

Book 205-A

SCANDINAVIA

Prepared by:
Division of Monetary Research

July, 1939.

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SCANDINAVIAN ECONOMISTS

SCANDINAVIA

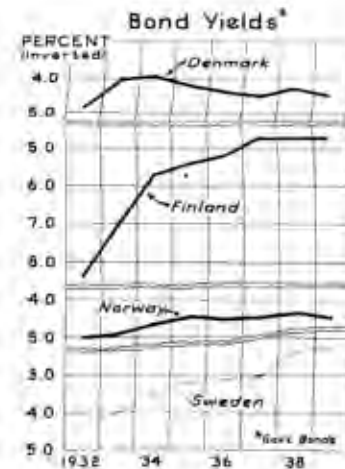
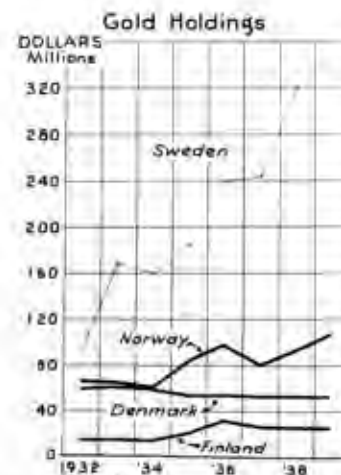
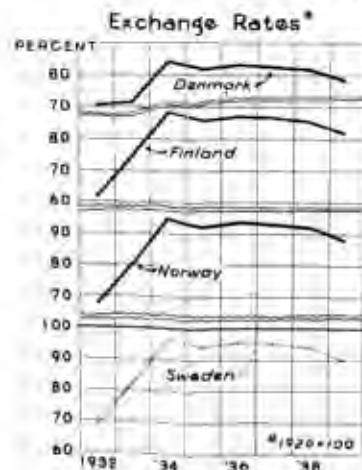
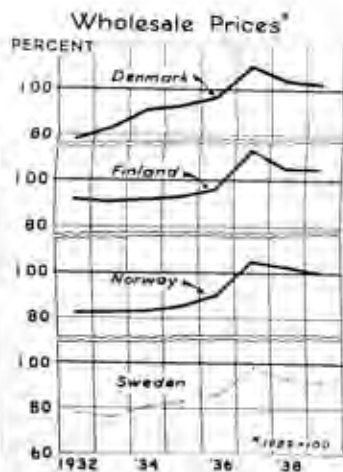
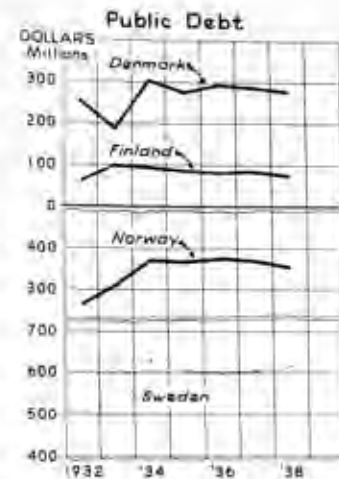
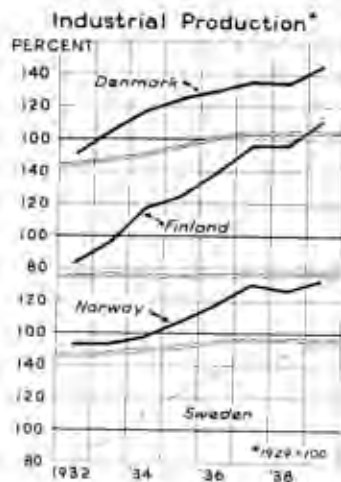
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Map and Chart

SELECTED ECONOMIC INDEXES
OF THE SCANDINAVIAN COUNTRIES.

SELECTED ECONOMIC INDEXES OF THE SCANDINAVIAN COUNTRIES

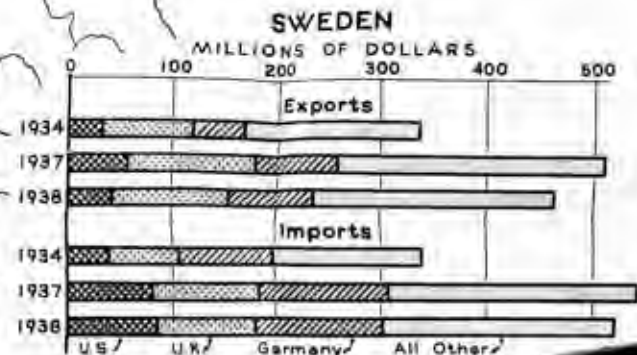
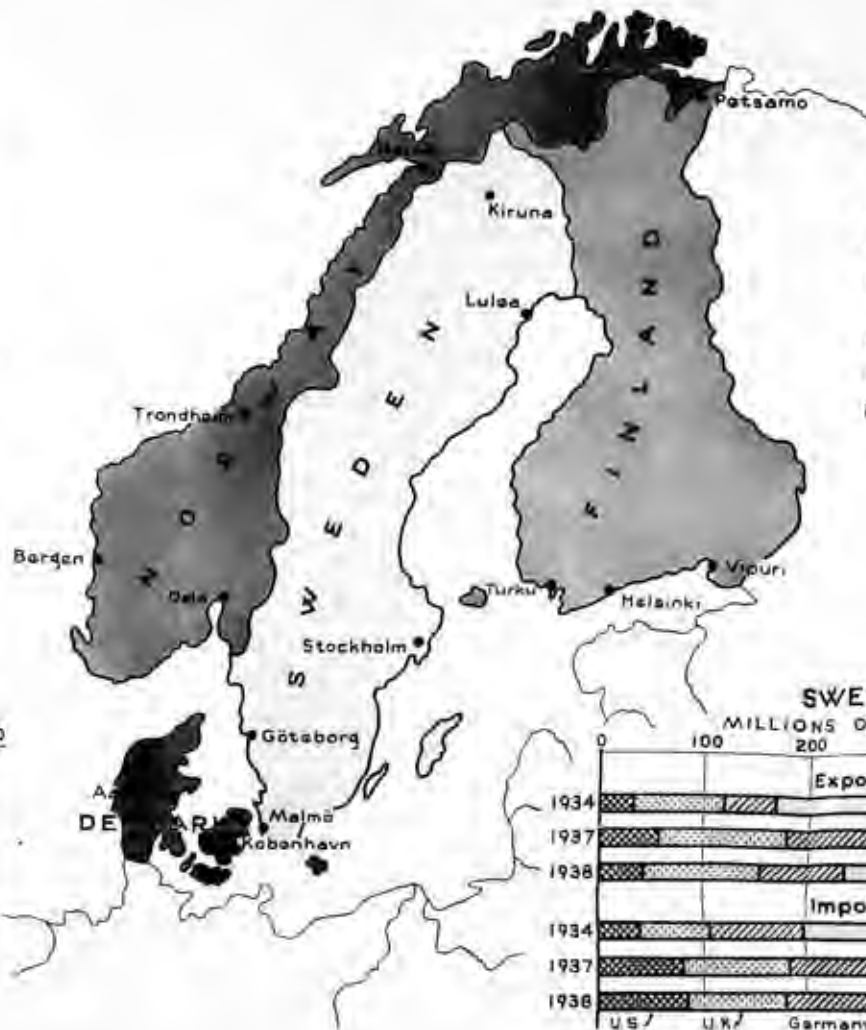
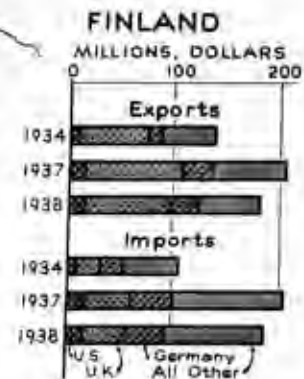
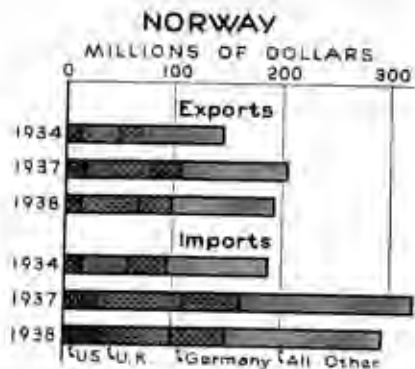
Yearly, 1932 to Date



Note: Latest figures are for May 1939, except Public Debt

Map and Chart
FOREIGN TRADE OF THE
SCANDINAVIAN COUNTRIES

FOREIGN TRADE OF THE SCANDINAVIAN COUNTRIES



3

Map

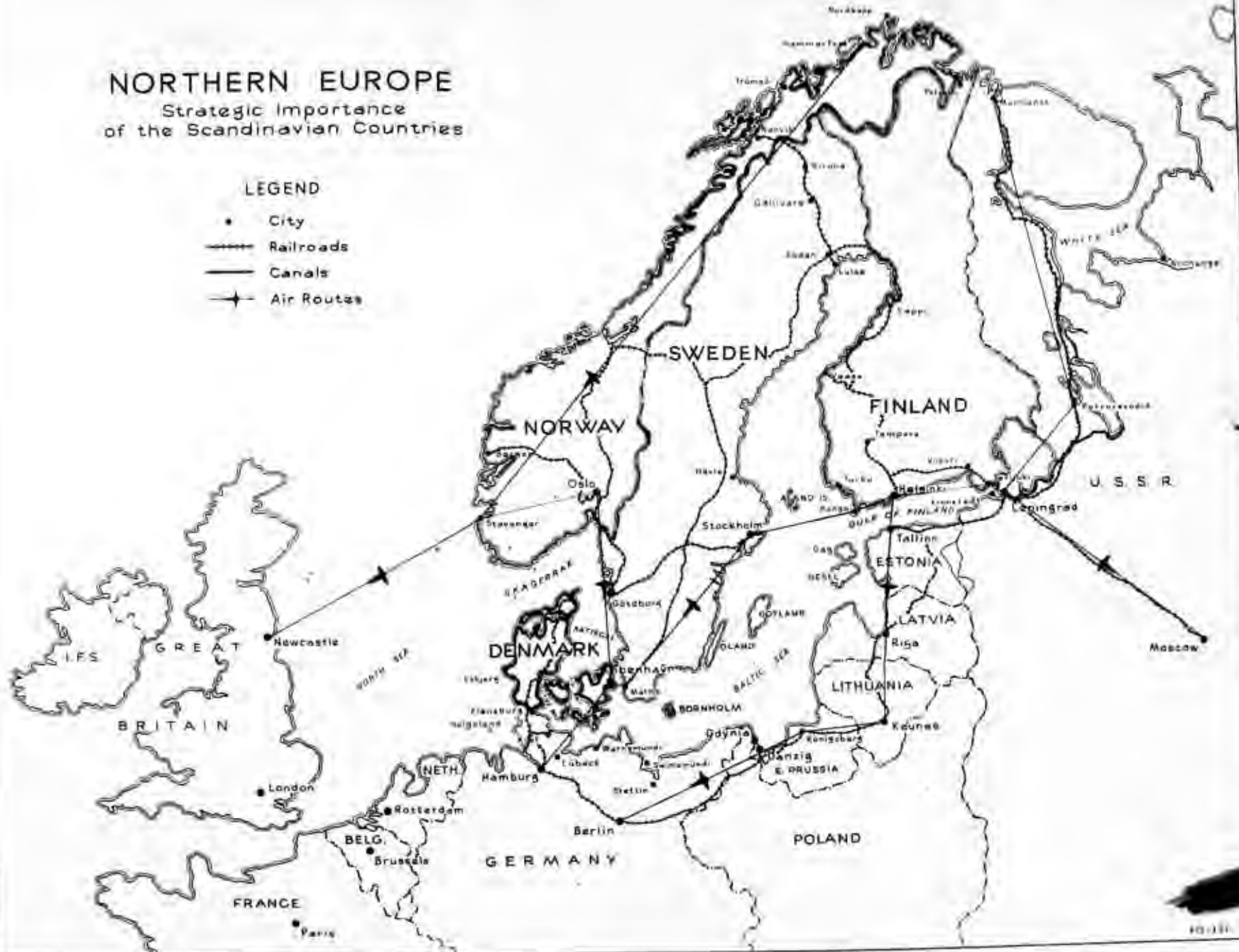
STRATEGIC IMPORTANCE OF SCANDINAVIAN COUNTRIES

