173,000	
Costs of repairing railways destroyed or damaged through acts of war:		
A. of general concern		1,745,884,000
B. of local concern		331,567,000
Railways of general and local concern		1,575,148,000
Agricultural reconstruction of departments which suffered from the invasion (Law of August 3rd, 1917)	122,367,000	
Industrial invasion (Law of August 6th, 1917)	908,487,000	
<i>Carried forward</i>	3,106,782,000	20,689,010,000

¹ Several operations still to be included in the combined central accounts. The present total exceeds 15 milliards.

² Mainly a book account; drawn up late owing to delays in delivery and receiving.

³ Account showing a deficit, but receipts, amounting to a very considerable sum, for the sale of produce are still to be collected or have not yet been included in the combined central accounts.

⁴ Same remarks. The present small debit balance is due to the appropriation of a budget credit amounting to 1,304 millions in 1921 intended to cover the total losses accepted with a view to preventing an excessive rise in the price of bread.

⁵ Receipts based on sale price and equalisation surcharges.

⁶ Only a few of these operations, especially in regard to expenditure, have been entered in the combined central accounts; the final result cannot yet be estimated.

TABLE IX (continued).

SPECIAL TREASURY SERVICES INTRODUCED SINCE AUGUST 1ST, 1914.
POSITION ON DECEMBER 31ST, 1922 (continued).

Description of Account	Balance on December 31st, 1922	
	Creditor	Debtor
	Frans	
<i>Brought forward</i>	3,106,782,000	20,689,010,000
Maintenance of troops of occupation abroad ⁷ . . .		2,030,793,000 ⁷
Payments made in execution of the inter-Allied protocol of July 16th, 1920 ⁸		772,272,000 ⁸
Conversion of currency issued in invaded areas ⁹ . .		193,214,000 ⁹
Conversion of German currencies (Alsace-Lorraine, prisoners of war, liberated areas) ¹⁰		1,986,319,000 ¹⁰
Liquidation of stocks ceded by United States of America (Law of October 21st, 1919)	1,869,464,000	
Settlement of operations connected with the tax on war profits	2,488,391,000	
Sundry	227,177,000	135,882,000
TOTALS .	7,691,814,000	25,807,490,000

⁷ Late expenditure entries (transfers). Expenditure is in part covered by payments in kind from Germany (allocation transfers not transacted).

⁸ Repayments actually effected (allocation transfers not transacted).

⁹ In point of fact, the amount exchanged and debited to the Treasury is 1,600 millions, which was the sum authorised under the Law of February 11th, 1919. Verification was attended with considerable material difficulties. A ministerial decision will be given authorising the taking over of the total obligation.

¹⁰ The sum earmarked for exchange of marks at par is higher (authorisation for exchange given under the Law of April 23rd, 1919, up to 2,250 million francs).

TABLE X.

RECOVERABLE EXPENDITURE PAID OUT UP TO DECEMBER 31ST, 1922.

Francs (000,000's omitted).

Class of Damage	from 1914 to 1918	1919	1920	1921	1922 approx- imately	Total
A. Personal injuries (Pensions, grants to families)	14,325	4,787	4,672	4,503	3,392	31,679
B. Damage to Property:						
a) Private Properties:						
Capital { Treasury	47	4,899	6,494	4,528	1,996	17,964
Payment { Crédit National . . .	—	—	2,636	6,901	6,929	16,466
Annuities	—	—	—	3,769	2,637	6,406
Rentes	—	—	—	20	445	465
Interest paid on indemnities (Crédit National)	—	—	23	245	880	1,148
Other Expend. (works, purchases)	184	2,790	2,705	949	506	7,134
(b) Other Damage:						
Railways	57	377	706	821	221	2,182
Public Services	157	344	520	536	329	1,886
Total Damage to property	445	8,410	13,084	17,769	13,943	53,651
Total of capital payments for damage	14,770	13,197	17,756	22,272	17,335	85,330
Interest						12,410
						97,740

2. *Whether expenditure on armaments has been reduced.*

In September last the Secretariat of the League of Nations had occasion to draw up various tables showing the credits appropriated to armaments from 1913 to the present date. They noted the extent to which the sums expended by France on national defence had been reduced since the pre-war period, first of all taking into account, and subsequently excluding — as being due to the war and international obligations — the extraordinary military expenditure of the Ministries of War, the Marine and the Colonies, and also expenditure entered in the special account for the armies of occupation. The Secretariat showed that the total expenditure for 1922 as estimated at that date was less than that for 1913, allowance being made for the reduced purchasing power of the franc measured in accordance with the index numbers of wholesale prices.

The table given below shows the various sums authorised to date and the credits asked by the Government for the fiscal year 1923.

Francs (000,000's omitted).

Year	Net total of original and supplementary credits authorised in the general budget ¹	Net total of army and navy credits, including the cost of the armies of occupation
1913 ²	1,807	1,807
1920	6,692	7,336
1921	5,691	6,477
1922	5,414 ^{3 4}	5,918 ⁴
1923 ⁵	5,306 ⁶	5,536

A comparison between 1913 and 1923 may be made on other bases than that of credits; for instance, on the reduced strength of the effectives (200,000 men), the duration of the period of service, the strength of the fleet, the two last having been cut down by one half.

The ordinary expenditure in the general budget does not exceed 4,413 million francs for the year 1922. Application has been made for 4,417 million francs for 1923.

No further economies could be effected in 1923 in these departments. This was due to the fact that the short-service system requires the complete establishment of a nucleus of professional soldiers and the existence of a large reserve of supplementary cadres. It may further be stated that the regrouping of the army in a smaller number of large units — a number which is better adapted to its present effectives — has necessarily entailed a certain amount of temporary expenditure for removals and re-equipment which have to some extent counteracted the economies effected under other headings.

¹ These sums refer to ordinary and extraordinary credits granted to the Ministries of War and the Marine and to the military expenditure of the Colonial Office. They do not include expenditure by the Ministry of Pensions or in respect of compensation for damages recoverable from Germany (special budget).

² If, instead of the 1913 accounts, the 1914 budget (*i.e.*, 2,657 million francs, which included an armaments programme begun just before the war and immediately suspended) is chosen for purposes of comparison, the real military expenditure at the present day — which also comprises extraordinary charges — would show a still greater comparative decrease.

³ This amount includes extraordinary expenditure amounting to one milliard.

⁴ The final credits will be substantially smaller as a result of the cancellation of credits which will shortly be announced.

⁵ Estimates in the draft budgets submitted in 1922 by the Government.

⁶ This sum includes extraordinary expenditure to the amount of 619 millions.

3. *The extent of unproductive extraordinary expenditure.*

The extraordinary expenditure arising from the war which could not be debited to Germany was, as previously explained, dealt with in 1920 and 1921 in an extraordinary budget. In 1922 this expenditure was included in the single general budget (compare Table No. III above).

Extraordinary military expenditure and extraordinary civil expenditure, other than that devoted to the work of repairing the national economic machinery, may be regarded as unproductive, although unavoidable.

4. *The extent of productive extraordinary expenditure.*

Since the close of hostilities France has incurred two kinds of extraordinary expenditure which may certainly be described as productive. She has assumed, on the one hand, the colossal burden of restoring the devastated areas, a task to which, in the absence of any assistance from Germany, a sum of no less than 85,330 million francs has had to be devoted in the form of capital raised by means of direct or indirect Treasury loans, in addition to 12,410 millions in the form of interest; secondly, she has undertaken the extremely urgent work of repairing those parts of the economic machinery of the country which suffered most seriously during the war. Numerous items under this latter heading will be found scattered through the 1920, 1921 and 1922 budgets. In the aggregate they amount, perhaps, to 3 milliards of extraordinary expenditure, though this sum, as a matter of fact, merely represents deferred cost of upkeep. France was unable to initiate a policy of improvement and development, even when this was most urgently required, at a time when she had by her own unaided efforts to provide for the primary need of making good the damage done by the war.

5. *The policy of the Government in the case of remuneration granted to officials by reason of variations in the cost of living, and the effects of this policy on budget conditions.*

The measures adopted since the outbreak of war for the benefit of State employees may be summarised as follows:—

A. *Employees actually serving.*

(a) During the war officials were permitted under the law of August 5th, 1914, to draw emoluments accruing from their civilian employment over and above daily army pay. Special compensation was given for evacuation, for bombardment, and, at a later date, for residence in the devastated areas; and six months' leave on full pay, renewable if necessary, was granted to wounded and disabled men.

In 1917, provision was made for bonuses to meet the high cost of living. These were superseded in 1918 by temporary grants to persons in receipt of small salaries.

(b) Towards the close of 1919 the authorities raised the general level of salaries as from July 1st (laws of October 3rd and 6th). This measure, which was drawn up by an inter-ministerial commission, was dictated by the desire not only to guarantee to all State officials a standard of living more in harmony with new conditions, but also to forestall a serious recruiting crisis and disaffection in the public services. The scale of salaries paid in France was, even before the war, generally regarded as inadequate, and more particularly in certain departments (magistracy, teaching profession). The reform principally benefited subordinate officials; the lowest initial salary of officials, which was 1,200 francs before the war, was fixed at 3,800 francs.

(c) In addition to the allowances thus included in the salaries of officials, which, like the salaries themselves, are subject to deduction to provide a pension fund, all State officials (and railway servants) whose total emoluments do not exceed 6,000, 8,000, 10,000 and 12,000 francs a year, after allowance has been made for the number of their dependents, have, since July 1st,

1918, been in receipt of an annual bonus of 720 francs to meet the high cost of living. This bonus was granted as a temporary measure; it has been renewed from half-year to half-year, since the cost of living has not yet fallen below the 1918 level.

(d) Permanent officials who have to provide for a family are in receipt of 330 francs per year for each child under 16 in the case of the first two children, and 480 francs for each of the remaining children (measure adopted in 1917, modified by the law of October 18th, 1919).

(e) In 1919 general and uniform rules were also drawn up under which officials were given residence allowances, varying from 200 to 1,200 francs according to the population in towns of more than 5,000 inhabitants, and it was further decided that officials in other districts in which the conditions of living were also unfavourable might be placed on the same footing.

(f) Certain supplementary measures were adopted in 1921 for the benefit of specified classes of officials — members of the teaching profession (increases granted in three yearly instalments; law of April 30th, 1921); magistrates (grants of 800 and 4,000 francs as from July 1st, 1921); exceptional and temporary allowances of 2,000, 3,000 and 4,000 francs per year to officials in the higher grades of the Central Administrations and to officials of the local services ranking as higher officials (laws of July 16th, 1921, and November 30th, 1922).

Not all of these grants are subject to deduction for the purposes of civil pensions.

A few examples will show the scope of these reforms and the graduation of salaries involved.

Francs.

Official position	Average salary in 1913	Average salary at the present time (omitting bonuses for the high cost of living, family responsibilities and residence)	
		Gross	Temporary grants not subject to deduction
Director in the Ministry . . .	20,000	31,500	4,000
President of a Court of First Instance	13,000	20,000	4,000
Local Director of Customs . .	10,000	19,000	3,000
Chief Assistant Clerk in a Ministry	7,000	14,500	2,500
Master in a Departmental Lycée	4,700	14,000	2,500
Ordinary Controller of direct taxes	2,750	7,000	—
Customs Superintendent . . .	1,350	4,650	—

Financial Result. — The present State expenditure on officials actually serving amounts to a sum of 4,600 millions as against 1 milliard in 1913. The necessity for cutting down staff is obvious. It may be pointed out that the 1922 budget provided for the abolition of 42,000 posts in the civil administrations; that the finance law of 1922, Article 71, imposed on the Government the obligation of suppressing an additional 50,000 posts during the year, and that a further reduction of 15,000, which is to be effected in 1923, will probably be required under the finance law of 1923, which has not yet been voted by Parliament.

Again, under Article 39 of the finance law of April 30th, 1921, provision has been made for a general revision within four years of salaries, army pay and bonuses in the case of all State services for purposes of equalisation and readjustment in accordance with the general movement of prices.