NORTHERN EUROPE

Strategic Importance
of the Scandinavian Countries

LEGEND

- City
- +— Railroads
- Canals
- +— Air Routes

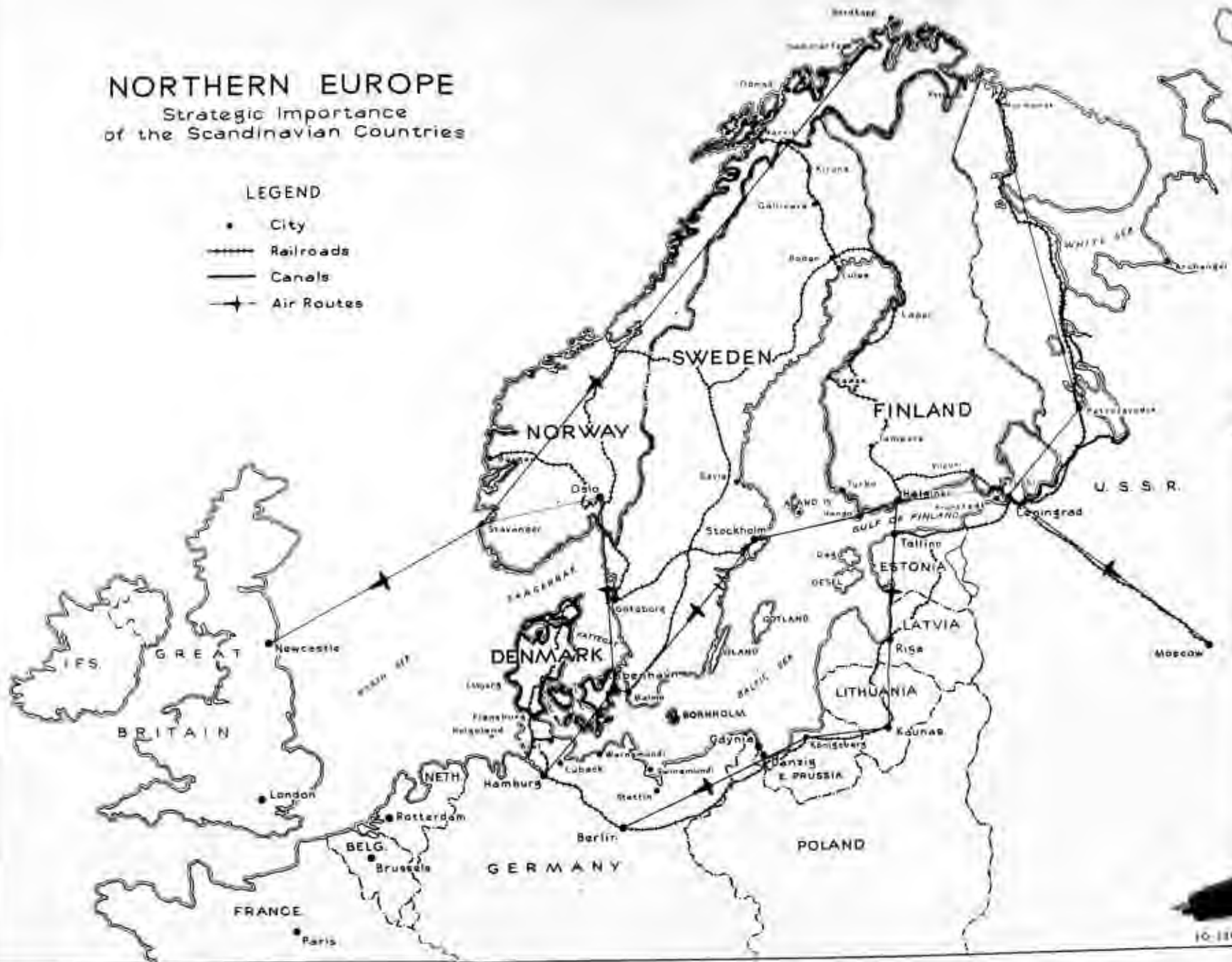


NORTHERN EUROPE

Strategic Importance
of the Scandinavian Countries

LEGEND

- City
- +—— Railroads
- Canals
- +—— Air Routes



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The International Political Situation
of the Scandinavian Countries

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The International Political Situation of the Scandinavian Countries

The international political situation of the Scandinavian powers is dominated by the fear of a European war. They are all small countries, geographically situated within the zone of conflict between Germany and Russia, and between Germany and the western democracies, and economically linked to Germany and England in varying degrees of interdependence. In the present unstable European situation, it is clear that small powers can place little faith in the League of Nations and that the will of England to resist the Axis powers is not as strong as it might be. They are, therefore, each, with varying success, attempting to pursue a policy of neutrality and isolation.

Yet in the event of the outbreak of war it will be hard for any of the Scandinavian countries to remain out of the conflict. Even in the last war, which was not as all-embracing as the next will be, the Scandinavian countries could preserve a nominal neutrality because they were in a zone of only minor strategic importance, and because it did not pay the belligerents to involve them any further. But in the next war they will be of considerably greater strategic value, especially if Russia is a participant, and question of access to or prevention of access to their economic resources will be much more vital.

I. What was their role in the last war?

The claim is generally made by publicists of the Scandinavian countries that they adopted a policy of absolute neutrality and as strict adherence to international law as was possible under the difficult circumstances. Actually, they were neutral only in name in spite of their being strategically situated on the periphery of the war zone.

Norway was during the war for all practical purposes a dependency of England. By far the greater part of its shipping fleet was in the service of Great Britain and the allies. As a result Norway lost almost 50 percent of its tonnage or 1,239,000 tons in the German submarine blockades. Its fish, copper, and whaling exports and most of its imports were all severely regulated by England on terms which were not as favorable as they might have been. Indeed Norway probably would have joined the war on the Allied side in 1916 had not England found her more useful as a "neutral".

Denmark, on the other hand, was a virtual ally of Germany. It was completely dominated by Germany strategically. In the economic sphere it was somewhat less dependent, and exported a considerable amount of food to England. Germany only permitted these exports because Denmark was conducting a large entrepot trade with America for German account, and also because much of the food Denmark was exporting to Germany could not be produced without the necessary imports, which could only get through with England's permission. In fact, the

idea that Denmark was really neutral in the war is purely mythical. As early as 1902 the so-called Lutken-Moltke conversations commenced with a view to mapping the Danish course of action in the event of war between England and Germany. In 1907 Lutken promised Moltke that "Denmark must not, under any circumstances, join the enemies of Germany. If our neutrality cannot be maintained — we shall go with Germany." In 1909 Denmark's entire defence system was remodeled in strict accordance with German wishes and interests, and the Danes could not buy a gun without German consent. Her sea defenses were manned with a view to possible action against England but she left her land position completely vulnerable to German attack.

On the outbreak of war one day after a formal declaration of neutrality she proceeded under the pressure of a German ultimatum to mine the Belts and thus close the Baltic to British entry — a flagrantly unneutral act. Her army was never once mobilized during the war while its fleet was under orders to do secret advance-guard work for the German fleet. The closeness of the understanding between Germany and Denmark is revealed by the comparatively small number of Danish ships sunk in the U-Boat blockade.

Denmark would have probably joined the war on the side of Germany, had not this been against Germany's interests, as the German Minister to Copenhagen expressly declared in 1915 when he stated:

"It was highly to the interest of Germany that Denmark should remain neutral." Nevertheless, at the end of the war, Denmark regained a strip of Schleswig-Holstein which she had lost in Germany in 1864.

Sweden occupied an intermediate position as between Norway and Denmark in its commercial and political relations to the belligerents. Its initial attempt to pursue a policy of absolute neutrality and rigid adherence to international law cannot be viewed as other than an expression of the pro-German sympathies of its government. The government in office from 1914 to 1917 was pro-German partly because of the predominance of the pro-German commercial interests represented in it and partly because of a very real fear of Russia. The pursuit of a fundamentally pro-German policy by the government entailed severe hardships for the majority of the population, as Britain severely restricted Sweden's foreign trade as a retaliatory and coercive measure. Moreover, in spite of the government's pro-German policy, the German U-Boat blockade entailed substantial Swedish shipping losses. In 1917 a new government supported by the Left came into power which bowed to the realities of the naval situation.

Finland occupied an entirely different position from the rest of the Scandinavian countries in the Great War. She was part of the Russian Empire, but the Tsarist regime dared not introduce conscription for fear of the powerful Finnish Nationalist movement, the lessons of whose exploits in the 1905 revolution were not lost in Petrograd. In December, 1917, Finland declared its independence

which was acknowledged by the Soviet Government. In 1918 she was torn by a fierce civil war between the Whites and Reds, the issue of which was decided by the aid of German Free Corps under Von der Goltz to the Whites. The victorious Whites offered the Finnish crown to a member of the German aristocracy, but the end of the war involved the temporary defeat of the pro-German faction among the Whites.

II. Do they have any chance of remaining neutral in the next European War?

A. Officially the Scandinavian countries are already pursuing a policy of "neutrality" and claim that they will continue to do so in case of a European conflagration. They loudly assert their adherence to neutrality and pretend that there is little danger of their being entangled in any foreign war. They claim they feel that the best contribution they can make is to keep quiet; they are not prone to criticize or ostracize the German Government. Attempts have been made to work out a common policy both for the present state of neither peace nor war and for an outbreak of hostilities. Sweden, Norway and Denmark have been members of the Oslo group since its inception in 1930, and Finland since 1935. In fact, even now the Oslo group has not succeeded in working out a common policy, because all their attempts to do so have bogged down under a Danish recalcitrance which is largely due to German pressure. It has so far been

been impossible to obtain Denmark's participation in a policy which can best be described as collective isolationism, as Denmark refuses to take any step which it fears might offend Germany, and adheres to a policy of "neutrality at all costs".

B. The policy of the Oslo group, which before the rise of German Fascism, was predominantly pro-League of Nations, is now in reality the power politics of the powerless. Since the growth of German Fascism they have connived at the weakening of the League of Nations. Denmark refused even to join in the League's verbal condemnation of German rearmament in 1935, and Denmark's participation in the Italian sanctions fiasco of 1935 was, to say the least, lukewarm. With the failure of sanctions in 1935-36, the Scandinavian countries' attitude to the League became even more frigid. They all participated in the non-intervention program of the British Government with respect to Spain in spite of the pressure in the Social-Democratic parties exerted in favor of assisting Spain. Sweden last year officially informed the League that it considered itself no longer bound by the crucial Article XVI of the Covenant with respect to the imposition of sanctions on an aggressor, and declared that future interpretations of Article XVI were to be left to the discretion of individual members.

When even Sweden, the most powerful of the Scandinavian countries and the only one which has taken tentative steps

towards the formation of a Northern Defense Alliance, has adopted a policy of ostrich-ism, not much can be hoped for from the other Scandinavian governments in the way of a constructive peace policy. Characteristically, all the Scandinavian countries replied in the negative to Hitler's question whether they felt themselves threatened by German aggression after the President's message to Hitler in April of this year; Denmark even went further, entering into a non-aggression pact with Germany in May of this year.

C. Whatever the line-up in the next European war, the chances of the Scandinavian countries remaining neutral are not promising. Even in the last War, their neutrality was nominal and was retained only because Scandinavia was a zone of third class military importance. If the next war is a general war it will be impossible to preserve the little neutrality that was maintained in the last war because:

1. The next war will from its inception assume a "total" character which the Great War did not even possess at its conclusion. The belligerents will pay still less lip service to neutrality and international law than they did in 1914-18. Already Germany has organized extensive spy services throughout the Scandinavian countries both as a medium for exerting pressure on the foreign and domestic policies of these countries, and for military and political information purposes in the event of war.

2. As a result of modern progress in military science particularly in the field of aviation, and as a result of Russia's development of her Arctic territory, Scandinavia will no longer be a zone of peripheral strategic significance, but one of first-class importance. Moreover, it will be still more vulnerable to foreign pressure and attack.

3. Owing to the pursuit of a pseudo-pacifist policy by Norway, Sweden and Denmark particularly, they are for most practical purposes in a defenseless position.