B. *Former State Officials.*

The law of March 25th, 1920, made provision, as from January 1st, 1920, for graduated increases of pensions (100, 50 or 25 per cent.), to supersede the temporary grants made under previous laws and, more recently, under the laws of February 23rd and October 21st, 1919.

The minimum increase was 1,500 francs per year in the case of an ex-official and 750 francs for his widow or orphans. Pensions payable from a date subsequent to June 30th, 1919, were also to be increased by an additional sum intended to allow for the general rise in salaries.

Lastly, with a view to improving the position of retired persons of small means, the law of April 12th, 1922, grants a bonus of 720 francs per year, on account of the high cost of living, to persons whose pensions do not exceed 4,000 francs per year.

6. *The existence of subsidies on bread and other food-stuffs, coal and other materials.*

The brief outline which was given above of the principal special Treasury services demonstrated the influence exerted on the war finances of France by the unavoidable interference of the State in certain fields in which private enterprise was confronted by insuperable obstacles. This statement also brought out the fact that all, or nearly all, the accounts were, to all intents and purposes, already closed some time ago, and that energetic measures had been adopted to accelerate the work of auditing them.

That the State itself would be required to undertake, during the war, the main share of the work of supplying the nation with food-stuffs and to assume liability for a part of the consequent expenditure, in order to prevent an excessive rise in the price of indispensable food-stuffs, was realised as early as 1915. The first Food Supply Service, which was set up to deal with corn and flour, was extended to other products. This service was granted a small working capital by Parliament and it carried on its operations throughout the whole course of the war out of the general Treasury funds. The accounts which show its obligations in respect of expenditure were only closed on August 31st, 1920. Its present debit balance is estimated at 3,340 million francs. As a result of the measures already referred to for winding up this service, it will be possible to recover some hundreds of millions more from the very considerable arrears of receipts, which are attributable to the defective book-keeping methods employed by the distributing services, the inevitable diversion of consignments which occurred, especially in areas threatened by invasion, etc. The second food supply account covered the 1920-1921 agricultural year. In this case the accounts were subject to regular budgetary procedure from the outset and also to parliamentary control. Expenditure was estimated at 10,366 million francs and the admitted shortage of receipts (supply of bread at reduced prices) covered by a credit of 1,304,250,000 francs in the extraordinary budget for 1920. This account also shows an excess of expenditure over receipts. The operations for closing this account were begun a year ago.

The system of subsidies had already been discarded in 1921. The taxation of bread has been resumed and is deliberately based on cost price. This tax is in keeping with long-standing French practice.

The intricate work of supplying and equalising prices was concluded, in the case of coal, on March 1st, 1921, and in the case of metallurgical coke, on December 31st, 1921. The stocks held by the Petrol and Petroleum Service, which also had to levy additional charges to equalise prices, were liquidated in July and December 1921. It will be found that State intervention in these two instances has not placed any real burden on the public purse. Therefore no subsidies have been granted.

Although only indirectly connected with the question of subsidies, it would appear

desirable to supply at this point some information regarding the most complicated of all the services which the State was compelled to undertake — transport by sea. This was the outcome of the policy pursued with the object of maintaining intercourse with foreign countries, supplying essential raw materials to war industries, and ensuring the food supply of the army and the civil population during the period when submarine warfare was a serious menace. The first three accounts relating to transport by sea were opened under the terms of the Law of March 25th, 1918. The object of the first was to cover the administration by the State of the commercial fleet (requisitioned vessels, chartered vessels, State merchantmen, German ships in Brazilian ports) down to the return to France in 1920 of the requisitioned vessels. The second dealt with the purchase and construction of vessels. The third related to enemy ships controlled by France under the Convention of January 16th, 1919. All three were provided with initial working capital out of the budget (850 million francs in the case of the second). A fourth account, which was created under the Law of December 29th, 1919, was opened, when the requisitions were concluded, to deal with the vessels of the "controlled" fleet which still remained in the hands of the State. The accounts were closed on December 31st, 1921, so far as active operations were concerned, entries only being made for voyages which had not been completed.

The economic and financial disadvantages of a shipping business carried on by the administration at a time when non-controlled shipping had recovered its independence, taken over its former staff and resumed its old relations, and especially when freights were difficult to obtain, soon led to a decision to liquidate the fleet itself. The Law of August 9th, 1921, provided that all State vessels should be disposed of by hire or sale on the best terms which the Treasury could secure. But it will be readily understood that such an operation would be attended with the most serious difficulties at that date. The transactions are still proceeding at the present time.

Lastly, under the Law of November 30th, 1922, it was stipulated that the receipts and expenditure of all the accounts relating to transport by sea should in future be entered in the budget (under the headings "receipts reducing expenditure", and "extraordinary expenditure"). As has been shown above, a final and absolutely accurate balance-sheet of the State shipping undertakings cannot yet be submitted; the purchase and construction account will be very considerably affected owing to the liquidation having been carried out during a period of crisis, although advantageous stipulations (shares of profits) were inserted in several contracts. It is not, however, certain that the accounts for working the vessels will show any very heavy deficit when a balance is finally struck.

It may be desirable to mention here that, during the first two years after the armistice, the State had itself to take an active part in restoring the devastated areas, even in the case where the loss was incurred by private persons. It supplied and sold material obtained either from the liquidation of stocks or from purchases made in foreign countries. The revival of private enterprise, which is steadily becoming more effective, has been the natural sequel to this inevitable phase of State control. The Ministry of the Liberated Regions has by degrees narrowed its sphere of action to the assessment of damage — now practically completed — and to the supervision of the proper use of the money received. The reconstruction accounts for 1917 are now being wound up.

7. *Charges for unemployment.*

Since the conclusion of the war France has not had to expend any large sums on relieving unemployment. This problem, moreover, did not assume disquieting proportions even at the time of the two critical phases which coincided with the conclusion of the period of war manufactures (1919) and the crisis due to trade depression (1921).

The grants made out of the State budget on account of the national unemployment relief fund and the unemployment benefit funds are summarised in the following Table, in francs:

Year	National funds		Relief funds	
	Credits voted or asked for each year	Actual expenditure	Credits voted or asked for each year	Actual expenditure
1919	30,000,000	29,790,000	1,100,000 ¹	50,000
1920	1,750,000	1,419,000	65,000	65,000
1921	23,500,000	18,700,000	300,000	178,000
1922	5,000,000	1,305,000	150,000	148,000
1923 ²	2,500,000	—	180,000	—

The aggregate grants made by the municipalities do not represent any considerable sum.

8. *The financial position of public undertakings.*

A. *Railways.*

The subjoined Table (p. 43) shows the steady rise in the receipts and the continuous improvement in the coefficients of exploitation for each of the great railway systems since 1919. It affords evidence, also, of the rapid reduction in the annual deficits chargeable to the Treasury (down to 1920) or in the common fund (new arrangement). The Table also shows the distance which remains to be covered before the 1913 position, which was, on the whole, satisfactory, can be reached.

The State system, which was organised in 1878, was, it may be pointed out, extended in 1911 by the re-purchase of the concession made to the Compagnie de l'Ouest. A supplementary budget shows its receipts, and also its expenditure and obligations, under conditions which enable a comparison to be instituted with the manner in which the Companies operate their lines. The figures, however, apply to a group of railways which has always had a lower earning capacity than that of the other French systems.

Since the conclusion of the war the basic railway rates have again been temporarily raised by a very considerable amount (Law, February 14th, 1920, supplemented by the Law of October 29th, 1921). The authorities were of opinion that they ought not to exceed a certain limit beyond which the industrial and agricultural revival would be jeopardised in many districts. But at an early date, as a result of the rapid reconstruction of the permanent ways and the works destroyed by the enemy, and also as a result of the restoration — not quite so rapid — to their old state of efficiency of the other lines which had been neglected for five years, traffic has revived and has increased in volume without interruption.

Under the heading of expenditure, costs in respect of staff have steadily increased. This is due to the general rise in salaries and wages, to successive increases in pensions (1920 and 1922)

¹ Including credit for unemployment benefit funds and public employment bureaux.

² Credits asked for.

and to the assumption in 1922 of the obligation to pay the bonus on the high cost of living which had been defrayed down to that date by the State. The costs of the system, under which employees are graded as state officials, are still further increased by the effects of the 8-hours day, though these, it is true, have been mitigated by the Decree of September 14th, 1922, which draws a distinction between actual work and mere attendance.

In 1920 exceptionally heavy expenditure had to be met on account of work on repairs which had been postponed, the high price of fuel (amounting to as much as 10 and 11 times the 1913 prices) and abnormal sums for compensation due for delay or damage, all of which were evidence of general disorganisation. Since that date, however, the price of fuel has fallen by half, and order and economy have been re-introduced into the working of the railways.

The financial policy of the State in regard to railways has just entered on a new phase as a result of the signature of the General Convention of June 28th, 1921, ratified by the Law of October 29th, 1921.

A summary in a few lines of the origin and main provisions of this Convention may present certain points of interest.

The French railways, which were requisitioned in August 1914 and remained under that system until October 24th, 1919, were compelled to subordinate all commercial traffic requirements to military needs, at a time when the rise in prices, and especially in the price of fuel, was creating enormous deficits. While the position in 1913 might, as a whole, be regarded as encouraging, the great railways systems now found themselves faced with a deficit of 5½ milliards, which could not be left indefinitely to their charge. This is the origin of the idea of a Convention which should embody a compromise for settling deficits due to the war, for co-ordinating the exploitation of the various systems without destroying the characteristics peculiar to individual companies and organising between them a kind of joint financial responsibility, which is intended to safeguard both the present and the future interests of the Treasury.

The co-ordination of the various methods of working on terms compatible with the general national interests is provided for by two joint organisations: the Supreme Railway Council and the Inter-System Committee of Management. The State continues to be responsible for the deficits on the systems for the period 1914 to 1920. Financial co-operation has been effected by the creation of a common fund into which the surpluses are paid by systems making a profit and out of which the necessary sums are paid to systems run at a loss to enable the latter to discharge their obligations. Security for all obligations is provided, under the new conditions, by the balancing of the common fund, which, under ordinary circumstances, is ensured by the fares and freight charges. These rates may be increased without special parliamentary authorisation, as circumstances may require, within fixed limits which must not be exceeded. Should the Government deem it impossible during the next few fiscal years to impose increased rates which might actually prejudice the development of traffic, the common fund will be balanced either by Treasury advances or by the issue of bonds which may not exceed a total laid down in the annual finance law, and which will be placed on the market by the railway systems on behalf of the State. The raising of money by loans to cover any deficiencies in the common fund should be an exceptional and provisional measure; the scale of charges should be adjusted so as to make the accounts balance at the earliest possible date, since it is incumbent on the railway undertakings over the whole country to balance their receipts and expenditure.

Moreover, Parliament wished to guard against an apathetic administration in which each system would merely retain the profits which were granted or guaranteed to it before the war. It has provided a two-fold premium for successful administration, which will depend both upon increased traffic and upon economies in working expenses. In addition to this, with the object of rendering the prosperity of the transport industry a matter of real interest to the staff, the latter is also granted, under the Convention, a bonus which is reckoned on the basis of the two factors mentioned above, and rises by fair and reasonable increments.

FINANCIAL STATEMENT REGARDING THE SIX MAIN RAILWAY SYSTEMS IN FRANCE
FROM 1919 TO 1922.

Comparison with 1913.

	Fiscal year	Length of line in operation km.	Total receipts	Total expenses of operation	Co-efficient of exploitation	Difference be- tween receipts and expendi- ture allowing for financial charges (in millions of francs)
			Fr.	Fr.		
NORD	1913	3,840	336,137,671	206,046,425	61.32	+ 27
	1919	3,795	449,145,603	687,602,856	153	— 335
	1920	3,817	868,362,315	1,216,478,860	140	— 578
	1921	3,827	995,062,037	1,069,821,132	107	— 247
	1922	3,827	1,158,676,478	1,060,969,557	90.6	— 124.6
EST . . .	1913	4,962	304,604,773	187,374,566	61.5	+ 19.7
	1919	5,027	574,218,995 ¹	522,504,291	90.99	— 80
	1920	5,027	722,253,588	879,466,910	121.76	— 303
	1921	5,027	910,186,668	905,368,940	99.46	— 160
	1922	5,027	1,037,356,549	848,186,243	81.76	— 7
P.L.M. . .	1913	9,685	596,216,344	339,703,709	57	+ 44.2
	1919	9,781	1,002,100,951	1,049,406,440	105	— 402
	1920	9,781	1,588,408,941	1,839,938,853	115	— 633
	1921	9,781	1,670,825,186	1,732,457,648	103	— 407
	1922	9,781	1,806,047,139	1,598,605,983	88.5	— 253
ORLÉANS .	1913	7,790	309,795,895	183,515,459	59.2	+ 10.4
	1919	7,711	597,866,500	716,137,700	119	— 179
	1920	7,792	909,731,686	1,230,129,103	135	— 494
	1921	7,792	918,841,850	1,093,544,543	119	— 369
	1922	7,792	941,098,562	910,984,403	96.8	— 237
MIDI . .	1913	4,057	150,388,926	83,770,159	55.7	+ 5.1
	1919	4,058	217,775,003	264,311,550	121.36	— 106
	1920	4,096	367,823,916	543,737,800	136.78	— 255
	1921	4,096	420,135,997	498,405,287	118.63	— 185
	1922	4,096	442,982,189	458,714,820	103.55	— 156
ETAT . . .	1913	9,055	322,473,760	276,695,232	85.8	— 96.1
	1919	9,011	832,024,292	765,214,257 ¹	94.37	— 109
	1920	9,011	936,383,566	1,464,976,807 ¹	156.51	— 696
	1921	9,011	1,008,814,413	1,430,955,457 ¹	141.96	— 430
	1922 ²	9,011	1,041,700,000	1,195,000,000	114	— 436

¹ Including receipts and expenditure in the closed accounts for the various fiscal years and excluding increases in military receipts.

² Forecast.

B. Posts, Telegraphs and Telephones.

The results of the State exploitation of posts, telegraphs and telephones for the period from 1920 to 1922 are shown in the Table given below. It will be seen that there is an increase in the receipts, which is due both to the revival of trade activity and the raising of the rates. This increase, which had been prescribed by the law of March 29th, 1920, was revised in certain points in 1921, as certain rates having been fixed too high had actually reduced the yield under several items. The ordinary expenditure has increased slightly since 1920, while extraordinary expenditure has been steadily curtailed.

The reform foreshadowed in the draft budget for 1923 presents certain points of interest. The Administration of Posts and Telegraphs is to be provided with funds from a supplementary budget, which would enable the financial results to be more accurately estimated and would facilitate those commercial transactions essential to the satisfactory conduct of an industrial undertaking. In this budget, the value of all services rendered free of charge to the State, the Treasury, the National Savings Bank, etc., would be shown as receipts. Conversely, the service of the loans, even those which were raised in the past, would appear as expenditure, and at the same time working capital funds and sinking and reserve funds would be created. A separate section of the budget would contain entries regarding the realisation and utilisation of the loans which are to be raised with a view to the development of traffic and increasing the net yield. Parliament has not yet given a decision on this new proposal.

RECEIPTS AND EXPENDITURE RELATING TO THE POSTS, TELEGRAPHS AND TELEPHONES
MONOPOLY FROM 1920 TO 1922.

Francs.

Fiscal year	Receipts ¹		Expenditure ²		Chargeable to	
	Estimates	Actual receipts	Estimated expenditure (credits granted under laws or decrees)	Actual expenditure		
1920	P	591,779,500	605,128,250.03	1,271,423,182.14	1,205,731,722.57	Ordinary budget. Extraordinary budget.
	T	163,253,250	161,550,799.16	116,120,000	114,872,061.70	
	O	174,767,500	156,600,726.54			
	Total	929,800,250	923,279,775.73	1,387,543,182.14	1,320,603,784.27	
1921	P	705,608,300	675,137,113.70	1,483,163,491.04	1,405,745,537.32	Ordinary budget. Extraordinary budget.
	T	178,004,600	177,881,434.94	13,730,000	12,712,692.87	
	O	214,943,700	217,041,126.38			
	Total	1,098,556,600	1,070,059,675.02	1,496,893,491.04	1,418,458,230.19	
1922	P	735,096,100	719,587,069.45	1,554,674,646.90	1,406,992,622.93	Ordinary expend. Extraordinary expenditure.
	T	182,374,300	190,631,160.64	9,000,000	8,990,811.41	
	O	169,011,500	238,793,879.89			
	Total	1,086,481,900	1,149,012,109.98	1,563,674,646.90	1,415,983,434.34	

¹ Receipts are given under three headings: P., T., O. = Posts, Telegraphs, Telephones.

² Expenditure is shown according to the class of budget (Ordinary Budget, Extraordinary Budget).

9. *The introduction of new taxation.*

In 1920, France made the greatest efforts to increase her normal revenue. Under the law of June 25th, 1920, tax-payers were called upon to consent to further sacrifices, estimated at 8 milliard francs in the first year. The Government imposed numerous fresh taxes and raised all the rates, with the exception of those relating to import duties, to amounts which in many cases are double the pre-war rates.

The yield of various classes of revenue is shown in Tables IV-VII above, and explanations have been given in the reply to question 1 under C and D. If we wish to realise the extent of the progress made, we must bear in mind that, even before the war, fiscal charges in France were fairly heavy and that the taxable capacity of the devastated areas — a capacity which has not yet been restored to its former level — represents a fifth of the taxable capacity of the country.

Only the briefest mention can be made here of the actual nature of the changes effected in the system of taxation.

France undertook the reform of her direct taxes in the middle of the war and imposed an income tax.

The general tax on income, which was introduced in 1914 just before the declaration of war, was applied as a fiscal experiment in 1916 at a very low rate. Under the laws of 1916, 1917, 1918 and 1920, the basic rate was raised from 2 % to 10, then to 12½ and 20, and finally to 50 %, with abatements varying according to the amount of the income. This tax is imposed on the net income of any person habitually resident in France, irrespective of the source of the income, and it must be paid even on *rentes* and interest not liable to the *impôt réel*. Taxpayers may, if they so desire, substitute in their compulsory declaration the basic valuation entered in each assessment form in place of the income actually received. After deducting uniform amounts in respect of family responsibilities, income tax is charged on net incomes at the rate of 50 % on 1/25th of the portion of the total income between 7,000 and 20,000 francs, increased by one twenty-fifth for each 10,000 francs up to 100,000 francs, 1/25th for each 25,000 francs up to 400,000 and again for each 50,000 up to 550,000 francs. Any further sum over 550,000 francs must pay the full basic rate. Incomes below 7,000 francs are exempt.

In addition, all income has to pay a series of scheduled taxes, some of them of ancient date, others imposed during the war by the law of July 31st, 1917. The rate varies according to the nature of the income — 10 % in the case of income derived from capital, 8 % for income partly derived from capital and partly earned, and 6 % for earned income.

The land tax, which has been raised from 5 % to 10 %, is still levied on the 1914 basis, that is, according to the rental value of houses or parcels of land entered in the land register at the value fixed in the last assessment previous to the outbreak of war. For various reasons it has so far been impossible to undertake the intricate and laborious work of revising the basis of this tax. Agricultural profits accruing to the farmer are also taxed at 6 % subject to certain deductions from the basic taxable amount arrived at by means of coefficients applied to the rental value of the soil. These deductions, which vary at the present time according to the crops raised, have, in point of fact, been increased on several occasions.

Prior to 1918, trade, industry and a number of the liberal professions were liable to *contributions des patentes*, which were based on rent and on such indices of earning capacity as Parliament had chosen for each type of undertaking. The *patentes* still exist, but only in the form of fictitious principal sums on which additional taxes (centimes) are levied, almost exclusively for the benefit of local authorities. There is now a scheduled tax of 8 % on actual profits, which are either declared or assessed in accordance with the total business turn-over by means of a coefficient adapted to each individual case selected in principle between certain limits (which are liable to revision) laid down in advance for each industry or business. The holders of ministerial posts and offices are liable to pay the same rate of 8 %.

Salaries or wages derived from public or private sources which are exempted from taxation

up to a limit of from 6,000 to 7,000 francs according to the town — a limit which is further raised if the tax-payer has to provide for family dependents — are taxed to the rate of 6 %. Employers are bound to declare incomes which are liable to taxation, but may not deduct the tax at the source. Practically the same rules are in force with regard to the taxation of pensions and also the taxation of profits derived from non-commercial professions, with the single difference that in the latter case the declaration is made by the tax-payer.

The tax on income derived from negotiable securities, deposits and mortgages, supplements the schedule system and for the most part is deducted at the source at the rate of 10 %.

The following table gives a few instances of the result of applying the system described. The figures include both the general tax on income and the scheduled tax.

TABLE SHOWING ALL THE DIRECT TAXES PAID TO THE STATE BY CERTAIN CLASSES OF TAXPAYER BOTH UNDER THE SCHEDULED TAX AND THE GENERAL TAX:

Francs						
Amount of income	Unmarried taxpayer over 30:		Married taxpayer one child		Married taxpayer 4 children	
	Tax on income derived exclusively from salaries or wages	Tax on income derived exclusively from interest on capital	Tax on income derived exclusively from salaries or wages	Tax on income derived exclusively from interest on capital	Tax on income derived exclusively from salaries or wages	Tax on income derived exclusively from interest on capital
20,000	1,100	2,350	598.50	2,171	82.50	2,033
50,000	5,150	7,600	3,733.50	6,596	2,332.50	5,915
100,000	16,900	21,350	12,758.50	17,771	9,030.—	15,340
500,000	213,400	223,850	171,730.—	192,780	161,710.—	184,020
1,000,000	554,650	595,100	450,530.—	491,580	440,270.—	482,580

Even if there were no differences in the purchasing power of various currencies, it would still be a difficult matter to compare the legal systems of different countries. In addition to the complexity of the scales and the differences in connection with abatements, the investigator is faced with the difficulties arising from different conceptions as to the objects on which taxation falls. It should be noted that, in France, the idea of the personal incidence of taxation is pretty closely adhered to even in the case of the so-called impersonal or scheduled tax. In this way, the whole of the profits made by a commercial undertaking when carried on by a public company must first of all pay a tax of 8 %, while, in accordance with the tax on income derived from transferable securities, 10 % of that part of the profit which is included in the income of the individual share-holder is deducted at the source, though at the same time it is naturally considered as part of his taxable income for the purposes of the general tax.

It may here be pointed out that the collection of the direct tax is again becoming as easy a matter as it was before 1914, and the figures for the costs of actions to recover arrears are even lower on the whole. If we wish to represent the entire financial position fairly and accurately, we must give independently the amounts collected in respect of war arrears (1914-1919). The total assessed taxes (*i.e.*, 8,724 millions) as audited down to December 31st 1922, last reached as much as 8,635 millions.

All duties in connection with gifts or successions, the transfer of property by sale and of negotiable or transferable securities and stamp and other duties collected by the Registration Department, totalling more than 3,600 millions, may be regarded as taxes falling upon capital. The duty on transfers of fixed property by sale is at the present time 10 % of the price.

The amount of the *succession duties*, in connection with which allowance is made for the family responsibilities of the deceased and of the heir, the closeness of relationship, the amount of the estate of the deceased and the net share of each of the heirs, has been raised on many occasions. The cumulative tax has been limited by law to 80 % of the total money value of the estate.

Parliament selected the widest possible basis when it imposed the tax on turn-over. The basis in this case is the whole body of transactions of a commercial nature whether these transactions relate to goods or services. The rate is fixed at 1 % of the selling price or the price claimed plus one-tenth (*décime*) to be divided among the communes. This rate is increased to 3 and 10 % on transactions in regard to lodgings and the consumption of food and drink on the premises, the rate being determined according to the more or less luxurious appointment of the establishment. The luxury tax strictly so-called places an additional 10 % on the sale to the consumer of articles classified as luxuries. Finally, a special 25 % impost falls on the retail sale of brandies and liqueurs for consumption.