4. Scandinavia's resources, particularly her shipping, food, mineral resources, and timber, will be of invaluable assistance to whichever power can control them. Therefore, belligerents will attempt to obtain them and, failing that, prevent the other belligerents from obtaining them.

III. The Scandinavian countries in the next war.

Denmark

It is a foregone conclusion that if Germany goes to war, no matter who the belligerents are, Denmark will become for all practical purposes German territory. Whether Germany occupies Denmark against the opposition of the Government or not, whether it incorporates Denmark into the Reich, or whether it allows the Danish Government nominal sovereignty, is immaterial. Denmark will in fact be ruled by Germany and used by the German Army, Navy and Air Force. Danish foreign and

and defense policy is already subordinated to that of Germany. Her land frontiers are unprotected; Denmark's German frontier is the least defended in Europe. Such puny defense measures as she has adopted in the last few years clearly indicate that she in no circumstances contemplates resistance to or war with Germany. No steps have been taken to protect Copenhagen against attacks from the air — i.e., from Germany — but only from attacks by sea — i.e., from England.

The Danish Government has shown itself so suppliant to the German Government that the latter may well allow the Danes to retain formal sovereignty. In spite of the fact that the Danish Government is apparently a left-Government — consisting of 10 Social-Democrats and 3 Radical Lefts (really Democrats or Liberals) — they have shown neither the desire nor the inclination effectively to oppose Germany. The conduct of foreign policy is in the hands of the Radical Lefts; the Foreign Minister is Dr. Peter Munch, the leader of the Radical Left Party. Dr. Munch is theoretically a believer in neutrality at any price but actually a supporter of capitulation to Germany, no matter at what cost.

The Danes have behaved as an adjunct of Germany in their foreign policy, sabotaging the project for a Northern Defense Alliance in 1937 and refusing to commit Denmark to continuing the supplies of food to England in case of war. They have tolerated powerful domestic Nazi organizations and an irredentist movement in South Jutland, and a large scale Nazi spy organization. They have submitted to Nazi naval and aerial spying and practice over Danish territory. They have agreed

to commercial agreements with Germany so unfavorable that they have had to be kept secret, and which have resulted in unemployment on a scale much greater both absolutely and relatively than in any other Northern country; in these agreements "they have bartered their honor away together with their butter"; Mr. Hansen, the Minister of Finance, said of them: "The public would be horrified if they knew the price we have had to pay". They have yielded to Nazi coercion in the unofficial censorship of the press (no cartoon picturing Hitler in an unfavorable light has appeared in the Danish press except in one or two small papers of the extreme left) and the extradition and harsh treatment of German political refugees. They have even secretly imposed the German marriage laws on alien marriages when one party was a German.

Perhaps some of the blame for these tragic developments rests with England whose foreign policy has not been calculated to inspire the smaller powers with confidence and whose commercial policy has seriously damaged Danish agrarian interests. Nevertheless, the spineless Danish Government cannot escape its share of the responsibility.

But Germany will extend its hegemony over Denmark even further in case of war, for the following reasons:

A. No matter whom it fights, Germany will need to commandeer Danish food supplies in case of war. The shortage of food in Germany is notorious. Denmark, with a twentieth of the population of old Germany, has one-fifth as much livestock. Its butter,

bacon, pork, cattle, and cheese, will be indispensable to the feeding of Germany, and the simplest way Germany has of obtaining it is simply to take over Denmark (whether leaving a Danish Government in nominal power or not is immaterial) without having to go through the formality of commercial and political agreements and alliances.

B. In a war against England, Denmark will be a theatre of war. It affords advanced aerial and naval bases of great military value to Germany, which in view of the exposed position of the munitions, shipbuilding and aviation works purposely concentrated in North Germany prior to 1933, it could not allow to fall into the hands of England. The occupation of Denmark will give Germany complete control of the exits and entrances to the Baltic, and advanced bases against England. In addition it will make the problem of intimidating any other Scandinavian powers which require intimidation much easier.

C. In a war against Russia and England the domination of Denmark becomes doubly important to Germany. As Germany's chances of a quick victory are much slimmer than in a war against Russia alone or England and France alone there will be a still greater need for Denmark's food. As Russia has both a Baltic and Northern fleet the control of the mouth of the Baltic will be still more

crucial. As the possibility of aerial warfare over the territory of the other Scandinavian countries will be considerably increased, the utilization of advanced Danish aerial bases will be vital.

D. In the case of war against Russia lone it is just possible that Germany may forbear to take over Denmark in exchange for Danish active benevolent neutrality. At the least Germany will take over the island of Bornholm, will insist on the closing of the Belts and the Sound to Russian shipping, and will organize Danish trade and supplies to suit its own convenience. But even this little respite is unlikely.

E. Denmark has intentionally left itself defenseless against German attack.

F. It must not be forgotten that Germany entertains territorial ambitions with respect to Southern Jutland, where there are approximately 30,000 Germans. In view of the need for quick victories in the early stages of war, it is difficult to see Germany resisting the temptation in the case of a country which is now in no position to resist.

Finland

In any war in which Germany and Russia are belligerents Finland will inevitably be drawn in, most probably on the side of Germany. In the case of war between Germany and England without Russia, Finland may keep out by providing Germany with economic assistance. Ever since

Finland's inception, the groups in power have been haunted by fear of Soviet Russia from without and internal revolt from within. There has always been a pro-German faction which has counted on assistance from Germany to save it from Bolshevism. Its army is traditionally pro-German, as are the Protective Guards with its 100,000 combatants, and the native Fascist movement with its headquarters at Iapua. From 1933 to 1936 Finland was definitely pro-German. Admiral Schoultz was expressing the opinion of the dominant clique when he said: "Everyone knows that the great danger threatening us comes from the East. We cannot compete in armaments with Russia and therefore we must look around for allies" and concluded that the most important of these allies was Germany to which in return for assistance against Russia, Finland has much to offer. And she did.

There were German officers in the Finnish air force. Finland developed more aerodromes than she needed, particularly along the extended Soviet frontier. Germany with Finnish permission extended the Berlin-Malmo air line to Hango on S.W. Finland and continued the air line to Helsinki to Terioki right on the Soviet border within a few minutes distance from Leningrad. Finland has air bases which would be indispensable to a German attack on Leningrad. The Aland islands dominate the entrance to the Gulf of Finland. Indeed it is not without significance that Finland with Sweden's prior consent this year asked the League of Nations for permission to fortify these islands, whose

only importance, whatever Finland's claims to the contrary, could be as a naval and air base which might effectively bottle the Russian Baltic fleet in the Gulf of Finland; on Russian insistence, however, this permission was refused. Finland has the port of Petsamo in the Arctic Circle which would be a useful springing off base for aerial attack on Murmansk and other Soviet centers in Carelia and a valuable submarine base to threaten Russian command of the extreme northern flank from the North Cape to Kola Bay. And lastly Finland has one of the few convenient land routes for a military attack on Leningrad.

Since 1936 Finland's own position has become more ambiguous. In 1936 a comparatively progressive government came into power in which the major parties are the Social-Democrats and the Agrarians (the Finnish Social Democrats are on the extreme right wing of the European Socialist movement and are bitterly anti-Soviet.) In the same year its chief of General Staff visited Moscow, and a return visit was paid in 1937. In 1937 the fanatically pro-German Svinhufvud was defeated for the Presidency to which Kallio was elected. Even so the extent of German influence should not be underestimated. Last year Rudolf Holsti was expelled from the Ministry of Foreign Affairs under direct German pressure. As we have seen Finland has asked for the fortification of the Aland Islands probably under German pressure. And recently the German General Haller made an inspection of Finland's armed forces and defences.

But whether the Finnish Government wishes to remain neutral or not Germany will inevitably take over Finland for its attack on Russia. Finland will inevitably be involved in a war between Germany and Russia, both as a participant and as a theatre of war, and almost certainly on the side of Germany. The use of Finland is essential to any feasible German strategy both military, naval and aerial, against Russia, for which Russia has indeed prepared itself. Russia has at least 20 (on German estimates 43) air bases in the Arctic for use in such an eventuality. It has developed one of its four most powerful naval bases at Murmansk and constructed the Baltic-White Sea Canal to strengthen both Leningrad's and Murmansk's positions. It has fortified the Carelian frontier and claims to have more submarines in the Baltic — which can be shipped to Murmansk via the Canal at need — than Germany. It has large armed forces in the Leningrad sector which, it claims, are both ready for defense and counter-attack.

In case of a war between Germany and England the status of Finland is somewhat more problematical. Up to 1936 the odds were that even in such a war Finland would side with Germany. With the change of government in 1936 Finland has veered to an apparently more neutral policy, with some attempts at collaboration with the Oslo powers in the formation of a northern defensive bloc. In case of a war between Germany and England Finland's exports to England will be automatically cut off. Its timber and forest supplies will have only one large customer — Germany. While it will not be an area of major

strategic significance, in the sphere of commerce it will pursue a policy of at least benevolent neutrality to Germany which will entail great hardships for the Finnish population. Whether Germany will demand more or not it is impossible to say in advance.

In a war between Germany on the one side and Russia and England on the other, internal groups will be much more split than in a war between Germany and Russia alone, though even here there is reason to believe that the pro-German faction in the ruling group would prevail, in view of its overwhelming hatred of all things Russian. In any case, Finland could not keep out of such a war, for reasons given above. It will be one of the fields of combat between Germany and Russia, whatever the policy the government in power adopts.

Sweden

As the most powerful of the Scandinavian countries Sweden has been in the best position to adopt an independent policy did she wish to. With Sweden as well as with Norway, either greater distance from Germany or less immediate strategic involvement give the impression that a policy of neutrality has better chances of succeeding than with Denmark or Finland. Moreover, the existence of apparently strong Social Democratic parties and of governments in which the Social Democratic parties are the major group render these governments more immediately susceptible to the pressure of public opinion. Therefore, the alignment of these countries is not as easily nor as accurately predictable.

Since 1932 the Social Democrats in coalition with the Farmers' Party, have constituted the government. Their foreign policy, which up to 1935 had been firmly pro-League, has now become vague and flexible. While Sweden has taken the initiative in attempts to form a northern defense bloc, it has ceased to count on the League as a positive factor, and has changed its course in the direction of compromise with Germany. Last year, in view of the possibility of Russia's objecting to the maintenance of Swedish iron exports to Germany after the outbreak of war, it gave formal notice to the League that it no longer considered itself bound by Article XVI of the covenant with respect to sanctions. This year it supported Finland's request for permission to fortify the Åland Islands.

Yet Sweden is very far from having traveled Denmark's road of wholesale capitulation to Germany. She has actively protested the violation of Swedish territorial rights by German aviators and the activities of German spies in Sweden. She has undertaken a defense program, which, however meager in relation to Sweden's needs, does afford some protection against a swift German assault. She realizes that the formation of a northern defensive bloc would give the Scandinavian countries some little striking power against Germany, and the Swedish General Staff has been toying with the idea of a pooled air force of 400-500 bombers stationed in Central Sweden, which would represent a serious threat to the heavily concentrated North German air bases, munitions and shipbuilding works.

But as yet her policy is at best a middle of the road policy; on the one hand collective security, and on the other an absolute neutrality program which in effect results in the strengthening of Germany's position and the weakening of Sweden's chances of resistance. Moreover, the conservative groups and the iron and heavy industry interests are for a policy of subservience to Germany at all costs. The most that can be said is that if England definitely abandons the policy of "appeasement", and builds up a powerful peace alliance, there is a good chance that Sweden (and also Norway) would line up with it.

Sweden occupies a position of some strategic importance in a war between Germany and Russia and of some lesser strategic importance in a conflict between Germany and England. But no matter what the alignment of forces in the next war her economic and commercial position will be of considerable significance. Quite apart from her sizeable exports of foodstuffs, iron and steel products, armaments, and timber and forest products, the maintenance of her iron ore exports is vital to Germany. Swedish iron ore exports account for almost half the German iron ore imports by value and because of their exceptional richness, for almost half the iron in Germany's total iron consumption. Three-fourths of this iron ore comes from Kiruna in the far north of Sweden, which has the third richest field in the world, in which the Swedish Government has a half interest.