This last impost must be paid in addition to the consumption tax on alcohol, which on the last occasion was raised to 1,000 francs per hectolitre (including 250 francs for a communal fund). Wines are subject to a tax of 14 francs per hectolitre and the tax on beer is 1.70 francs per degree-hectolitre.

The entertainments tax, which was introduced in 1916, has been raised to 6.10 % and 25 %, according to circumstances, and this tax is further increased by the "Poor Tax" (*droit des pauvres*), and frequently by a municipal tax as well. The State tax on horse races and all the proceeds from legalised gaming are levied in addition to charges which are made for charitable relief work or works of public utility. Ten per cent. is levied on shooting leases.

The various duties on motor cars alone bring in 122 million francs to the State ; the tax on petrol, motor spirit and benzol produces 247 million francs.

A tax of 50 francs per quintal is levied upon sugar. In addition to import duties, heavy inland duties have to be paid on coffee and colonial produce and also on certain substitutes for these articles.

The gross revenue from the State tobacco and matches monopolies amounts to slightly less than three times the pre-war receipts. There is indeed a limit which it is dangerous to exceed ; for if the rate is fixed too high, the consumer falls back upon the cheaper articles. It should also be pointed out that the cost of production has been increased as a result of better conditions granted to employees, increases in the purchase price of tobacco and losses due to sudden changes in the tastes of the public.

* * *

Two characteristics deserve special mention in connection with the reform of taxation. The first of these is the way in which the principle of graduation is being increasingly applied. As regards direct taxation, this principle made its first appearance in conjunction with the personal tax and it has assumed increasing prominence with the rise in the basic rate. The consequences of the application of this principle may readily be seen from the Table given below, which gives an analysis, according to the class of income, of the schedules prepared for 1921.

As regards succession duties (the manifold factors already mentioned have some effect

upon the fixing of the rates) actual instances can alone convey an idea of the charges falling on property passing by death. Thus a tax of 35,000 francs is levied on an estate of 500,000 francs inherited by two children ; 166,000 francs if it is divided up among three nephews, and 222,000 francs if it passes to one person who is not related to the deceased. Still keeping to these three hypothetical cases, we may note that an estate of 2 millions will pay 210,000, 815,000 or 1,044,000 francs, and an estate of 10 millions will be taxed to the extent of 1,500,000, 5,011,000 or 6,102,000 francs.

Such charges, moreover, counterbalance to some extent the almost exclusively impersonal character and the graduated scales of the great majority of assessed and local taxes, and of all the taxes on transactions, transfers of property, expenditure and consumption which supply the State and local public bodies (communes, etc.) with revenue.

* * *

The second novel feature, which has assumed greater prominence with the growth of personal forms of taxation, is the keen anxiety to allow for the existence of family responsibilities by granting exemptions, or, conversely, by increasing the rates of taxation.

In assessing the general tax on income and the tax on wages, tax-payers who are heads of households have, since the passing of the law of March 30th last, been granted exemption to an amount fixed at 3,000 francs income, in respect of the tax-payer's wife and 2,000 francs for each child, and they have also been allowed proportionate reductions which have even been extended to other schedule taxes reducing the sum which he is called upon to pay by 5, 7.50, 10 or 15 % according to the amount of the income and the number of children or other dependants for whom he must provide, subject to the condition that the total exemptions do not exceed 300 francs (scheduled taxes), and 1,000 francs (general taxes) for each child.

If any person with four or more children inherits an estate, the succession duties are reduced by 10 % for each child after the third, subject to the provision that abatement must not exceed 2,000 francs for each child. The scale of duties payable in respect of gifts is also based on the number of children.

On the other hand, the general tax on income was further raised in 1920. An additional 25 % was placed on bachelors over 30 and an additional 10 % on tax-payers over 30, married for more than two years and still childless.

The new system of taxation applicable to property passing by death has, it may be said, been drawn up on the same principles. When the deceased does not leave four living children or representatives of four children, a tax is levied on the whole of the estate at rates the total amount of which is inversely proportional to the number of children of the deceased. For example, these rates, when the deceased is childless, are fixed at between 3 and 39 % over and above the very steeply graduated duties on the inherited portions of the estate.

GENERAL TAX ON INCOME — TABLE SHOWING, AS AT APRIL 1st, 1922, IN ACCORDANCE WITH THE CATEGORY OF INCOME, THE ITEMISED RESULTS OF THE SCHEDULES PREPARED FOR THE YEAR 1921 (1920 INCOME).

Category of income Francs	Number of tax-payers registered in the schedules	Total taxable income ¹ Francs	Total net yield of tax Francs
6,100 to 10,000	272,274	2,305,002,800	9,863,600
10,100 to 20,000	320,127	4,648,121,300	36,356,800
20,100 to 30,000	84,464	2,131,486,200	29,957,700
30,100 to 50,000	55,979	2,149,156,300	56,097,500
50,100 to 100,000	31,015	2,232,700,800	125,859,300
100,100 to 200,000	12,277	1,683,010,200	191,336,900
200,100 to 300,000	2,794	664,518,600	120,938,500
300,100 to 500,000	1,607	614,127,500	150,793,300
500,100 to 1,000,000	641	433,909,700	148,707,000
1 million and over	197	578,614,800	278,069,100
	<u>781,375</u> ²	<u>17,440,648,200</u> ³	<u>1,147,979,700</u> ⁴

10 Method of raising money by loans whether by: (a) long term loans; (b) short term loans in the open market; (c) loans direct from the central bank, leading to further new inflation.

From the Tables given below it is easy to form, for the various years, a correct idea of the credit operations of all kinds at home and abroad which enabled the French authorities to cope with the deficiency in the normal revenue required to oppose enemy aggression, to support the economic life of the country and to advance, on account of Germany's insolvency, half of the reparation sums for which that country admitted full responsibility.

Table A. shows exceptional revenue raised between 1913 and 1922 and repayments made through other channels than the budgets.

Table B. gives particulars of loans, strictly so-called, floated in the home market during the same period by the Treasury or by the *Crédit National*, an institution which is responsible for paying, on behalf of the State, the whole or part of the damages due to the war and which raises

¹ Net income, *i.e.*, after deducting debt charges and losses incurred and all direct taxes paid (including the general tax for the previous year).

² Including 558,039 who made a declaration.

³ It should be noted that the uniform deductions in respect of family responsibilities. . . . 1,377,870,000
 fixed for dependants at 1,500 francs 86,022,000
 " " " " 2,000 " 734,414,000
 reduce the taxable amount by. Frs. 2,198,306,000

⁴ These figures allow for: (1) "penalties" or additional rates: +27,520,400 frs.; (2) the additional 25% leviable on unmarried taxpayers over 30 (numbering 159,656) +21,885,400 frs.; (3) the additional 10% payable in the case of married taxpayers without children (numbering 92,399) +9,808,500 frs.; and (4) graduated abatements allowed in respect of dependants — 37,992,900 frs.

the necessary funds by the issue of obligations or medium term bonds; interest and amortisation charges on these are paid by the State by means of an annuity in the budget.

Table C. shows the debts and claims of France in foreign countries.

Table D. contains a comparative statement of the national debt (excluding the debt in respect of pensions) as at December 31st, 1920, 1921 and 1922¹.

It hardly appears necessary to comment on these figures, which represent very fairly and fully the most important chapter in the financial history of the country during these exceptionally difficult years. They afford evidence of the magnitude of the work achieved, the loyal response made by French investors to the appeals of the State, the liberal and effective support which invaded and devastated France received from her allies and from friendly nations, and finally, the absolute confidence in her future both abroad and at home.

The questions raised by the Brussels Conference under the heading of "Monetary Measures" call for special replies regarding the advances granted to the State by the Bank of Issue and the floating debt. In this place it is sufficient to point out that, with regard to these items of national indebtedness (to the danger of which the Conference very properly called attention), the advances made by the Bank of France were reduced by 3 milliards in the space of two years and that the floating debt increased in 1922 to a very slight extent.

Floating debt maturing after one year has increased more rapidly than the long term debt during the past three years. Each of these two methods of borrowing has its peculiar advantages and disadvantages. It would appear desirable, however, that during a period of dear money, as large a part as possible of loan or funding operations should be effected upon terms which would not constitute an excessive burden for the future.

Before the war the total indebtedness of France, including capitalised pensions, was estimated at 33 milliards.

¹ The categories of short term debts, or, more correctly, medium term debts, given in Table D do not include the capitalised value of war damages paid in the form of annuities under Articles 152 to 159 of the law of July 31st, 1920 (total obligations assumed in 1921, 3,768 millions; in 1922, 2,637 millions) nor the capitalised value of the various annuities such as annuities payable to the railway systems, as these last annuities are entered in the budgets of the Ministries of Finance and Public Works to an amount of about 450 millions, as against 140 millions in 1913, an increase solely attributable to the consequences of the war.

NATIONAL DEBT — TABLE A.
EXCEPTIONAL REVENUE RAISED BETWEEN 1913 AND 1923.

(in millions of francs.)

DESCRIPTION	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922
<i>A. — Domestic Debt</i>										
Perpetual debt ¹	—	—	6,265	5,425	5,174	7,246	—	11,278	—	—
Term loans	—	465	—	—	—	—	655	7,035	—	—
Bonds and obligations (net)	—	1,858	10,487	12,955	13,054	16,611	25,454	15,569	22,724	8,911
Deposits	91	—	—	53	360	436	1,544	617	379	670
Total	91	2,323	16,752	18,433	18,588	24,293	27,653	34,499	23,103	9,581
<i>B. — Foreign loans ²</i>										
America	—	51	1,845	1,624	7,532	5,388	9,267	3,295	1,449	—
England	—	—	814	6,968	3,997	1,594	1,759	205	—	—
Spain	—	—	—	131	67	570	—	78	—	—
Switzerland	—	—	—	—	46	164	73	—	—	—
Scandinavian countries	—	—	147	47	11	—	—	—	—	—
Other countries	—	—	—	30	232	979	249	—	3	—
Total	—	51	2,806	8,800	11,885	8,695	11,348	3,578	1,452	—
<i>C. — Advances by bank of issue</i>										
	—	3,925	1,150	2,350	5,160	4,680	8,370	865	—	—
<i>D. — Operations to facilitate the payment of losses due to the war</i>										
Loan from the Credit National	—	—	—	—	—	—	3,960	3,880	1,871 ³	7,822
Payment in annuity certificates and bonds	—	—	—	—	—	—	—	—	4,694	2,632
Total	—	—	—	—	—	—	3,960	3,880	6,565	10,454
GENERAL TOTAL	91	6,299	20,708	29,583	35,633	37,668	51,331	42,822	31,120	20,035

NET REPAYEMENTS MADE BY THE TREASURY BETWEEN 1913 AND 1922
AND NOT INCLUDED IN THE BUDGET EXPENDITURE

(in millions of francs)

OFFICIAL DESCRIPTION	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922
Treasury bills and bonds (pre-war type)	—	—	149	—	—	—	—	—	—	—
Deposits	—	42	68	—	—	—	—	—	—	—
Foreign loans ⁴	—	—	185	347	512	442	2,676	4,901	2,966	1,238
Advances by banks	—	—	—	—	—	—	—	235	2,100	850
Totals	—	42	402	347	512	442	2,676	5,136	5,066	2,088

¹ Net; not including costs of funding and conversion.

² Average exchange rate of the year.

³ Not including the 1,070 millions of National Defence bonds in lieu of subscription in November, 1921.

⁴ Average exchange rate of the year.

NATIONAL DEBT -- TABLE B.
PARTICULARS OF LOANS CONTRACTED BETWEEN 1914 AND 1922
I. TREASURY ISSUES

Year	Date of law authorising loan	Type	Rates of Yield		Price at which redeemable	Not redeemable before	Issue Price	Par value subscribed in millions of francs	Money value in millions of francs	Yield in cash in millions of francs
			Nominal	Actual ¹						
1915	Nov. 16th, 1915	perpetual	5 %	5.73	—	1931	87.25 %	15,205	13,308	6,285
1916	Sept. 15th, 1916	"	5 %	5.71	—	1931	87.50 %	11,514	10,082	5,425
1917	Oct. 20th, 1917	"	4 %	5.83	—	1943	68.60 %	14,882	10,209	5,174
1918	Sept. 19th, 1918	"	4 %	5.68	—	1944	70.80 %	31,304	22,163	7,246
1919	Déc. 30th, 1919	amortisable in 60 years	5 %	5.60	150 %	1944	par	15,940	15,940	7,935
1920	August 2nd, 1920	perpetual	6 %	6 %	—	1930	par	28,089	28,089	11,278
1921	Decree of May 14th, 1921	Two years bonds maturing on June 8th, 1923	6 %	6.3125	par	1930	485 for 500 fr. (par less first dividend)	5,665	5,492	5,492
1922	Decree of September 20th, 1922	Three or five year bonds maturing on Sept. 25th, 1925 or 1927, at the option of the subscriber	6 %	6.492	par in 1925	1930	497 fr. 50 for 500 fr.	8,232	8,190	8,190
				6.612	507.50 in 1927					

¹ Rate corresponding to rate of issue.

NATIONAL DEBT — TABLE B (continued).

PARTICULARS OF LOANS CONTRACTED BETWEEN 1914 AND 1922 (continued).
2. CRÉDIT NATIONAL ISSUES

Year	Dates on which issues were authorised	Rate of Interest		Nominal value of bonds and obligations	Issue price	Amount in millions of francs		Dates of redemption	Rates at which to be redeemed	Prizes
		Nominal	Actual			Nominal	Actual			
1919	Decree of Nov. 21st, 1919	5 %	5.65	500	495	4,000	3,960	in series terminating in 1995	600 fr. as from Jan. 1940	68 prizes including four of 1 million (4 annual drawings)
1920	Decree of May 20th, 1920	5 %	5.70	500	485	4,000	3,880	in series terminating in 1995	500 francs	104 prizes including 8 of 1 million (8 annual drawings)
1921	Decree of Sept. 24th, 1921	6 %	6.414	500	498.50	3,000	2,970 ²	in series of 1 million bonds from 1929 to 1934	500 francs	400 prizes including two of 500,000 fr. (4 annual drawings)
1922	Decree of Jan. 12th, 1922	6 %	6.61 average	500	482 (less divid.)	4,710	4,500	at the option of the subscriber	500 francs	nil
1922	Decree of June 10th 1922	6 %	6.56 6.61 6.65 6.183 average	500	498.50	3,290	3,280	Feb. 1st 1924 at... Feb. 1st, 1927 at... Feb. 1st, 1932 at... at the option of the subscriber	507,50 525 francs	nil
1923	Decree of Jan. 6th, 1923	6 %	6.112 6.201 6.208 6.214 6.373	500	498.50	3,000	2,991	July 1st, 1925 at... July 1st, 1928 at... July 1st, 1934 at... July 1st, 1940 at... in 1948 (subject to the right of the Credit National to redeem them at an earlier date)	500 francs 505 francs 515 francs 530 francs 500 francs	1200 prizes for each of the six series of one million (4 annual drawings)

¹ Rate corresponding to rate of issue. ² Including 1,140 million francs in National Defence Bonds.

NATIONAL DEBT — TABLE C.
DEBTS AND CLAIMS OF FRANCE
(based on most recent available figures — January 1923).

DEBTS OF FRANCE TO FOREIGN COUNTRIES.

	In the currency in which the agreement was drawn up	In francs reckoned at par	In francs at the rate of exchange on January 31st, 1923
(1) Political Debt.			
Bonds transferred to the British Treasury (including accrued interest)	£ 586,875,700	14,801,005,000	46,087,349,000
Advances by the American Treasury (excluding accrued interest)	\$ 2,933,495,070	15,195,038,000	49,545,126,000
(2) Commercial Debt.			
Great Britain.			
Bonds transferred to the Bank of England	£ 55,000,000	1,387,100,000	4,319,150,000
United States.			
Loan of \$100,000,000, 1920	\$ 91,368,000	473,286,000	1,543,205,000
Loan of \$100,000,000, 1921	\$ 89,983,500	466,114,000	1,519,821,000
Bonds transferred to American Government in consideration of war stocks	\$ 407,341,145	2,110,027,000	6,880,081,000
Lyons, Bordeaux and Marseilles loans	\$ 40,586,000	210,235,000	685,497,000
Japan.			
Loan floated in Japan	Yens 100,000,000	258,000,000	730,000,000
Bonds issued in Japan	Yens 20,000,000	51,600,000	146,000,000
Spain.			
Short term credits	Ptas 204,603,000	204,603,000	531,968,000
The Argentine.			
Short term credits	\$ gold 18,470,696	92,353,000	240,123,000
Netherlands.			
Short term credits	Florins 55,000,000	114,565,000	365,750,000
Uruguay.			
Short term credits	\$ Urug, 15,000,000	80,400,000	206,250,000

Claims of France on Countries other than Germany.

Claims representing advances in cash, in transfers of securities or book credits, and representing material handed over.

N.B. — All the claims are in francs.

Russia (old régime)	5,784,000,000 ¹
Russia (various governments)	500,000,000
Belgium	3,772,000,000
Kingdom of the Serbs, Croats and Slovenes	1,747,000,000 ²
Roumania	1,154,000,000
Greece	824,000,000 ³
Poland	928,000,000
Czechoslovakia	542,000,000 ⁴
Italy	49,000,000
Estonia	16,500,000
Latvia	11,000,000
Lithuania	3,500,000
Hungary	1,000,000
Austria	35,500,000
Portugal	8,000,000
Finland	1,500,000
Total	15,377,000,000 ⁵

¹ Including 1,128 millions for discount when the bills were discounted at the Bank of France.

² Including 243 millions representing book credits.

³ Including 330 millions representing book credits.

⁴ Not including the 800 millions representing transfers which are to be offset, to an amount not definitely specified, by the value of the Italian transfers.

⁵ It should be noted that out of this total a sum exceeding 1,600,000,000 frs. has been covered by budget appropriations.

NATIONAL DEBT — TABLE D.

COMPARATIVE STATEMENT SHOWING THE POSITION ON DÉCEMBER 31ST, 1920, 1921, AND 1922.

I. INTERNAL DEBT	CAPITALISED AMOUNTS			OBSERVATIONS	
	as at December 31st, 1920	as at December 31st, 1921	as at December 31st, 1922		
	Francs	Francs	Francs		
<i>1. Perpetual long-term debt</i>					
3 % rentes	19,742,127,000	19,742,127,000	19,740,445,000	The large reductions effected in 1922 relate partly to operations in regard to previous fiscal years (rentes paid in lieu of the emergency tax on War profits, rentes repurchased on the Stock Exchange and rentes received as payment for the 6 % loan in 1920).	
Amortisable 3 % rentes.	2,989,713,000	2,939,884,000	2,890,055,000		
Amortisable 3 ½ % rentes	20,492,000	18,400,000	14,684,000		
5 % rentes, 1915 and 1916	20,516,557,000	20,472,718,000	19,452,682,000		
4 % rentes, 1917.	10,006,153,000	9,981,723,000	9,070,989,000		
4 % rentes, 1918.	23,737,990,000	23,737,990,000	21,064,960,000		
Amortisable 5 % rentes, 1920	13,476,586,000	13,247,113,000	11,554,359,000		
6 % rentes, 1920.	28,088,862,000	27,606,489,000	26,873,040,000		
Capitalised value of annuities paid by the State	5,296,195,000	7,591,722,000	7,707,990,000		
State railway bonds	1,311,700,000	1,300,800,000	1,289,350,000		
Credit National bonds and obligations.	7,989,700,000	10,984,550,000	18,977,950,000		
Capital value of annuities handed over to war sufferers (<i>sinistrés</i>) (Law of July 31st, 1920.	—	3,768,453,000	6,405,728,000		
Total.	133,176,075,000	141,391,969,000	145,042,232,000		
<i>2. Short term debt</i>					
Ten-year National Defence bonds	214,917,000	284,782,000	290,024,000		
Six-year National Defence bonds	116,614,000	328,895,000	410,053,000		
Five-year National Defence bonds	91,540,000	104,861,000	43,000,000		
Bonds given to the <i>sinistrés</i> (sexennial).	—	925,000,000	925,000,000		
Bonds handed over to the Alsace Lorraine Banks (decennial)	—	—	270,000,000		
Two-year Treasury bonds.	—	5,665,342,000	5,665,342,000		
Three and Five-year Treasury bonds	—	—	8,232,124,000		
Total.	423,071,000	7,308,880,000	15,835,543,000		
<i>3. Floating debt</i>					
Ordinary Treasury bonds.	1,961,390,000	1,942,423,000	1,996,613,000		
National Defence bonds	48,938,171,000	58,420,346,000	59,055,260,000		
Advances by the Bank of France	2,600,000,000	24,600,000,000	23,600,000,000		
Special funds from the general Treasuries	301,539,000	299,750,000	331,739,000		
Sundry special current accounts in the Treasury	928,423,000	618,275,000	676,160,000		
Other deposit accounts in the Treasury ¹	2,863,337,000	2,702,296,000	3,546,834,000		
Total.	81,592,860,000	88,583,090,000	89,206,606,000		
Total amount of internal debt	215,192,006,000	237,283,939,000	250,084,381,000		

¹ Including deposits in the form of security for the issue of token money (notes of the French Chambers of Commerce, notes of the Saar mines and notes of the Bank of Syria) but especially the compulsory deposits of the local administrations (Departments, Communes, etc.)

NATIONAL DEBT — TABLE D (continued).

COMPARATIVE STATEMENT SHOWING THE POSITION ON DECEMBER 31ST .
1920, 1921 AND 1922 (continued).

Francs.

II. Foreign Debt.	As at Dec. 31st, 1922	As at Dec. 31st, 1921	As at Dec. 31st, 1920
I. Political Debt.			
United States.			
Advances by the American Treasury (not including accrued interest) . .	15,464,000,000	15,284,950,000	15,195,038,000
Great Britain.			
Treasury bonds transferred to the British Treasury (including accrued interest)	13,728,000,000	14,279,198,000	14,801,005,000
Total . .	29,192,000,000	29,564,148,000	29,996,043,000
II. Commercial Debt.			
United States.			
City of Paris Loan	259,000,000	—	—
Loan of \$100,000,000 raised in the United States, 1920	518,000,000	489,510,000	473,286,000
Loan of \$100,000,000 raised in the United States, 1921	—	490,821,000	466,114,000
Cities of Lyons, Bordeaux and Mar- seilles Loans	233,100,000	210,235,000	210,235,000
Bonds transferred to the American Gov- ernment as payment for stocks . .	2,110,026,000	2,110,026,000	2,110,026,000
Bonds issued in the United States . .	236,544,000	—	—
Great Britain.			
Treasury bonds transferred to the Bank of England	1,639,300,000	1,639,300,000	1,387,100,000
Bankers' loans	291,291,000	89,531,000	—
Bonds issued in Great Britain	31,272,000	—	—
Japan.			
Loan raised in Japan	258,000,000	258,000,000	258,000,000
Treasury Bonds issued in Japan . . .	85,555,000	85,555,000	51,600,000
Sweden.			
Bankers' loans	69,500,000	—	—
Norway.			
Bankers' loans	45,004,000	—	—
Spain.			
Bankers' loans	554,000,000	411,277,000	204,603,000
Switzerland.			
Bankers' loans	121,800,000	15,700,000	—
The Argentine.			
Bankers' loans	119,860,000	96,176,000	92,353,000
Netherlands.			
Bankers' loans	114,565,000	114,565,000	114,565,000
Uruguay.			
Bankers' loans	80,400,000	80,400,000	80,400,000
Total . .	6,767,217,000	6,091,096,000	5,448,282,000
Combined total of foreign debt. . . .	35,959,217,000	35,655,244,000	35,444,325,000

N. B. — The calculations are made at par rates of exchange in all cases.

SUMMARY

Francs

	As at December 31st, 1920	As at December 31st, 1921	As at December 31st, 1922
Internal Debt.	215,192,006,000	237,283,939,000	250,084,381,000
Foreign Debt.	35,959,217,000	35,655,244,000	35,444,325,000
Total	251,151,223,000	272,939,183,000	285,528,706,000

11. *The influence of foreign loans and of the balance of foreign trade.*

Table C above shows the assets and liabilities in the national balance sheet of France with regard to foreign countries *other than Germany*. It is unnecessary to mention here the various items of the claim which France has on that country. The statement prepared by the Reparation Commission shows that on December 31st, 1922, France had received from Germany 143,649,000 gold marks in cash or in liquid assets, *i.e.*, less than the French share of the advances paid under the Spa Protocol, a share which amounted to 238,771,000 gold marks. The same statement also showed that, if deliveries in kind are taken into account, she has received in the form of moneys and realisable assets 1,488,761,000 gold marks, *i.e.*, less than the total amount represented by the Spa advances and the costs of her army of occupation.