Moreover, the Swedish Government has and exercises the power to place an upper limit on the export of iron ore. The two chief exporting ports are Narvik on the far north of the Norwegian North Sea Coast which is, of course, ice-free all the year round and Lulea on the northwest corner of the Baltic, a Swedish port which is ice-bound for four or five months. Narvik is only 107 miles from Kiruna by rail, while Lulea is 175 miles from Kiruna. Almost three-quarters of Sweden's iron ore exports go through Narvik. Now with Russia's economic and military development of her Arctic territory, Narvik, Kiruna and Lulea and the famous iron ore railroad line connecting them are vulnerable to attacks from the air, even though Boden, near Lulea, has been strongly fortified, as Russia has numerous air bases within two hours' flight of their objective. Further, Narvik and Lulea can be blockaded or at least have their sea lines with Germany endangered by Russian submarines stationed at Mumansk and Kronstadt.

There is no doubt then that the question of the supply of Swedish iron ore will be raised very early in a war in which Germany is involved. The iron interests would strongly support the maintenance of such supplies even at the cost of war. The local populations of Kiruna and Narvik are predominantly communist and would probably think otherwise. The Swedish Government continues to straddle the fence, on the whole leaning in the direction of the preservation of the status quo and therefore willy-nilly on the side of opposition to Germany's enemy, if it happens to be Russia, and of greater timidity and doubt if the Western powers are also involved.

It would appear, then, that in a war between Germany and Russia Sweden will sooner or later be implicated whether it wants to or not. If it attempts to maintain the export of iron ore, Russia has both the desire and the power to make determined efforts to prevent it. She will bomb the railroad line and blockade Narvik and Lulea. Opinion in Sweden will be divided as to what course to pursue in this situation. The powerful iron ore interests dominated by the great T.G.O. Company and its subsidiary L.K.A.B. will favor resisting Russia and siding with Germany. The communists, numerically weak, but strong in the iron-ore mining centers, and a section of the Social-Democratic Party will oppose. What the outcome will be is hard to say. Some observers are inclined to think there will be civil war, others think the pro-German elements will predominate. Much will depend on the attitude of the Western powers to a German-Russian war.

If Sweden accepts Russia's request to abide by Article XVI of the Covenant, the Germans will interpret it as an unneutral act, and put pressure on the Swedes — if necessary to the point of war — to reopen her exports. Again Sweden will have the choice of acceding and being involved in war with Russia, or refusing and being involved in war with Germany. In such a situation, civil war is not improbable. It should be noted moreover that Sweden has islands and bases such as Gotland which Germany will need in a military offensive against Russia, and which she will not scruple to use, if necessary, with or without Sweden's permission.

In a war between Germany and Russia, Sweden will be in the line of battle, and will certainly be involved in the war, more probably on the side of Germany than of Russia. There is also the possibility of civil war breaking out in Sweden, some of the Left being likely to oppose with arms a Swedish decision to support Germany, and the Right certainly doing so in the more remote contingency of Sweden's supporting Russia.

In a war between Germany and England and France, Sweden's position will be exceedingly precarious. The chances are that the majority of the Swedish people would strongly oppose any alignment with Germany and would on the whole sympathize with the democracies. On the other hand, the maintenance of German iron ore imports from Sweden would be even more important to Germany than in a war against Russia alone, as presumably her supplies from Lorraine will be cut off. But in view of England's stranglehold on Sweden's external communications and on the greater portion of Sweden's foreign trade, it is unlikely that she will withhold pressure on the matter of Swedish exports of iron ore and other commodities.

Sweden will be on the horns of a dilemma. She is exposed to direct attack by sea and air from North Germany; she is exposed to a drastic sea blockade of all her North Sea trade -- both through Narvik in Norway and through the Swedish ports on the North Sea -- by England, if not worse. If England decided to make Sweden's alleged neutrality

a casus belli, she would go further and herself subject Sweden to attacks from the air. Sweden's chances of escaping unscathed must therefore be discounted. At the very least she will be blockaded and injured economically on a scale much more severe than in the last war (next to Russia and the Central Powers the Swedish population suffered more from the blockade and a shortage of foodstuffs than anybody else). But more probably she will herself be directly involved in the war -- on which side will be determined by (a) the internal political situation; (b) the ability of Germany to concentrate an offensive force against Sweden sufficiently powerful to coerce Sweden into submission and cooperation, and the preparedness of the Swedish defenses to resist such assaults; and (c) England's efforts to counteract the German influence and offensive.

On the whole, in view of Sweden's immediate vulnerability to German attacks, and in view of her relatively weak defense preparations, it would appear probable that fear of antagonizing Germany would dominate, and she would maintain her trade with Germany at the risk of courting England's hostility. Nonetheless she has placed all her recorded monetary gold reserves on earmark in New York. Of interest, too, is the fact that the Central Bank has transferred all her sterling reserves into dollar reserves.

Norway

Norway's political situation is distinguished by:

- A. The fact that its government has a more deeply left tinge than that of any other Scandinavian country. Since 1935 a

Labor Government has been in power. It has been barely short of a majority, for which without entering into any definite coalition with them, it relies on the voting support of now the Liberals and now the Agrarians. The Labor Party is strongly anti-Nazi and anti-Fascist, distinctly more so than the Swedish Social-Democratic Party, and though the Labor Government is trying to pursue an apparently neutral policy, its members are also much more pro-Soviet. There is no chance of a Norwegian Labor Government siding with Germany, no matter who Germany's enemies happen to be.

B. The fact that Norway's geographical situation renders it comparatively independent of Germany and very much dependent on England. Norway is a predominantly maritime country, having the fourth largest maritime fleet in the world with 4.6 million tons of shipping. Her fleet is entirely at the mercy of England, and she has no option but to accede to whatever requests England may care to make. If, as she most probably will, England decides to requisition a large part of Norway's fleet, which is what she did in the latter part of the last war, Norway must accept. A new feature in Norway's maritime position is the emergence of Russia as a naval power in far northern waters. Russia is in a position to control Norway's far northern sea lines if these become important.

In a war between Germany and Russia, it may not be an easy matter for Norway to be permitted to remain neutral. As we have seen, three-fourths of Sweden's iron ore exports to Germany go through the Norwegian port of Narvik. While part of these exports can be reshunted through Lulea, on the Swedish Baltic, it might entail severe hardships to Germany if the exports from Narvik were completely blocked, for Lulea is ice-bound part of the year. On the other hand, Narvik is within bombing distance of the Russian frontier and could be blockaded by Russian submarines stationed at Murmansk. In order to neutralize Russian sea power in the Arctic Circle, Germany has made several attempts to acquire "fishing" bases there. In 1936 General Blomberg visited Hammerfest, Tromso, and Masoy for the purpose of setting up a trawler station, but the Norwegian Government denied Germany's request. Since then Germany has tried to obtain fishing rights at Petsamo in Finland, so far without success. In the interim German and Russian submarines have paid frequent visits to the fjords at the far north of Norway, while "phantom" fliers — presumably German and Russian aeroplanes — have also been seen in this area. It is believed by some that in the event of war Germany will occupy submarine and air bases off the Finmark coast by main force, in which case Norway with its strongly anti-Nazi population would be compelled to fight against Germany. But if Germany does not proceed to such lengths, Norway may well preserve her neutrality.

In a war between Germany and England, Norway will probably help England. Even in the last war Norway was benevolently neutral towards England. In a future war Norway is likely to be pushed into a war against Germany because of (a) the tremendous losses German submarines will impose on Norwegian shipping, (b) the fact that Germany will regard as unneutral the commandeering of Norwegian shipping resources by England, even if this is done under duress, (c) the fact that German retaliation will probably take more drastic forms than it did from 1914 to 1918, and (d) the fact that Norwegian sympathies will be definitely anti-German. Moreover, not only is she further from Germany than the other Scandinavian countries, but she is in a better position to receive assistance from England. Also the control of Norwegian naval and air bases would be strategically desirable both to Germany and England.

The only circumstances in which Norway is likely to remain neutral are if England decides she cannot provide any substantial assistance. It is at least probable that Germany would treat Norway as an enemy, and that therefore Norway would have much less to lose by abandoning the appearance of neutrality.

In a war between Germany and Russia and England, any neutrality Norway might be allowed to retain would be fictional. Whether she were legally at war or not, she would be an adjunct of the allies, and would be so regarded and treated by Germany. Because Germany will treat Norway as a hostile power anyhow, Norway may have little choice in the matter. Both sympathies and self-interest may coincide in forcing Norway on to the side of the allies.

5

Dumping and Countervailing Duty Cases Affecting Scandinavian Countries before the United States Treasury and Trade Agreements with Scandinavian Countries

I. Trade Agreements

Trade agreements have been in force with Sweden since August 5, 1935 and with Finland since November 2, 1936.

In 1937 a Country-Sub-Committee was set up by the Trade Agreements Committee to consider the possibility of a trade agreement with Norway, but this problem is not receiving active consideration at this time. No such Country Sub-Committee has ever been set up in the case of Denmark.

II. Dumping Cases before the United States Treasury

a. A finding of dumping applicable to any of the Scandinavian countries has only been issued in one case, in March 1931 against "strike on box" safety matches from Finland, Sweden and Norway (and five other European countries).

In August 1933 the finding of dumping on matches from Sweden was revoked, effective that date, because the practice which had necessitated the issuance of the finding had been discontinued.

The dumping orders against Finnish and Norwegian matches are still in force. However, the Treasury is now considering a petition for the revocation ab initio of the findings of

dumping with respect to these two and the other remaining countries.

b. A dumping price was reported on the importation of two articles from Sweden, chucks and glassine paper; but these cases were dismissed without action after findings in July 1938 and April 1939, respectively, that there was no injury.

c. There are now three relatively unimportant dumping cases concerning Scandinavian countries in which dumping prices have been found but in which the injury analysis is still pending. These are:

<u>Commodity</u>	<u>Country</u>	<u>Date Referred for Injury Analysis</u>
Wrapping paper)	Sweden	(
)	Finland	{
)	Norway	{ July 19, 1937
)	Denmark	(
Decorated earthenware	Finland	April 25, 1938
Earthenware	Denmark	December 10, 1938

d. We have just completed an investigation of the domestic wood pulp industry with the conclusion that it is being injured by importations. At the present time a dumping price has been found only in the case of importations of wood pulp from Canada. Therefore it is only against imports of wood pulp from Canada that dumping duties will be assessed.

However, investigations are under way concerning the price at which importations are being made from Norway, Sweden, Finland, and other European countries. If such dumping prices are found for the Scandinavian countries, dumping orders will have to be issued against them. Wood pulp being a very important item of export from those countries to the United States, the possibility of a finding of dumping price in the case of wood pulp imported from those countries may be giving some of the officials of those countries concern. They may wish to talk with you about it.

III. Countervailing Duties

At the present time there are no countervailing duty orders in effect on products imported directly from Scandinavian countries.

Between 1895 and 1913 four countervailing duty orders were issued concerning the importation of sugar from Denmark; the last of these decisions removed countervailing duties on direct shipments from Denmark. In 1935 a countervailing duty was declared on importations of cheese from Finland, but two months later it was removed.

In 1935 countervailing duties were imposed on importations of Danish butter, but in 1936 this order was modified to exclude shipments of Danish butter received direct from Denmark.

SWEDEN

1

Sweden - General Information

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Sweden - General Information

Democracy at work

Sweden is one of the foremost examples in the world of the possibility of attaining a highly developed cultural life based upon democratic institutions. In the field of politics the progressive social legislation of Sweden has become world famous and this legislation stems directly from the participation of the whole population in the national economic and political life of the country. Farmers and workers are highly organized into democratic groups which function in all aspects of social life, and their activities dominate the political scene as well. The workers are organized into trade unions; 800,000 union members constitute 15 percent of the entire population and include almost every eligible person. The great majority of the farmers are organized into producer's co-operatives, and a high percentage of the consumers into consumer's co-operatives. The stimuli for economic reorganization, for social improvement, for progress in general, comes from these organizations of the people. The government cooperates with and assists these organizations to achieve the national reforms for which Sweden is famous.

The most conspicuous example of the democratic process at work is in the progressive social legislation of Sweden. This comprises State medicine, health insurance, old age pensions, workmens compensation and a system of voluntary unemployment insurance.