Moreover, France has not received from her allies any deliveries in respect of claims which she regards as political claims.

Under these circumstances it will readily be understood that her own repayments and payments of interest which, down to the present, have only been made on her non-political debt, and the annual amounts of which are given in Table A, have had a prejudicial effect upon her rate of exchange.

The influence exerted on the foreign exchanges by the balance of trade and also by the movements of capital created by loans on call or short term loans effected privately and by deposits in banks is shown in the replies relating to monetary and commercial measures.

12. — *The effect of local and provincial finances on the budget of the State.*

A. — *Departments.*

The following figures give particulars of the pre-war and post-war position in the 86 departments of France, not including the departments of Alsace and Lorraine:

Francs (000,000's).

Year	Receipts	Expenditure	Debt.
1913	613	614	1,779
1920	1,724	1,607	2,025

The following figures show State subsidies:

Francs (000,000's).

Year	Contribution to administrative expenditure due to the war	To the liberated departments	Former subsidies (Law of August 10th, 1871)
1913	—	—	3,682
1920	40	13	3,682
1921	15	12	3,682
1922	—	8	3,682

B. — *Communes.*

The financial position of the French communes, which number 36,260 at present, has been dealt with in two sets of statistics, one drawn up in 1913 and the other not yet published, referring to 1920. The essential difference between them is that the latter set shows ordinary and extraordinary receipts and expenditure and is based on the administrative accounts, whilst the other refers only to ordinary receipts and expenditure and is founded on the original budget estimates. In view of the large number of extraordinary operations and the modifications to which supplementary budgets invariably give rise, the only figures which can really be compared are those referring to the communal debt given below in millions of francs:

Francs (000,000's)

Year	Receipts	Expenditure	Debt
1913	1,128	1,094	4,892
1920	8,800	8,985	7,425

It should be noted that the various amounts for the City of Paris in 1920 are 5,718,000,000 frs. 6,055,000,000 frs., and 5,322,000,000 frs. respectively, as against a pre-war debt of 2,948,000,000 frs.

There was in point of fact a considerable increase in the burdens placed on the communes owing to the growth of expenditure on public relief and health, the food supplies organisation during the war, deficits on working expenses, of public services, loans contracted before or after 1920 by the issue of communal bonds to cover the cost of urgent work which had been postponed, etc.

It is, however, indisputable that the financial prospects of the communes and departments are better than those of the State. But it should also be pointed out that the existing local taxes are by no means elastic. This is the case especially with the *centimes additionnels* levied in connection with the old direct "taxes", where the bases of assessment—the land registers or external indications of wealth—still date back, to a great extent, to the pre-war period. Unlike the new taxes, which are based on an annual declaration of income, the yield from the *centimes* does not expand automatically with the growth of the national wealth expressed in

money. Further, any considerable increase in the rate of this tax might give rise to difficulties owing to the inequalities which would result from using so imperfect a basis of assessment. Moreover, with the exception of Paris, the net yield from the "octrois" has been inadequate since the unification of the drink regulations. The entire system of local taxation will accordingly have to be remodelled within the next few years.

Pending the conclusion of the enquiry undertaken to prepare the way for this important reform, the State has, in spite of the disadvantages inherent in measures which deprive local bodies of some of their powers of financial initiative, granted to the communes and also to the departments though to a lesser degree, a proportion of the taxes collected on its own account on business turnover, beverages and motor-cars. Moreover, these contributions do not represent lump sums which are ear-marked for local needs, but a share of the sums collected on their account by the imposition of a higher scale of rates.

GROSS TOTAL OF SUMS ALLOCATED TO LOCAL FINANCE

Francs (ooo's)

Year	<i>Décime additionnel</i> (supplementary tenth) collected with the 1 % tax on business turnover	Common fund from beverage tax	Common fund from motor-car tax
1920	60,879	367,705	5,804
1921	176,386	442,238	16,966
1922	201,000	455,986	18,234
	(approximate total)		

The first of these three grants is made on the basis of population; a third to the departments and two-thirds to the communes. The part of the common beverage fund derived from beers, wines and ciders is divided in proportion to the quantities consumed in 1913 and the part from spirits, in proportion to the population. The common motor-car fund is divided among all the departments on the basis of the length of road under the control of the local authorities which is maintained in a good state of repair.

A few words should be said with regard to the communal subsidies granted as a result of the war (excluding sums advanced by France for making good the great losses sustained by the communes in the invaded areas); it will be noted that the return to the normal system is as rapid as possible.

SUBSIDIES TO THE COMMUNES AS A RESULT OF THE WAR

(Francs ooo's)

Financial period	Subsidies in the form of con- tributions to administrative expenditure due to the war	Laws of October 4th, 1919, and April 20th 1922 (communes directly affected by the events of the war)	
		Subsidies allocated by the State and paid by the <i>Crédit Foncier</i>	Total of annuities refunded by the State to the <i>Crédit Foncier</i>
1920	49,317	46,482	551
1921	4,932	46,438	4,192
1922	—	20,769	7,234

It is impossible to give an account here of the financial systems of the various public relief, education, road and other services, in which the State, the departments and the communes alike bear a share fixed in accordance with different scales. As a result of circumstances due to the war the State has been obliged temporarily to increase its expenditure on repairing the system of roads connecting villages (*réseau vicinal*), the building of schools, relief to the aged and grants to large families.

II. MONETARY MEASURES.

1. *Increase or decrease of the note circulation.*

France has no fiduciary money in circulation as legal tender outside the notes issued by the Bank of France.

The small notes issued by the Chambers of Commerce and the metal token coins of a uniform type which are gradually replacing them cannot be regarded as a genuine supplementary currency.

The authorised maximum circulation was fixed at 41 milliards by a Decree dated September 28th, 1920. In point of fact, between December 1918 and March 1921 the circulation increased from 28½ milliards to 38½ milliards (the maximum). It has since then steadily decreased, and it fell to 35,800 millions in March 1922, when, concurrently with the rise in wholesale prices, which marked the end of the commercial crisis, the circulation once again began to increase. The increase continued until November, after which it fell slightly, to 36,300 millions in December.

The influences which affect the movement of notes (advances to the State and the granting of credit to private persons) are considered in a subsequent passage. (Replies to questions 2 and 5.)

The aggregate total of the Bank's gold reserves and the resources which are at its command in foreign countries, as shown in the balance sheets at the end of the year, have not varied to any appreciable degree between 1920 and 1922. The gold deposits abroad have, however, been reduced in proportion to the first payments made in respect of the advances for which these deposits served as security.

2. *The influence of Government expenditure on the currency.*

It is a well-known fact that the first operation which a State is obliged to undertake with a view to meeting the immediate increase in expenditure involved by mobilisation and war is almost necessarily a currency loan, that is to say, the issue of inconvertible notes. This was the case in France. Mindful of certain principles, however, the soundness of which had already been proved on various occasions in the country's history, the Government rejected the idea of a State note circulation. Recourse was first had to the bank of issue, as is clearly shown in a special heading in the latter's balance sheet. In spite of the constant demands on the national savings both during hostilities and in the subsequent period when the Government's needs were overwhelming, fresh advances were made by the Bank to the Treasury: The second agreement entered into for this purpose was that of December 29th, 1920; whilst temporarily

retaining the last maximum amount granted, namely 27 milliards, this agreement contained an undertaking on the part of the State to carry out before January 1st, 1922, the repayments necessary to reduce the total advance to 25 milliards and then to amortise its debt at a rate of not less than 2 milliards per annum. Since this date, the situation has completely altered. The advance to the State now constitutes merely an automatic regulator for the Treasury; inflation has been checked.

In this manner, in accordance with the inevitable variations in the Treasury position, the balance sheet of the Bank shows that the advance to the Treasury was reduced to 24,6 milliards on December 31st, 1921 and that it then fell below 22 milliards in 1922 and, subsequently, rose a little.

At the end of 1922, and in spite of Germany's failure, the Treasury refunded one milliard to the Bank and thus reduced the total cash advance from 25 milliards to 24 milliards.

3. *The repayment of floating debt and the effects thereof.*

Table D. annexed to the reply to question 10 regarding financial measures gives the items of the floating debt, in the sense generally attached to this phrase, on December 31st of the years 1920, 1921 and 1922 respectively. It will be seen that the aggregate increase is considerably smaller during the last-mentioned year.

It is a well-known fact that National Defence Bonds were introduced at the beginning of the war and that, thanks to the special facilities for subscription, discounting and redemption, which are a feature of these securities, and the relatively high interest, which is paid in advance, the Treasury received continuous and effective support in carrying out the tremendous task which it had, and still has, to perform. Further, by immobilising certain liquid resources which could not then be employed to full advantage in industry, the National Defence Bonds doubtless helped to restrict the effects of inflation.

It is, however, by no means the object of the Government's financial policy to extend these issues. For instance, the rate of interest offered to subscribers has been reduced whenever such a step appeared possible, and, when the six great National Defence loans were issued — the last two were floated in 1920 — the bonds were accepted in payment of subscriptions. Conversion operations, which, except in the case of the last 1920 loan (here also a portion of the previous rentes might be accepted in payment) represented about one half the normal capital, affected as much as 36,161 millions worth of bonds without mentioning 7,101 millions in respect of medium term bonds. Bonds totalling 1,070 millions were also absorbed in the *Crédit National* loans floated in 1921.

Further, it was the Treasury's constant endeavour to make its appeals to the home investor in such a manner as to leave as much room as possible, having regard to the state of the market and the desires of possible subscribers, for other forms of medium and long term loans. With this object, it has had recourse in an increasing degree to bonds redeemable by annual payments, which the *Crédit National* and groups of victims of the invasion (the *sinistrés*) undertook to float among that portion of the public which was more especially ready to give direct help — either for general purposes or on behalf of certain specified towns, departments or industries — to the work of restoring the areas devastated by invasion.

The Government being as yet unable to forgo borrowing for reconstruction purposes, the floating debt cannot be funded or its increase arrested without augmenting the annual burden on account of interest, since the rate of interest rises, as a rule, the more distant the date for repayment of the sums borrowed. But, however heavy the burden of this supplementary expenditure may be in the budgets, it may almost be regarded as negligible when contrasted with the advantages derived from a policy intended to safeguard the country against any recurrence of an inflation.

4. *Connection between the Government and the Central Bank of issue.*

The Bank of France is a private establishment which has received from the State the privilege of maintaining and guaranteeing the circulation of bank-notes payable to bearer on demand.

The Bank's operations are defined within strict limits. The issue of notes is dependent on compliance with certain statutory provisions: *e.g.* deposits of specie, discounting of bills of exchange, advances on securities or precious metals. The result is that all notes issued are represented by cash in hand or by bills and advances.

Apart from this limit, which operates automatically, the maximum amount of notes which may be issued has invariably, since 1848, been fixed by the legislature. This was 6,800 millions at the outbreak of the war, in accordance with the law renewing the Bank's privilege dated December 29th, 1911.

The banknotes are legal tender, that is to say, they must be accepted in settlement of debts.