Although Sweden's housing situation was much better than that of many other industrial countries, it has in recent years carried out an extensive housing program which has made use both of low rates of interest and subsidies. In addition to stimulating the construction of urban apartments and private dwellings Sweden has been successful in improving the rural housing conditions. In this part of the program, where Sweden has achieved success and other countries attempting it have proven ineffective, Sweden utilized the device of a zero rate of interest.

Culture

The lively and healthful state of the arts, the sciences and politics in Sweden and the intelligent progress which has been evident in these fields have attracted international admiration. These cultural developments accompany a general standard of living which is as great as any in Europe and almost as high as that of the United States.

Swedish arts and sciences are unusually independent and flourishing for so small a country and this healthy state is largely attributable to the progressive forces of Swedish democracy. A number of Swedish scientists are world famous but these world famous names are only part of a very rich scientific and technical culture which includes a large body of highly trained craftsmen, skilled workmen and expert engineers. That so small a country as Sweden has been able to produce a number of writers and artists

who have become national figures is a reflection of the excellence of Swedish popular education and of the highly cultivated audience which Swedish artists have in their home country.

Among Swedish scientists and inventors Nobel (explosives) Arrhenives (electrolises) Ekman (the sulphite pulp process) and de Laval (the cream separator, the steam turbine and centrifugal pumps) are persons with an international reputation in modern times. No other small country has produced so highly developed and varied literature as modern Sweden. Writers like Strindberg, Victor Rydberg, Borjeson, Lagerlof, and Soderberg, have established themselves as major figures in modern world literature. But inside Sweden there are numerous other writers who are as highly regarded. In painting, the works of Larsson and Zorn have received recognition abroad but Sweden is distinguished among the smaller countries for the numerous flourishing schools for painters which exist. In modern architecture, in the decorative arts and in many of the crafts, Sweden has exerted a prominent international influence. In few countries is there such rapport and balance between the popular or folk arts and the most advanced artistic developments.

The Swedish educational system is one of the best in the world and illiteracy is practically non-existent. The elementary schools are free and compulsory up to the age of fourteen. A highly developed system of technical schools furnishes the country with engineers and skilled craftsmen second to none in the world. University education

is by European standards widespread.

Geography

Sweden, the largest of the Scandinavian countries, has a land area of 158,000 square miles, slightly larger than California. Sweden lies in much the same latitudes as Alaska. Much of the area is mountainous. Along the western boundary runs a high and barren plateau, which falls away eastward to the Baltic and the Gulf of Bothnia. The lower mountains are well watered and are covered with timber. Although the land is broken, the slopes include much good agricultural land. The country is drained by a series of parallel rivers which are a valuable source of waterpower. The climate of Sweden is rigorous, but tempered in the south by warm seas. The Gulf of Bothnia is ice-bound during several months of each year.

The principal cities are Stockholm (557,000), Goteborg (270,000) and Malmo (148,000).

Population

The population of Sweden is 6.3 millions, and is remarkably homogenous, with practically no religious or national minorities.

Great public concern has been expressed in Sweden about the population problem, and the controversies which raged in the press and pulpit were matters of state importance. The statisticians have created various estimates of population size in the year 2200, estimates as low as 100,000, which seemed to have struck terror throughout the country.

Actually, the present generation is not replacing itself and at present levels of the birth rate the population is doomed to decline in the future, although the total population will continue to increase for 5 to 10 years to come.

The public interest in population problems resulted in the formulation of a program of broad legislative reforms, direct maternity aid, absence with pay to working mothers, marriage loans, etc. As these measures were put into effect, the public panic about the matter subsided and the problem is being studied more calmly at the present time.

Agriculture

The system of agriculture is small scale, 90 percent of the farms being less than 50 acres, and 80 percent of the farms are owner-occupied. Since 1913 there has been a marked decline in the importance of agriculture and the farming population has declined both relatively and absolutely. Whereas the population has increased by 16 percent, the industrial population has increased by 32 percent.

The world agricultural crisis of 1930-1933 did not seriously damage the industry, for it is remarkably efficiently organized. Politically, the farmers are organized as an independent force, and under the present government have formed a coalition with labor, in which labor helps the farmer to get higher prices for his products, and the farmer helps labor to get high wages.

Agricultural reform has taken the form of restriction of food

imports, regulation of production and state supported price levels for most of the products. It is only recently that Sweden has been faced with the problem of farm surpluses, which must be subsidized for sale abroad, in order to maintain their domestic control system.

Industrial Development

The transformation of Sweden from one of the poorest to one of the richest countries of Europe is to be attributed to a comparatively recent industrial growth. The industrial revolution reached Sweden late in the 19th century. It was based first on timber and very shortly on pulp and paper. The discovery at the end of the last century of the iron mountain in Northern Lapland made possible a great expansion of iron mining and the development of a modern industrial structure. Sweden's subsequent economic progress has rested upon two factors. The natural resources which are most important for the newer industries and a wealth of technicians and skilled workmen produced by the Swedish educational system. Huge resources of water power have been transformed into electricity, and the shortage of coal which earlier handicapped industrial development has more recently proved a stimulus.

It has been Sweden's good fortune to begin the process of industrialization at a time when her natural resources had become the key ones in modern industry. On the basis of water power there has been developed a large electrical industry, and in addition a considerable number of the newer industries which can only exist where cheap

electrical power is available. The Swedish output of electricity is about 1200 kilowatt hours per capita, far in advance of that of such old industrial countries as Great Britain, and even in advance of the per capita output of electricity of the United States, which in 1937 was 1000 kilowatt hours per capita. The resources exist for quadrupling this output. Modern metallurgical industries are increasingly dependent upon electro-thermal processes and Sweden has been in the forefront of these developments. Useful for the high grade metallurgical and engineering industries have been the large deposits of high quality iron ore. The profitable exploitation of the Swedish forests has been facilitated by the world wide expansion of paper and pulp industries, and more recently by a similar increase of international demand for cellulose fibers and chemical products.

Sweden has made great progress in a number of highly specialized engineering activities based for the most part upon Swedish inventions and technical skill and operating in the world market rather than in the domestic market. Companies such as the Swedish Ball Bearing Company (S.K.F.) which supplies three-fourths of the ball bearings used outside of the United States, the Ericksson Telephone group, the A.B. Separator, the Aga group which makes lighthouse beacons, stoves and radio equipment, Asea Electrical equipment firm, the Elektrolux Vacuum Cleaner and Refrigerator, de Laval Steam Turbine Company — these are concerns of international significance based upon Swedish technical discoveries. Similar though smaller firms

producing agricultural machinery, wood-working and pulp handling machinery and other specialized products are competing successfully in the international market.

Sweden is a progressive country economically because it possesses the essential raw materials and the cheap electrical power which are important in the new industries of modern industrialism, whereas in other countries these industries are only a small part of the whole industrial structure. In Sweden they make up a large proportion of the present industrial system. For this reason the young and small manufacturing economy of Sweden has been making rapid progress during the last two decades, while the older manufacturing economies have had difficulty in expanding.

The index of Swedish industrial production is extremely informative. By 1929 the volume of industrial output was 60 percent greater than that of 1913. After a short drop from 1929 to 1932, output rose rapidly and in 1935 was almost twice as great as in 1913. By 1937 the index (with 1913 = 100) was 233.

Prospective industrial development

There are a number of special features of the Swedish industrial economy which indicate not only its progressive character but also the possibilities for substantial future progress. A large number of its manufacturing firms are scattered about the country and the labor supply can be easily expanded as the industrial economy grows. Nearly one-half the Swedish workers are employed in the country.

Although the processing of centralization has been carried far in a number of the industries, small firms are numerous and in some lines are even growing. Thus, firms employing less than 50 workers used 26 percent of the labor supply in 1913 and 31 percent in 1936. Compared with Britain and the United States, Swedish industry is still relatively small scale and it would seem to be true that there is much more scope for the enterprising "small man" than there is in the more developed monopolistic countries. When it is considered that despite the relatively smaller size of Swedish industry the average Swedish worker uses twice as much electrical and mechanical power as does the average British worker, the Swedish industrial advantages are apparent.

Government control and ownership of business enterprises

In the modern economic development of Sweden the state has played a very prominent role. The government directly controls most of the public utilities — post office, telephone and telegraph system, the most important railways, most of the electrical power and an important part of the forests. It also controls directly or indirectly the Riksbank, the radio, air transport, tobacco manufacture, and the wholesale liquor trade. It holds a 50 percent interest in the largest iron ore company and it controls the armaments industry through a licensing system. These public controls are attributable to no single political party — the Conservative and Liberal Parties, as well as the Social Democratic Party, have initiated important

measures of social control and the idea of public ownership and control is common to all sections of Swedish public opinion.

The socialized sector of the economy consists first of all of government control of the basic natural resources, mineral, timber and power. There are two prevalent types of public enterprise. The first type is a public utility run by a state administration closely linked with a government department. The postal system, the telephones and the state railways are examples. The Board of Waterfalls and the Board of Crown Lands and Forests work similarly. The second type is the state-owned company, organized and run like a private company, but possessing a legal monopoly. Tobacco, liquor and air transport are the leading examples of such state monopolies, but the company which exploits the state deposits of iron ore is in a similar category.

The state-owned public utilities (including the post office, telegraphs, railways, hydro-electric works, forests and printing office) earned a profit of more than 5 percent on the government's invested capital in 1936. Most of these public utilities are not complete monopolies. Only 45 percent of the railway system is owned by the state. Government enterprise in these fields has served the purpose first of conserving the natural resources, secondly of making the products available to all private firms on an equal basis and thirdly through competition with private owners of natural resources in preventing a system of high monopolistic prices from

being charged. In recent times an additional advantage has been that when the state wanted to expand public investment in order to compete the depression it possessed areas of investment which were generally recognized as sound and useful outlets for capital.

The typical example of the public companies is the tobacco monopoly which was begun by a conservative government in order to raise revenue for old age pensions without increasing taxation. Out of this monopoly the government, besides getting a duty of nearly \$25 million a year, gets a dividend of almost \$400,000. Parliamentary control over these corporations is more extensive than in other continental countries, and problems of the location of plants and of expansion of the capital are matters for public debate. Recently the Socialists have been trying to add coffee and oil distribution to the list of public monopolies, again for the purpose of raising revenue for an old age pension scheme. The fact that the bulk (in value of business done) of the public monopolies is in the field of consumers' goods suggests that these companies serve the double purpose of assuring the public against extortionate prices for consumers goods and also of raising indirectly the revenue which is needed for some of the social services. Further extension of this principle is being resisted by the cooperatives, who have already succeeded in bringing prices down and keeping them down on many consumers goods.

The Luossavaara Kiirunavaara Company which exploits the state iron mines in the far north is the conspicuous public monopoly in

the producers goods field. This mining district contains nine-tenths of Europe's high quality iron ore and because of its location within the Arctic circle its development had to wait upon the completion of the electric railway which connects it with the sea. A privately owned corporation does the actual mining and pays both a royalty to the state and also one-half of the net profits of the Luossavaara Kiirunavaara Company, in which the state owns one-half of the equity capital and the private corporation the other half.

The extensive intervention of the Swedish state in the field of industry has accelerated the development of private capitalism in Sweden by furnishing the necessary capital for many large scale developments, and by preventing the development of more restrictive private monopolies. Government intervention in Sweden has contributed to a progressive private capitalism with democratic institutions. It stands in marked contrast to the totalitarian control of industry and the suppression of democratic institutions. The authoritarian intervention of the Fascist states has produced a hectic increase of armaments and a deterioration in the standard of living; the democratic intervention of Sweden has produced a high standard of living and widespread social services.

The fundamental weakness of the progressive Swedish economy is that it is so largely dependent upon international trade with Germany and England, and is therefore involved in the political and economic conflicts between these countries.

2

The Political Situation in Sweden

The tradition of democracy seems to be as well established in Sweden as anywhere in the world. The political system appears to be remarkably stable. Yet the conservatives are uneasy at the threat of further extensions of State control over the economic life of Sweden. Their acceptance of popular government has always been goudging. There is ample evidence of the extent to which conservative circles in Sweden have been permeated with authoritarian ideas on the German model. As an open political movement, these Fascist ideas have failed to make much headway. Nevertheless, it is ominous that the entire Youth Movement of the conservative party seceded from the party and adopted a Fascist program.