The notes can only circulate as inconvertible notes, or, in other words, the Bank can only be temporarily relieved from the obligation to redeem them in cash by the passing of a special law. During the two critical periods in the existence of the nation before the 1914 War, provision had to be made for inconvertible notes in connection with advances granted to the State. The latter, however, in conformity with its undertakings to the Bank, ensured the prompt redemption of its debt, subsequently making the notes convertible.

Inconvertibility was again introduced under the law of August 5th, 1914. It has been seen above that, in the agreement of December 29th, 1920, the State and the Bank of France regulated the gradual repayment of advances, the total of which was, in point of fact, reduced by 3 milliards in two years.

With a view to facilitating these repayments, the State had, moreover, waived its right to include in its budgets certain shares in the Bank's profits to which it was lawfully entitled under the last agreement extending the privilege of the Bank, which was ratified by the law of December 20th, 1918.

These sums consist of a large part of the interest on the advances to the Treasury, the rate of which has been raised to 3 % since the termination of hostilities, and also a contribution assessed on the Bank's war profits. The total of these sums is ear-marked each year for the redemption of the State debt as soon as they are not required to cover a prior claim, namely, that serving as security for the commercial portfolio affected by the moratoria.

In this connection it may not be without interest to point out that persons who had contracted debts or obligations in respect of deferred bills regularly honoured their signatures, thus observing the tradition of punctual payment. In December 1920, a law and a decree were passed finally fixing the conditions for paying pre-war debts, and it was noted that the commercial bills in the Bank's portfolio, affected by the moratoria, formed at that date only some 8.62 % of the total holdings, *viz.* 4.476 million francs. This amount fell to 1.30 % at the end of 1921 and 0.65 % at the end of 1922.

5. *The restriction of granting credits either by means of the rate of interest or in other ways.*

France has never pursued a direct policy of restricting commercial credits. But the discount rate upon which the aggregate of credits granted partly depends, is to a large extent bound up with the rate of interest on the State loans, which have accordingly exercised on occasion a certain restrictive influence.

Further, the effect of the increase, in April 1920, in the official rate of discount of the Bank of France was to draw the attention of the whole business world, which had allowed itself to

be drawn into speculation without paying sufficient heed to the warnings already received from the two great non-Continental markets, to the necessity of preparing for liquidation.

On the other hand, in 1921, when amelioration of the crisis, reflected in the lowering of the discount rates in New York and London, indicated that the market need no longer apprehend the same risks, the rate of discount was reduced on July 3rd from 6 % to 5½%, though loan rates remained fixed at 6½%.

In 1922, the Treasury decided that it was possible, as from March 11th, to reduce the rate of interest on the National Defence Bonds by half a point, and the Bank, at the same time, reduced the rate of discount on commercial bills from 5½% to 5%, while maintaining the loan rate at 6½%.

In sum, the Bank of Issue endeavours, not to curtail the aid normally given by bankers to business men, but merely to safeguard the continuance of prudent methods of granting credit founded on actual transactions.

Subject to this reservation, however, and as the reduction in the State's debt makes further sums available for the Bank, the latter is attempting to encourage and accelerate a return, which is already evident, to the traditional and normal forms of credit. These forms of credit are, however, still employed by French trade to an appreciably less degree than before the war.

6(a) The existence of any artificial control of exchange, with a description of its character and its effects.

There is in France no State control or interference with dealings in foreign exchange, which is a purely private business free from all restrictions. A French trader who has sold goods or made profits abroad is free to dispose of any assets he has thus constituted. Similarly, there is no Government fund or office to which importers must apply in order to purchase foreign currencies.

There is, however, one restriction still in existence. The Government has been obliged provisionally to retain in force the law of April 3rd, 1918, the object of which was, in principle, to prohibit the export of capital (funds or securities) and, as a necessary corollary to this prohibition, to forbid, in principle, the importation of foreign securities into France. With a view to ensuring the application of this regulation, it was made compulsory for purchasers of currencies or persons remitting funds or securities abroad to apply, in every instance, to a bank, which kept a special register, subject to inspection by agents of the Minister of Finance.

However, it was by no means the intention of the Government to destroy the international character of the French market in the post-war period, still less to impede foreign trade operations in any respect. Exceptions to the regulation mentioned above were allowed from the outset, more especially in regard to funds and securities which private persons or companies domiciled or registered abroad might possess in France, and to all transactions connected with the payment of goods intended for import into France within the half year. Further, the Minister of Finance is empowered to grant such exceptional treatment as soon as the applications have been examined by an appropriate administrative department which possesses the necessary knowledge and acts with the greatest promptitude.

In the same connection it may be noted that a decree issued for the purpose of giving effect to the law of 1918 requires ministerial authorisation for all exports or re-imports of French national banknotes, except in the case of travellers, who may take with them a sum not exceeding 5,000 francs. This prohibition is in no way connected with the prohibition referring to the export of gold and silver currency, which is subject to seizure, as in almost all countries.

The terms of the law of 1918 were regarded as essentially provisional, and it was intended that they should be abolished shortly after the cessation of hostilities. The effects of its application were to be reported to the Financial Committees of the Chambers every three months. In the circumstances, however, it has been impossible to free French capital from the restrictions

imposed on it by the war. The reason for this is that, although the state of war is ended, the vital financial clause in the Treaty of Peace, namely, that relating to payment of reparations, has been entirely evaded by Germany. The latter not having fulfilled her obligations, France is obliged to continue to advance the entire indemnity due to the *sinistrés* and other victims of the war. Under these conditions the Government has to maintain strictly an order of priority. The country's capital, the actual aggregate value of which is reduced, must in principle be devoted by means of loans and taxation to the requirements of national production and the overwhelming work of reconstruction. In view of the tremendous task which has still to be achieved, the Government decided that it was as yet unable to remove all restrictions in regard to foreign investments.

The law of April 3rd, 1918, was renewed on successive occasions, but invariably only for periods of less than a year. It should be noted that certain amendments were included in the law of March 31st, 1922, as regards the movement of securities, thus marking, in a way, the first stage of the return to the pre-war system.

Similarly, Article 1 of the law of May 31st, 1916, which made authorisation by the Minister of Finance a condition of any new issue or flotation of transferable securities, including even French securities, on the national market, was intended to secure the financial resources of the country for the needs of national defence. For the same reasons the Government was obliged (law of December 30th, 1920, Art. 32) to recognise that it was under an obligation to uphold the rule requiring authorisation for the investment of foreign securities in France.

Quotation of foreign exchanges in Paris. — Although the Government does not interfere in any way in dealings in foreign exchange, it may not be without interest to point out that the quotation of the exchanges in Paris is subject to certain guarantees. All transactions in cash made on the Bourse are, in point of fact, registered and totalised under the direct supervision of the Associated Chamber of Exchange Agents (*Chambre syndicale des Agents de change*); thus the average rate for the day is ascertained from the prices quoted and the quantities dealt in on the Bourse at varying prices.

Export transactions. — The French Government, in conformity with the traditions of commercial freedom, has hitherto refrained from taking any measures with a view to guaranteeing exporters against exchange risks or other risks due to their transactions abroad in general or in any specified country.

(b) *Are foreign holders of banknotes and credit balances treated differently from native holders?*

No prejudicial discrimination is made, either in the revenue system or in any other measures, with regard to assets or currencies or securities held by foreigners. It has been seen above that funds and securities owned in France by persons or companies domiciled or registered outside France are not subject to export prohibition.

7. *The causes and effects of deflation.*

It will be seen from the explanations given above that, in spite of the position in which the war has left her, France has refused to embark upon what is often called the adventurous policy of inflation. The State no longer has recourse to currency loans for the purpose of satisfying its own needs. It now employs its right to draw on the Bank only as a kind of Treasury regulator, and the amounts which it thus obtains are compulsorily reduced year by year. It should also be added that the Government and the Bank of France, strongly supported by public opinion, which is rapidly becoming more enlightened in regard to such matters, refused, even during the commercial crisis, to consider the desirability of artificially increasing the medium

of exchange. The adoption of this device would doubtless have stimulated trade, but, at the same time, would have marked the commencement of a period of anarchy in prices and would have committed the country to a dangerous economic policy which, as is shown by numerous examples, is very difficult to reverse.

It cannot, however, be said that there has hitherto been any systematic deflation, the Bank having constantly, by means of private discounting, maintained its circulation at a level justified by the movement of goods, as is shown in the annual statistics of bills discounted.

1920	12,321,000 frs.
1921	15,344,000 »
1922	22,094,000 »

III. COMMERCIAL MEASURES,

I. *Brief account of the development of foreign trade.*

The following table shows the movement of France's foreign trade in each of the three last years ; the corresponding items for 1913 have been included for purposes of comparison.

The restocking of the country in 1920 swelled the volume of imports of all kinds, whilst exports were restricted owing to the state at that time of the devastated areas, which are in many respects the most productive in France, and owing to the requirements of the home market.

The year 1921 is characterised by a general decline, which was the direct effect of the world-wide trade depression. The crisis became less acute in 1922, while at the same time the progress made towards restoring the North and East enabled France, aggrandized as she was by the recovery of three departments (and, as regards the Customs area by the addition of the Saar Basin) to regain gradually her pre-war position in the foreign markets as a whole, more especially in regard to purchases of raw materials and sales of manufactured goods.

It was necessary to continue to purchase food stuffs abroad even after the war in consequence of deficient crops following on the enemy's devastation, the decline in land under cultivation and the decreased yield due to the impoverishment of the soil (to improve which little was done), and to the prolonged shortage of labour. These purchases have, down to the present, constituted an abnormally heavy charge on the debit side of the visible trade balance.

The general increase in values compared with the pre-war period mainly reflects the change in the purchasing power of the French franc.

It is, however, interesting to note a tendency towards an equilibrium between the aggregate values of exports and imports. Although it is impossible to estimate the purely financial factors (imports and exports of capital, payment of interest) which also have an influence on the balance of payments, attention should be drawn, from a strictly commercial point of view, to visits by foreigners who come every year in larger numbers and take away in their luggage goods which, though generally of high value, are not entered in the Customs statistics.

The results, moreover, for the first months of 1923 are higher for all classes of goods than in 1922.

There has been increased shipping activity in the French ports concurrently with the re-establishment of international trade. This activity is gradually approaching its previous level (1913, monthly average, 2,657,000 tons) in regard to goods disembarked (monthly average in 1922, 2,465,000 tons), though the position is not so satisfactory in regard to the goods shipped (583,100 tons, against 867,700).

FOREIGN TRADE OF FRANCE
I. TABLE SHOWING VALUE OF TRADE (IN FRANCS)

	1913 Final figures	1920 ¹ Final figures	1921 ² Final figures	1922 ³ Provisional figures
<i>Imports</i>				
Foodstuffs	1,817,600,000	11,874,910,000	5,748,316,000	5,800,002,000
Materials for industry	4,945,700,000	25,156,544,000	11,408,956,000	14,048,140,000
Manufactures	1,658,000,000	12,873,443,000	4,910,636,000	4,052,469,000
Total	8,421,300,000	49,904,897,000 ¹	22,067,908,000 ²	23,900,611,000 ³
<i>Exports</i>				
Foodstuffs	838,900,000	2,612,799,000	2,070,850,000	1,920,799,000
Materials for industry	1,858,100,000	6,113,814,000	4,091,598,000	5,443,877,000
Manufactures	4,183,200,000	16,962,574,000	12,356,415,000	11,860,191,000
Postal parcels	—	1,205,751,000	1,253,649,000	1,417,124,000
Total	6,880,200,000	26,894,938,000 ¹	19,772,512,000 ²	20,641,991,000 ³

II. TABLE SHOWING WEIGHTS (IN TONS)

	1913 Final figures	1920 ¹ Final figures	1921 ² Final figures	1922 ³ Provisional figures
<i>Imports</i>				
Foodstuffs	5,511,932	6,195,261	4,268,470	5,063,713
Materials for industry	37,160,735	41,871,777	34,222,352	44,606,248
Manufactures	1,547,719	2,464,888	1,571,280	1,696,145
Total	44,220,386	50,531,926	40,062,102	51,366,106
<i>Exports</i>				
Foodstuffs	1,456,676	1,257,615	1,222,243	948,264
Materials for industry	18,299,163	9,709,081	12,892,485	19,144,962
Manufactures	2,318,674	1,865,215	1,895,246	2,494,542
Postal parcels	—	23,227	25,047	27,920
Total	22,074,513	12,855,138	16,035,021	22,615,688

¹ The value of goods imported and exported in 1913 and 1920 is given on the basis of the official valuation for each year of the Permanent Customs Valuation Commission.