Sympathy for Germany is strong among business and industrial leaders, and the conservative press strongly supported the Insurgent cause in Spain. The National Socialist party is patterned on Nazi lines and it is probably financed and directed from Berlin. The Fascist parties in Sweden are able to capitalize the clerical sympathies of a considerable part of the rural population of Sweden.

In case of a severe economic slump, and even more in the case of a war between Germany and Russia or Britain and France or both, the Fascist movements in Sweden would at once become factors of importance. In view of the strategic importance of Sweden, Germany is making every effort to strengthen her position there by the encouragement of pro-Nazi movements of all kinds. This situation presents a potential threat to the maintenance of democratic institutions in Sweden.

Sweden has been a constitutional monarchy for centuries. Parliamentary government on a democratic basis, however, is a very recent development. In the middle of the Nineteenth Century Parliament was still organized in four Estates in such a way that the dominance of the propertied classes was unchallengable. At the beginning of the Nineteenth Century less than one-third of the adult male population could vote.

Beginning with 1866, a series of reforms was pushed through by Liberal and Labor organizations, against strong resistance from the King and the conservatives. It was not until 1920 that Sweden became effectively a parliamentary State based on political equality.

The Swedish Riksdag consists of two chambers of equal authority. The lower house has 250 members simultaneously elected every four years according to a system of proportional representation. The upper chamber, of 150 members, is elected indirectly. Its term is eight years. In case of conflict between the two houses, they may sit together and act as one house. This provision considerably weakens the upper chamber in conflict with the lower house. But the upper chamber still has considerable powers of obstruction. Because of its indirect election and long term, it is less responsive to popular will than the lower house. The position of the left parties in the upper chamber is very much weaker than their electoral strength.

In its procedure the Riksdag stands midway between British parliamentary and American congressional procedure. The Committee System

is the basis of its work. The Riksdag committees may exercise a great deal of independence and initiative in their legislative program. Particularly is this true when the Government is a minority; in that case leadership may pass into the hands of the Riksdag committees. On the other hand, when the Government is in a strong position the initiative of the committees is greatly reduced. The Cabinet has means of controlling the Riksdag and bringing pressure to bear on the members which are not available to the American executive.

The position of the King in the Swedish Constitution is somewhat uncertain. Like the British King, he has wide legal powers which have been effectively hedged about with conventional limitations. Unlike the British King, however, the Swedish monarch has within very recent times taken a strong and independent political line of his own. The customary limitations on the King's power are not so long- or so well-established as is the case in Britain.

On the other hand, the Swedish King does not occupy the position of the British King as the head of a powerful social hierarchy. The Swedish Court is free of the pomp and aristocratic exclusiveness of the British Court. The undefined powers of the King might well lead to a constitutional crisis, if, for example, the Social Democrats ever made a serious attempt to push through a program of Socialism in Sweden, and the King resisted.

The Swedish Political Parties in the Riksdag, 1936

	Seats, Lower House	Seats Upper House
Government Parties -		
Social Democrats	112	66
Farmer's Party	<u>36</u>	<u>22</u>
	148	88
Doubtful -		
Left Socialists	6	1
Communists	<u>5</u>	<u>-</u>
	11	1
Opposition -		
Peoples' Party (Liberals)	27	16
Conservatives	44	45
National Socialists (Fascist)	-	-
National Party	<u>-</u>	<u>-</u>
	71	61

The strongest political party in Sweden, as in all the Scandinavian countries, is the Social Democratic party. It is one of the leading branches of the Labour and Socialist International, ranking with the British Labour party and the French Socialist party in importance. The program of the Swedish Social-Democratic party is not a socialist program, however, at least for the visible future. A prominent official of the party described its policy as "ultimate socialization but an immediate increase in the standard of life of the workers". The Swedish socialists point out that already a large section of Swedish industry is socialized, and that is sounder policy to push forward for better social services and measures for combatting unemployment than to make a fight for a

drastic program of socialism at this time. The socialist slogans serve as effective rallying cries, but it is doubtful whether the party has any intentions of pushing for a real extension of the socialist program.

But this does not mean that the Swedish socialists have been content to accept a passive role in the determination of national policies, as the Labour and Socialist parties elsewhere generally have done, even where they have been in a strong position. On the contrary, the Swedish Government, under the leadership of the Socialists, has pushed forward with a comprehensive plan for government control of the economic system in the general interest.

In the carrying out of its program for the control of the national economy, the Socialists have relied on a coalition with the Farmer's Party. This is primarily a class party supported by small farmers, rural businessmen, and others whose livelihood depends on agriculture. It has taken advantage of the feeling in rural areas that the conservatives when in power sacrificed agricultural interests to industry and trade. It is hostile to the banks and the great monopolies. It is anxious for the extension of social services to the country. As few farmers have large incomes, the Farmer's party has also supported the income tax policy of the Social Democrats. Whether the Farmer's party will be ready to go much further in the direction of public controls over the nation's economic life is uncertain. It is certain that any sweeping proposals for further socialization of industry would end the coalition. The Farmer's party is under constant attack

from the two more conservative parties for its part in the coalition. A move to left on the part of the Social Democrats would probably result in the disintegration of the Farmer's party.

The People's party (Liberals) now works in close cooperation with the conservatives. Often the two parties put up joint lists of candidates. The Liberal party for decades led the struggle for constitutional reform. After these reforms were achieved in the war years, the party disintegrated. It was revived in 1934 as the People's party. It is supported chiefly by small businessmen, office employees, and small farmers. It is hostile to the Social Service program of the Government. It has free trade leanings. The revived People's party won additional votes in the last election; the conservatives on the other hand lost heavily.

The conservative party is the party of the well-to-do. Its supporters include businessmen, land holders, church officials, many important civil servants, and professional men. In country districts where religious influence is strong the conservatives have a considerable popular vote. The conservatives have a strong women's organization, but they have had to rebuild their youth organization since it seceded to form the new Fascist National Party. The conservative party is pragmatic in its political doctrine. It is not opposed in doctrine to public ownership, but in practice it objects to any extension of State controls and social services. It is protectionist and it opposes the income tax.

The achievement of the Swedish Government in the struggle against unemployment and in the defense of the welfare of the people, is an impressive achievement. In no other country (leaving out of consideration the U.S.S.R.) has the national economy been so effectively controlled in the interests of national welfare.

Swedish fiscal policy has been completely recast to provide the State with weapons against cyclical depression. Sweden has adopted the principle of the cyclically-balanced budget. Plans have been laid for a great expansion of the State's public works and industrial activities when depression threatens. These activities will be curtailed during boom times. This program has already been put into effect in part, and it was no doubt partly responsible for the rapid recovery in Sweden in 1934. The possibility of effective action against economic slump is greatly increased in Sweden because of the relatively large sector of the economy which is under State ownership already.

The Government has supplemented its public works program with a program for the extension of Social Services on a generous scale. When this program is carried through, Sweden will have one of the best social administrations in Europe.

3

Sweden - Foreign Trade

Sweden's foreign trade in 1937 was the largest in value in 17 years and 10 percent higher than in 1929. The quantity of goods exported was up by 20 percent; the quantity imported by 40 percent. Export prices and import prices were both lower than in 1929, by approximately 15 percent.

Foreign Trade

(In millions of dollars)

	<u>Exports</u>	<u>Imports</u>	<u>Excess of Imports</u>
1928	422	458	- 36
1929	436	478	- 8
1936	388	418	- 30
1937	510	541	-31
1938	421	473	- 52

Sweden's exports of iron ore have increased faster than her shipments of any other commodity. Exports of pig iron and iron and steel have likewise increased faster than total Swedish exports. Timber, wood pulp and paper account for slightly more than two-fifths of her exports and are roughly as important today as a decade ago. Exports of foodstuffs have declined slightly as have shipments of machinery.

Exports by Commodities

	<u>1928</u>	<u>1937</u>
<u>Wood and manufactures</u>		
Wood pulp	15%	21%
Timber	15	12
Other	5	1
Paper	8	8
<u>Metals and manufactures</u>		
Iron ore	5	11
Iron and steel products	8	9
Other	3	5
Machinery	14	11
Foodstuffs	<u>7</u>	<u>4</u>
Total	80%	82%

Germany has increased her share of Swedish exports by almost one-half since 1928; France, the Netherlands, the United Kingdom and the United States have lost. Germany, which is dependent upon foreign supplies for 85 percent of its iron ore requirements, is by far the largest purchaser of Swedish ore. The proportion of Swedish iron ore exports taken by Germany (formerly 75 percent) has declined slightly in the last few years due to larger purchases by Great Britain. The interruption of supplies of Spanish iron ore in 1936 led Great Britain to seek larger supplies in Sweden. Germany, on the other hand, is turning to Spain for increasingly larger amounts of her iron ore imports. The United Kingdom continues to rank first as a market for Swedish goods, accounting for seven-tenths of the mechanical wood pulp and one-half of the paper exported.

Exports by Countries

	<u>1928</u>	<u>1938</u>
United Kingdom	25%	24%
Germany	13	18
United States	11	9
Netherlands	5	4
France	6	3
Belgium	2	3
Denmark, Norway and Finland	16	16
Other	<u>22</u>	<u>23</u>
Total	100%	100%

Swedish imports of machinery, metals and manufactures, coal and coke, and chemicals and dyes have doubled during the past 10 years. These commodities account for two-fifths of all imports into Sweden. Imports of foodstuffs have been halved. Yarn and textile imports are also smaller.

Imports of Commodities

	<u>1928</u>	<u>1937</u>
Yarns and textiles	13%	11%
Foodstuffs	21	10
Coal and coke	6	10
Machinery	5	8
Iron and steel and manufactures	4	8
Chemicals and dyes	3	7
Mineral oils	4	5
Copper and other metals	<u>2</u>	<u>5</u>
Total	58%	64%

Germany is the largest supplier of Swedish imports. Her share of the market has been cut by one-third during the past decade. The United Kingdom, the United States, and Belgium have improved their position. We are the third largest supplier of Swedish imports.

Imports by Countries

	<u>1928</u>	<u>1938</u>
Germany	31%	21%
United Kingdom	16	18
United States	15	16
Netherlands	4	4
Belgium	2	3
France	4	3
Denmark, Norway and Finland	10	7
Other	<u>18</u>	<u>28</u>
Total	100%	100%

Our trade with Sweden is larger than our trade with the other three Scandinavian countries combined. We exported to Sweden \$64 million in each of the past two years and imported roughly \$50 million. Our sales to Sweden are running 12 percent above the 1928 figure. Automobiles, machinery, petroleum, cotton and iron and steel are the principal commodities exported to Sweden.

Together they accounted for 64 percent of our total sales in 1937. Chemical wood pulp (69 percent) and iron and steel (14 percent) constitute the bulk of our imports.

4

Business Conditions in Sweden

Industrial recovery which started in the last quarters of 1938 continues to advance, and production is already back to 1937 levels (In April 1939 it was 122 as compared with the 1938 low of 114 last August. The output of machinery has reached peak levels, and iron and steel production is again back to the 1937 high. The domestic market has been supported by a substantial building boom and a good 1938 harvest. (In the six months from September 1938 construction increased 38 percent). Shipbuilding under construction in June totalled 160,000, an increase of almost 40 percent on last year, while ships laid up totalled almost 100,000 tons less than last year. The shipping freight index continues to rise.

Wholesale prices, which declined 10 percent in 1938 are still at approximately the same level (the index fell from 126 in the fourth quarter of 1937 to 114 in the third quarter of 1938, and 115 in May 1939). The Government has maintained its support of agricultural prices. The relation of import to export prices has changed slightly against Sweden's favor in the last 12 months. (Both import and export prices fell about 25 percent from June 1937 to June 1938, but whilst import prices have since risen about 4 percent, export prices have fallen about 6 percent).

Unemployment has been decreasing rapidly since the middle of 1938. In April 1939 the percentage of trade union members unemployed (excluding the seasonally unemployed) was only 5 percent, an all time low.

The buoyant security markets reflect Sweden's industrial recovery. There has been an increase in new bond issues and in the purchase of stocks for investment since the beginning of 1939. The general expectation is that there will be a rise in long-term interest rates from the comparatively low level of 3 percent which has prevailed in the last few years.

Sweden - Business Activity

	Index of Production (1935 = 100)				Resident	Wholesale	Number
	General production	Iron and steel industry	Machinery industry	Pulp and paper industry	building permits: (1929 = 100)	price index: (1935 = 100)	unemployed in trade unions 1/
End of quarter:							
1937 - IV	122	122	135	121	147	126	90,600
1938 - I	119	113	132	114	204	119	88,400
II	116	108	131	101	145	115	57,900
III	114	109	128	93	141	114	44,800
IV	116	118	131	97	183	114	101,000
1939 - I	120	120	136	100	268	114	90,000
April	122	121	137	102	-	115 (May)	-

1/ Total membership: about 730,000.

5

Sweden: Agriculture and Social Security

Sweden is reputed to be the most advanced nation in the world with respect to social legislation, housing, and in its organization of agriculture. These aspects of Sweden merit special attention.

Agricultural Organization

Sweden is no longer a predominantly agricultural country. Only 40 percent of the people are directly engaged in agricultural production, which is closely tied up with forestry. While only 12 percent of the soil is cultivated, the average farm has 75 acres of forest land attached to it. Nearly half the cultivated area consists of farm units of under 40 acres. Eighty percent of the farmers own their own farms. Farm ownership is encouraged by the Government Home Ownership Board, which furnishes long-term loans up to 37 years at 3.6 percent interest to promote ownership. The objective is to bring new land into cultivation, though not much success has been achieved in that direction.

Agriculture in the past 1932 crisis has not experienced the same recovery as industry. In 1931 the Government introduced a fixed price for wheat, and since 1935 the State has bolstered the wheat market by purchasing wheat. The State-owned Swedish Cereals Company buys all the wheat and rye farmers are willing to sell at a fixed price; it disposes of its accumulated stocks either in the export or domestic market in accordance with the price and harvest situation. The Milk Scheme of 1932 imposes a tax on milk in order to stabilize the internal butter price and subsidize butter exports. Meat imports

are virtually prohibited, and there is a slaughter tax on animals. The egg market is controlled by an Egg Control Board. A private company, under the severest Government regulation with respect to prices, wages, etc., has a monopolistic control of all home-produced sugar. Finally, there is a flexible and complicated system of import controls and duties on the main agricultural imports.

Hours of agricultural labor are legally limited to 8 hours a day and 48 hours a week, with no more than 200 hours overtime in the year. Productivity is high in Swedish agriculture, which today occupies a foremost position in the science of plant breeding.

Agricultural Co-operatives

The General Agricultural Association was founded in 1916, to which are affiliated the most important national and regional co-operatives in the sphere of dairy products, meat, eggs, timber and fruit products, and the provision of credit. The General Agricultural Society receives substantial grants from the State. In 1935 an agreement was arrived at between the General Agricultural Society and the National Rural Union, with its 58,000 members - mostly small farmers - to co-ordinate their efforts through the canal of Agricultural Societies.

The National Dairy Association, to which 90 percent of the purveyors of more than half the creameries are affiliated, operates 75 percent of the dairies and produces 90 percent of the milk. The National Slaughter House Association with 198,000 handles and markets 70 percent of the cattle and hogs slaughtered. The Swedish Egg Trade Association,

with a membership of 600 local co-operatives, handles half the egg exports and 75 percent of the egg business. In addition, there are 20 Fruit Associations, and 20 Central Purchasing Associations, to which 600 local purchasing societies, with 43,000 members, are affiliated. These Associations provide for co-operative marketing and purchasing. There are 789 agricultural banks with 84,000 members which are tied up to the Agricultural Credit Bank. Their loans have increased five-fold since 1930.

Agricultural co-operatives handle more than 60 percent of the chief agricultural products, and have contributed to the integration and consolidation of Swedish agriculture and the raising of agricultural productivity.

Old-Age Pensions

Old Age and Invalidity pensions have been compulsory since 1913 and extend to all citizens from 16 to 66 years of age. The Scheme is administered by the National Pension Fund and the local pensions boards. Individual contributions range from 6 kr. (\$1.45) to 20 kr. (\$4.82) per annum and in 1937 there were almost 5 million contributors. The municipalities contributed from 12½ percent to 30 percent of the cost, and the State the rest from the National Pension Fund and general funds. Benefits are divided into three categories: (1) basic; (2) supplementary; and (3) disability. The annual basic benefit begins at 67 years and amounts to 70 kr. (\$16.87) plus one-tenth of the individual's total contribution. A supplementary benefit is given

to persons with incomes of less than 457 kr. (\$118) in the cheapest areas, 600 kr. (\$145) in the middle areas, and 743 kr. (\$179) in the most expensive areas, and amounts to 250 kr. (\$60), 350 kr. (\$84) and 450 kr. (\$108) for the cheapest, middle, and dearest areas respectively. Benefits are doubled for married couples. Invalidity benefits begin with permanent invalidity. In 1937, 600,000 persons received pensions; of these 400,000 received supplementary and invalidity benefits. About 160,000,000 kr. (\$38,600,000) are disbursed per year.

Health Insurance

Is voluntary, the State giving subsidies amounts to a third of total disbursements to private societies with a membership of 927,000. Women members receive maternity benefits. There are 3,000 doctors in Sweden, many of them in the employ of the State and municipalities.

Workmen's Compensation

Has been compulsory since 1901. Insurance must be with the State Insurance Company, or a mutual insurance company, and the cost of insurance is borne entirely by employers. Sick benefit is proportional to annual earnings, ranging from 24 cents per day to \$1.30. In addition, medical costs are covered, and there are benefits ranging from 300 kr. (\$72) and 2,000 kr. (\$480) for permanent disability.

Unemployment Insurance

Is voluntary but State subsidized. The Unemployment Insurance Societies which must be registered, are formed almost exclusively of trade unions and have a membership of 102,000. The State subsidy

varies inversely with the daily benefits and proportionately with the extent of unemployment, and amounts to 50-60 percent of benefits paid out. Benefits are paid for 90-156 days out of the fiscal year and cannot exceed a maximum of four-fifths of the local wage. There is a national system of labor exchanges.

Collective Bargaining

The right of associations is guaranteed by the law of 1937. Industrial disputes are controlled by a complex system of collective agreements covering the whole field of wages, hours and conditions, operated by a law enacted in 1929. During the term of the agreements, validity strikes to alter any of the terms are prohibited. Their interpretation and enforcement is in the hands of the Industrial Court. There are no restrictions on the employers' right to discharge. Strikers must give seven days' notice to the employer and Government arbitration board. About a third of the labor supply consists of female labor.

The Swedish Trade Unions are rapidly becoming a part of the State apparatus — in the sphere of social insurance they already function as the State machiner; while their membership of 855,000 is high, they are on the whole quite conservative.

Vacations with Pay

The Holiday with Pay Law provides for an average paid consecutive vacation of 15 days in the months of May to September. There are no provisions for enforcement.

Child Labor and Welfare

Is prohibited in industry under the age of 14. There are also restrictions on the labor of youths under 18. Child allowances are granted unmarried and widowed mothers.

Housing

Conditions are very uneven in Sweden. There is a good deal of overcrowding in Southern industrial working class areas, and in the far North the situation amongst the miners and foresters is much worse -- 40 percent of all families, and more than 50 percent of working class families with 3 or more children live in apartments of one room and kitchen. Yet serious efforts have been and are being made to cope with the housing problem by State, municipal, co-operative, and voluntary activity.

Recent legislation has been directed at the construction and improvement of houses for agricultural workers, the erection of cottage estates, the provision of urban block dwellings, and the housing of large families. The Own Home Fund makes loans of one-half to three-fourths of the value of a dwelling and one-half to five-sixths of an agricultural holding to tenants desiring to become owners. The State is strongly represented on the Town Mortgage Fund which lends largely on big apartment houses. In 1933 as part of its campaign to fight the depression the State established a fund of \$12 millions to advance funds at 4 percent to builders recommended by the municipality, the State advancing 15 percent of the cost, the builders about 10

percent, and the rest being borrowed. Rural housing was also promoted by grants up to 50 to 80 percent of the cost of improvements and the remaining cost being advanced without interest. In 1935 a fund of \$2½ millions was set up for rehousing large families by loans to municipalities and public benefit building societies. The municipality is to provide the land free, and the builder can borrow the whole cost from the State at 3 percent to be repaid in 40 years. The State fixes the rents and gives rebates in accordance with the size of the family.

Stockholm has taken advantage of this scheme and in one year, 1936-1937, participated in the construction of 1100 apartments. While the average annual wage varied from \$750 to \$840, and the usual rent for a one-room and kitchen apartment is \$300, the income limit to qualify for the new cheap housing scheme is \$875 for a family with three children (plus \$120 for each additional child) and the rent for a two-room and kitchen apartment for such a family is \$120 - \$216.

Co-operative building societies are also active. The Stockholm Co-operative Building Society (S.K.B.) and the National Tenants' Saving Fund and Building Society (N.S.B.) provide housing at rents of 25 to 30 percent less than in the open market. Their facilities are used both by the middle and working class.

The municipality of Stockholm has also acquired 24,000 acres in the suburbs for the erection of garden cities. Already 50,000 people live in these suburbs.

Co-operatives

The Co-operative Wholesale Society, linking up the various consumer societies, was founded in 1898. In 1936 it had 710 affiliated retail societies, with 4,340 stores, including the output of its retail members. The value of its products in 1936 was nearly \$42 million in 1936, or about 4 percent of the total value of Swedish industrial production. Its wholesale trade turnover in the same year amounted to about \$48 million (seven times as much as in 1918), or about 4 percent of the total turnover of Swedish wholesale trade. Most of this is concentrated in food and groceries. Its capital amounts to about \$17 million.

It should be noted that the importance of the C.W.S. as a producer is greater than its share of total industrial output would indicate. It has embarked on production especially when there was a possibility of substantially reducing the prices of staple commodities for low income-group consumption and when the trusts and cartels were keeping prices high. It has opened factories to force the trusts to lower prices, and then closed them again, always with the threat of re-opening them. Through its operations in the margarine, rubber galoshes, and electric bulb industries it has substantially reduced prices for the consumer. This method of fighting the trusts would appear to be feasible at least in a small country.

The C.W.S. also controls three insurance societies, a savings bank, and conducts an extensive adult educational program.

The 710 retail co-operative societies have a membership of 585,000, of whom about half are industrial workers, a fifth farmers and agricultural workers, and the remainder miscellaneous. The Stockholm Co-operative Society alone has a membership of 80,000. It has been estimated that more than one Swedish family in three are co-operators. The co-operatives' retail trade totalled \$110 million in 1936 and amounted to 11 percent of total retail trade. Again much of the trade is in food and groceries, which members obtain at somewhat lower prices than in private enterprises.

The Swedish Co-operative movements, which has grown rapidly since 1922, is now provoking and encountering more opposition and organization from wholesalers and storekeepers. Though it is largely a working-class movement, it tries to keep out of politics in order not to offend the Farmers' Party, with which the Social Democratic Party is allied.

Electric Power

The State produces 3 percent of power produced in Sweden, the municipalities 17 percent, private supply undertakings 19 percent, and industrial undertakings producing for their own use 33 percent. Excluding the latter, the State produces 46 percent and the local authorities 25 percent of the power produced. State activity is confined chiefly to production and wholesale distribution, while retail distribution is largely in the hands of the municipalities, and in the rural areas of consumer co-operative societies. The State has acquired

a dominant position in the power industry and provides a ready yardstick for the measurement of other power enterprises. The activities of the Rural Co-operatives Associations which are usually very small, are responsible for the fact that over 60 percent of Sweden's farms are electrified; they are, of course, helped and supervised by the State authorities.

6

Sweden's Budgetary Policy

Sweden has been using the principle of the double budget for many years. The double budget is a system of Federal accounting which separates expenditures on current account from expenditures and revenue on capital account, i.e., productive investments. An idea of the relative importance of the capital account to the current account in the Swedish budget may be judged from the fact that 15 percent of the total expenditures in 1938-39 were on capital account and about 12 percent of the revenue was obtained from the earnings of the capital assets.