² 1921. The valuation is based, in the case of imported goods, on importers' declarations, checked by the Customs officials responsible for collecting the tax on business turnover introduced by the law of June 25th, 1920, and, in the case of exported goods, on the official valuation of the Permanent Customs Valuation Commission for 1921.

³ 1922. (Provisional figures). The valuation is based, in the case of imported goods, on importers' declarations, checked by the Customs officials responsible for collecting the tax on business turnover and, in the case of exported goods, on the official valuation of the Permanent Customs Valuation Commission for the preceding year (1921).

1 (a). *The abolition or establishment of prohibitions on imports and exports or of special permits; the abolition or lowering of import or export duties.*

As early as 1919, the French Government had given evidence of an intention to remove all restrictions from foreign trade as soon as possible and also to elaborate a more stable customs régime as far as circumstances permitted.

The transition can, of course, only be effected gradually. The various stages reached may be summarised as follows. We will deal with exports first and afterwards with imports.

A. — *Exports.*

The Decree of May 13th, 1919, marked, in a manner, the end of the war economic system and laid down the rule of free exports. It was, however, on several occasions found necessary to make a considerable number of exceptions, more especially during 1920. The harvest had been a bad one, and, moreover, several countries in which there was a deficiency of certain raw materials and foodstuffs attempted to procure these necessaries at any price. The Government was compelled to take measures to prevent the French market going short of indispensable commodities, whether of French or foreign origin. Such regulations, however, were of a temporary nature; the original prohibitions were repealed one by one, in many cases after having been modified by concessions. Similarly, export taxes, which were instituted purely for protective purposes, were gradually lowered and then abolished.

It is unnecessary to give a complete list of the many decrees passed for this purpose, mainly in 1921. We shall cite here only the regulations issued in March 1922, because they, in a manner, mark the end of the provisional régime, allowing as they do for general licences in the case of the greater number of prohibitions and abolishing export duties for almost all the few articles on which these were still collected.

Since that date, export restrictions, which are invariably regarded as temporary measures, have only been issued in very few cases—in regard to food products of prime necessity (sugar Decree of February 18th, 1923; live-stock and fresh meat Decree of April 5th, 1923) or essential raw materials for which excessively high offers were being made by certain foreign countries, old and scrap iron (Decree of December 29th, 1922).

B. — *Imports.*

(a) *Government powers.* Owing to the instability of Customs relations due to new conditions, the powers given to the Government under the Law of May 6th, 1916, authorising it to prohibit the import of foreign goods or to increase Customs duties were renewed by annual laws down to January 1st, 1923. These powers have not, however, been renewed since.

(b) *Tariffs.* As the French Customs régime relates almost exclusively to specific import tariffs, it will be seen that it became necessary to readjust it so as to allow for the general increase in prices and their frequent fluctuations. The question was purely one of ensuring the continuance of the protection required by national production within the limits considered necessary before the war.

With this object in view, the Decree of June 14th, 1919, was issued, laying down the rates for *ad valorem* surtaxes. These surtaxes, which are in no way suited to French commercial practice, gave rise to certain difficulties as regards collection and accordingly were very soon replaced (Decree of July 8th, 1919), by coefficients for increasing specific duties, which could, if such a course was advised by a special Commission, be abolished or modified.

In all subsequent revisions, and especially in the general revisions (Decrees of July 22nd,

1920, June 29th, 1921), it has invariably been the Government's policy to make the re-establishment, either wholly or in part, of the percentage of protection ensured prior to the war the sole object of this adjustment.

(c) *Freedom of imports.* The list of goods the importation of which was prohibited was considerably reduced from 1919 onwards (Decree of May 20th). It was in a manner the termination of the war régime, which has often been described as the régime of the general prohibition of imports or the "licence" régime. However, in April 1920, in view of the more than usually marked decline in the French franc, the Government, being desirous of ensuring the restocking of the country and of retaining for it the credits obtained abroad, consented to draw up a new list of prohibited goods, including many luxury articles.

This measure was effective, but it was soon seen that a system which included too many restrictions impeded commercial activities, and the majority of the prohibitions were then abolished by the Decree of July 22nd, 1920. By raising certain coefficients at the same time, the percentage of taxation borne by a number of luxury articles prior to 1914 was again restored, but more accurately.

Shortly afterwards, those prohibitions were repealed which were in a manner a necessary consequence of the State's temporary intervention in the work of supplying the country with food.

(d) *Increase in the general tariff.* The war introduced certain disturbing factors into the conditions of competition on the international markets. The steady depreciation of the currency in various countries, the ravages undergone by the French invaded areas, with the result that production, in the case of a number of national industries, could only be carried on under difficult conditions, the fact that various States, under the impulse of the same anxieties, had already considerably increased their basic rates, — all these various novel circumstances made it necessary to increase the duties in the general French tariff. This increase was effected by the Decree of March 28th, 1921.

(e) *Improvement in the warehousing and temporary import régimes.* Being desirous of promoting international trade, France adopted a more modern and flexible warehouse régime (Decree of May 30th, 1921, in execution of the Law of December 29th, 1917).

Apart altogether from temporary imports properly so called, which are authorised by law in regard to certain specific commodities, the Decree of July 8th, 1919, instituted a new system of special temporary imports, under which any merchandise intended for re-export after being finished, treated or repaired is subject to the ordinary import duty and is not required to pay the coefficients of increase.

2. *The existence (or abolition) of price discrimination against foreign trade.*

It would appear that France has never enacted regulations or sanctioned practices of this nature.

There is no special inland tax affecting foreign trade in France, and it may even be said that, apart from certain measures relating to order or security, which were recognised as necessary in all countries and are gradually being reduced to the pre-war minimum, no restrictions of any kind are imposed on the presence or the activities of foreigners (and this applies to companies as well as private persons) travelling or working in France. Foreigners established in France enjoy the same protection and pay the same taxes as French nationals.

There is no Customs discrimination against imports or exports, with the exception of such discrimination as results from conditions embodied in conventions by which the ordinary duty is modified. Only exceptional and temporary use has ever been made of the retaliatory measures provided in the Law of March 29th, 1910, Article 3, to meet the case of another State adopting measures directed against French trade.

It should be noted that France does not employ differential coefficients, varying directly with the depreciation of the currency of the importing country; that she has not enacted the payment of import duties in gold or on a gold standard; that she has not introduced surcharges leviable on certain specified imports to prevent dumping (dumping by countries with depreciated currencies, dumping due to special freight charges, sale below cost price or below the market value in the producing country); and that she maintains no regulations for controlling export prices, the object or effect of which is to set up a difference between the export price and the price in the home market.

There are a few special regulations which are necessitated by treaties or are the indirect result of their stipulations. Authorisation is required for certain dye stuffs and pharmaceutical products imported from Germany (Law of November 7th, 1919, and decrees passed to give effect to this Law). Goods imported from Germany in the form of deliveries in kind for the reconstruction of the devastated areas are subject to a special reduced tariff (Decree of July 28th, 1922).

3. *Conclusion of (a) Commercial Conventions.*

Under the Law of July 29th, 1919, the Government was authorised to "negotiate with foreign countries in order to secure the concession, for a specified period, of duties lower than those in the general tariff, such duties to be calculated in percentages which should be intermediate between the tariff normally in force and the minimum tariff".

"Reductions granted upon these terms may, in exchange for corresponding concessions, be temporarily put into effect by decrees passed by the Council of Ministers. In the latter case, the agreements concluded must be submitted to the Chambers for ratification — immediately if the latter are in session, otherwise at the opening of the following session."

Since signing the Treaties of Peace, France has concluded, apart from certain agreements which are restricted to specified points, the following Conventions in conformity with the terms of the Law quoted above:

Convention with Czechoslovakia of November 4th, 1920, put into execution by the Decree of April 28th, 1921. (A fresh agreement is in preparation.)

Trade Agreement with Canada of January 29th, 1921, approved by Decree of March 12th;

Convention between France and Finland of July 13th, 1921, put into effect by Decree of July 20th;

Trade Convention between France and Esthonia of January 7th, 1922, promulgated by Decree of July 27th, 1922;

Agreement with Portugal of January 30th, 1922, approved by Decree of February 22nd;

Trade Convention between France and Poland of February 6th, 1922, put into execution by Decree of June 19th;

Trade Convention between France and Spain of July 8th, 1922, put into execution by Decree of July 12th;

Trade Agreement between France and Italy of November 13th, 1922, put into execution by Decree of November 26th;

Trade Convention with Canada of December 15th, 1922, substituted for the Agreement of January 29th, 1921;

A Convention has recently been signed with Belgium.

It is naturally difficult to give a summary of the common features in agreements which are based on reciprocal concessions. The reciprocal reductions made by France in her general tariff, the undertaking upon strictly limited terms to put into effect subsequently certain of the more important concessions granted to a country, etc. — vary according to the advantages which might be received by France. Attention should merely be drawn to the extremely clear wording of tariff concessions granted in accordance with the rule laid down in the Law of July 29th, 1919.

Certain new facilities are granted in several of these instruments in regard to evidence as to origin, the acceptance of analysis certificates issued by laboratories in the two countries, etc.

France in a general manner reserves her right to modify her basic rates and her coefficients of increase.

All these agreements are only entered into for short periods and may be denounced, if desired, at short notice.

Nothing more, unhappily, can be done in the state of uncertainty and continual variation of the economic and monetary situation.

Public opinion and the Government, however, fully realise the necessity of a policy leading to more stable relations and to a wide extension of foreign trade, which has become more essential than ever to the country's revival.

(b) *Transport Conventions.*

Aware as she is of the fact that the "improvement and economical use of transport systems, particularly in countries affected by the War", are of vital importance, both for the revival of national prosperity and for the re-establishment of international trade, France has made every endeavour to restore as rapidly as possible her railways and canals which were destroyed by the enemy¹; she has willingly borne, and is still bearing, immense sacrifices to restore throughout her territory to their pre-war state all railways or waterways on the great international traffic routes; she has endeavoured, by means of the autonomy law of June 12th, 1920, to give her ports a more flexible administrative and financial organisation, thus adapting them to the requirements of modern shipping. Finally, she takes an active part in all negotiations and conferences, the object of which is either to restore, by successive stages, the international régime of transport as it existed before 1914, or to modify certain parts of that régime so as to adapt it to the present European position and the new political frontiers, and so as to introduce into it the improvements suggested by the Council or by the Technical Committees of the League of Nations.

With this object she took part in the drafting of the Convention on the Freedom of Transit (Barcelona Conference, 1921), in the elaboration and examination of the draft Convention and Statute on the International Régime of Transport by Rail (Geneva Conferences of March and April, 1923), and is at present represented at the third Conference for the revision of the Berne International Convention for the Transport of Goods by Rail, a conference which is at the same time to draw up a draft Convention on the international transport of passengers and baggage.

It should be noted that a special transport Convention between France and Czechoslovakia was concluded on November 4th, 1920, on the principles laid down in the Berne Convention. Further, the managing boards of the French railway systems have, for their part, invariably endeavoured, under the direction and control of the Government, to re-introduce, so far as possible, the system of through carriage and through rates and other traffic facilities which were in operation before the War. They have for this purpose given their adhesion to the International Union of Railways. The object of this Union is the unification and improvement of the conditions of establishing and operating railways with a view to international traffic. Its headquarters are in Paris, and it is placed under the presidency of France.

June 10th, 1923.

¹ A few figures will give an idea of the destruction done: Navigation, 115 locks destroyed or seriously damaged; 100 kilometres of canal bed to be cleared or repaired. Railways, 5,500 kilometres of rail, 1,583 bridges, 13 tunnels, 590 stations, etc., have been repaired.



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