The situation of Sweden differs from that of the United States in this important respect - that the State owns and operates major business activities and therefore can much more easily undertake capital expenditures which are readily accepted by the public as "investments" than would be the case were those "investments" confined to the public works of the kind the United States can undertake. The National Government of Sweden owns and operates the railroad system, the telephone and telegraph system, public utilities, even commercial forests and other smaller enterprises. In addition, they own blocks of the capital stock of large corporations. (For instance, the Government owns a substantial share of the common stock of the largest iron mine in Sweden.) Were the United States Government to own and control the equivalent enterprises in the United States, it would be a very simple matter to carry out

"investment" expenditures of \$5 to \$10 billion in each of the depression years cycle. This point is decisive in comparing the efficacy of the Swedish fiscal system and ours.

The public debt of Sweden has risen by 30 percent in the past 8 years but the increase in the debt has been due entirely to an increase in investments by the State.

It is interesting to note that the revenue from State enterprises is almost double the amount needed to service the public debt.

Swedish Public Debt
(In millions of kronor)

		Total National Assets
1932	2,155	3,918
1933	2,359	4,043
1934	2,349	4,002
1935	2,599	4,335
1936	2,612	4,705
1937	2,604	4,806

The bulk of the national assets consist of State owned productive enterprises valued at cost. In 1937 they totaled 2,618 million kronor. These enterprises consist of the railroads, postal system, telephone and telegraph, electric power, commercial forests and other enterprises, all of which are generally considered in this country to be the sacred domain of private enterprise. The national assets are valued at almost double the amount of the national debt. In recent years this excess of the assets over the debt has actually increased by a substantial amount.

In addition to the above Government capital assets, the Government maintains funds for loans to private persons for the building

of homes, for farm loans and for other purposes.

Composition of the National Assets, 1937
(In millions of Kroner)

Treasury fund	461
Loan funds	527
State Productive Enterprises	2,618
All other	<u>1,199</u>
Total	4,805

The expenditures of the National Government rose steadily from 1929-30 from 750 million kronor to 1,247 million in 1937-38. The Government borrowed relatively small amounts to meet the rising expenditures, a total of 1,200 million kronor in 9 years, and all of the borrowing, plus an amount taken from revenues, was devoted to productive investments.

Expenditures of the National Government
(In millions of kronor)

	Current Expenses	Capital Investments		Total
		Financed by loans	Financed from revenues	
1929	689	34	27	750
1930	719	50	17	786
1931	761	73	22	856
1932	814	104	16	934
1933	720	269	7	996
1934	770	312	11	1,093
1935	867	120	22	1,009
1936	967	116	16	1,099
1937	1,092	126	29	1,247

The successful Swedish budgetary history of the 20's was the result of the continued high level of industrial activity. The

re-investment of current surpluses in national assets made possible a growing income from those assets. Appropriations for defense were cut while expenditures for social reforms, then coming to the fore, were increased only slowly. The Government reduced taxes on income and on property.

Notwithstanding a considerable reserve fund had been accumulated when the recession hit Sweden in 1930, expenditures rose slightly while revenues fell sharply. Reserves were reduced by 175 million kronor during 1930 and 1932.

The Government which took office in 1933 was pledged to a reflationary program of State expenditure. They believed that annually balanced budgets served to accentuate fluctuations in private economy; that public expenditures should be increased in periods of depression and reduced in periods of recovery.

The traditional policy of an annually balanced budget was abandoned in 1933 for a program which sought to establish a balance over a period spanning the business cycle. The loans made for the purpose of increasing expenditures during depression years were planned to be repaid during the next boom period. This policy has not yet received the test since it was inaugurated at about the same time that the business recovery set in. It has not yet stood the test of a real depression.

The favorable budgetary history of Sweden in the last 10 years reflects chiefly the mildness with which the world depression visited

that country. It arrived very much later than in most foreign countries and lasted a relatively short time and failed to reach the depths experienced elsewhere.

7

Sweden - Banking Structure

The Swedish Central Bank (Sveriges Riksbank) is a state-owned and state-controlled institution. It is the sole bank of issue and maintains the gold reserves. The note issue is controlled by law. It is limited to twice the value of the gold reserve plus kr. 350 million. (The present note issue is far below the prescribed limit.) The bank is governed by a board, of which one member is appointed by the King and six appointed by Parliament. The Central Bank is under the direct control as to policy of a banking committee of the Parliament. This is an unusual arrangement which should provide for the greatest degree of democratic control over the banking institutions. An interesting corollary is that decisions as to policy by the Central Bank are matters of public information in contrast with the practice of other central banks and seemingly there is no disadvantage to this lack of secrecy.

The bank in 1937 was given the power to engage in open market operations as an instrument of control over credit conditions. Alteration of the discount rate is likewise presumed to be one of the instruments of control over the credit conditions. The rediscount rate has been $2\frac{1}{2}$ percent since 1933. The gold reserve of the bank comprises all the gold at home plus gold abroad up to 15 percent of the total reserves.

The banking system consists of 28 commercial banks, 500 savings banks, an industrial credit bank and numerous mortgage banks. There

is a high degree of concentration in the Swedish commercial banking system. Four out of the 28 banks conduct two-thirds of the banking business. The commercial banks in Sweden have 75 percent of their deposits as time deposits and only 25 percent as demand deposits. Consequently, the Swedish banks fulfill the function of savings banks to a greater degree than is true in any other country. In a sense they approach the situation which would prevail were the United States to have the 100 percent reserve requirement against deposits. On the investment side the banks also fulfill the function of savings banks in that a great part of their loans are for capital expenditures and are long-term industrial loans.

The Kruger catastrophe brought on a reorganization of the Swedish banking system. Banks are now forbidden to acquire shares in industrial enterprises except under special circumstances and are required to limit their loans to six months. A special state capitalized and regulated bank was established for the purpose of granting longer term loans.

In order to provide investment facilities for industry a state institution was established in October 1934. The objective of this institution was to provide capital for small business which had difficulty in financing expansion.

8

1

Sweden - Foreign Exchange and the Money Market

1. Exchange Rates and Gold

Gold holdings and foreign balances of the Riksbank and commercial banks amounted to \$535 million in May, 1939. They rose from \$195 million in 1932 to \$565 million last December. In the past six months they have declined by some \$30 million.

As a result of Europe's political uncertainty, the Riksbank has, since 1937, been switching sterling balances into gold and dollars, and moving London gold back to Sweden or to New York. The Riksbank's gold and foreign balances with the Federal Reserve Bank of New York were negligible at the end of 1937; now (July) they total \$88 million and \$93 million respectively. The Riksbank has also been converting sterling balances into gold, and its total gold holdings, which had risen from \$100 million in 1932 to \$245 million at the end of 1937, rose further to \$345 million in May 1939. Correspondingly, its foreign balances, which had risen from \$55 to \$250 million between 1932 and 1937, fell to \$150 million in May 1939.

The foreign balances of the central bank and the commercial banks in the United States have risen from \$99 million last December to \$136 million in June.

2. The Money Market

On the money market, easy conditions which have been in evidence for several years continue to prevail. Interest rates are as low as they have ever been: the yield on 3 percent government bonds in 1938 and this year stands at about 2-1/3 percent, as against 3 1/2 percent five years ago.

Volume of notes in circulation reached a record high of \$260 million during last September's crisis, as compared with an average volume of \$145 million in 1929-1932; in July 1939, the volume was only \$25 million lower than the record level, at \$235 million. In the commercial banks, both deposits and loans have risen steadily in recent years, especially since 1936 (millions of dollars):

	Deposits	Loans
1936-December	\$ 925	\$ 965
1939-March	1,080	1,065
May	1,070	1,085

Of late there has been some falling off of deposits while loans have continued to rise; the banks' cash resources accordingly dropped between March and May 1939 from \$160 to \$135 million. They now represent about 9 percent of total resources, which indicates a fairly liquid position, considering the fact that over 80 percent of commercial bank deposits are on time.

3. Foreign Exchange

The Swedish krona has been held fixed to sterling at the rate of 19.40 per £ since 1933. Sweden abandoned the gold standard in September, 1931 (about the same time as did England). By 1933, when the krona was pegged to sterling, the krona had depreciated against gold more than had the pound (35.5 percent against 31.9 percent). Belief that the krona was undervalued against sterling led Swedish importers and economists in early 1937 to press for a downward adjustment of the rate, but the Government decided against the move. At present the krona's dollar value is slightly over \$0.24.

9

Sweden - Balance of International Payments

Sweden normally has an unfavorable balance of trade, but receives a large net income from shipping and from interest and dividends on investments abroad. Sweden has continued to export capital in recent years.

In 1938, Sweden's unfavorable balance of trade was \$20 million more than in 1937. Her net income from shipping was insufficient to pay for her excess of merchandise imports for the first time in three years. Net receipts for interest and dividends (\$35 million) was approximately as large as net income from shipping. Approximately one-third of the net capital exports during the past two years have been invested in short-term assets and chiefly to the account of the Bank of Sweden.

Balance of Payments

(In millions of dollars)

Net Receipts (+) or Net Payments (-)

	<u>1938</u>	<u>1937</u>	<u>1928</u>
Balance of trade	- 52	- 31	- 36
Shipping	+ 35	+ 43	+ 49
Interest and Dividends	+ 33	+ 34	+ 7
Transfer of capital	- 30	- 48	- 36
Sundry	+ 14	+ 2	+ 16

NORWAY

1

Norway - General Information

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Norway - General Information

Geography

Norway is essentially a maritime nation. Her territory stretches in a narrow band along the North Atlantic and Arctic Oceans from 58°N. to 71°N. This narrow strip of land is penetrated by innumerable fjords, which, with the Midnight Sun, are the main scenic attraction to tourists. The area of Norway is about 121,000 square miles and is equal to that of New England, New York, and New Jersey, combined, but for the most part it is a high and barren plateau. Only 3 percent of the land is cultivated. Slightly less than a quarter of the land is forested, and the remainder is unproductive. The population is concentrated on the southern and south-eastern coastal plains.

Climate

The climate is mild and moist like England's on the west coast, but cold and dry in the interior and northern and eastern sections. The winter which is severe as soon as the seaboard is left behind extends from November to March, and the cool summer lasts only for eight to ten weeks in June, July, and August. Even in Southern Norway there is no real darkness from the end of April to the middle of August, and at the North Cape there is continuous sunlight from May 12th to July 20th. Rain is abundant and frequent. The prevailing winds and the gulf stream render the climate of the lowlands unusually mild for the latitude, and the harbors remain open throughout the winter.

Population

The population of Norway is approximately 2,900,000. It is still rising slowly at the rate of 13,000 per annum, but the changing age composition reflects the falling birth rate. It declined from 26 per 1,000 in 1912 to under 16 in 1938. In the same period the death rate from 13.3 to 10 per 1,000, so that the population is rapidly approaching stationariness. The life expectancy which has risen since the pre-war years is approximately the same as in the United States, in which it is 59 and 63 respectively for boys and girls at birth.

The density of the population, 24.4 per square mile, is next to that of the U.S.S.R., the lowest in Europe, because most of its area is uninhabited. About 70 percent of the people live in rural areas, and 30 percent in urban, the largest towns being Oslo (275,000), Bergen (106,000) Trondheim (54,000), Stavanger (46,000), and Tromsø (25,000).

Approximately 30 percent of the people are engaged in agriculture, forestry, and gardening, 28 percent in industry, 10 percent in trading, 10 percent in transportation, and 7 percent in fishing and whaling. There was a heavy migration from Norway to the United States from 1880 to 1910, the Norwegian-born inhabitants of the United States rising from 122,000 in 1880 to 404,000 in 1910, but the emigration rate has since fallen off, the number of Norwegian-born inhabitants of the United States being only 348,000 in 1930, and the emigrants from Norway to the United States totalling only

591 in 1937.

The religion is almost exclusively Lutheran. The evangelical Lutheran church is the national church and is endowed by the state. Its clergy is nominated by the King - that is to say, in effect, by the Cabinet. There is freedom of religion, except that the Jesuits are excluded by law. The influence of the Church in Norway, as in all the Scandinavian countries, is strongly conservative. Its influence is greatest among the rural population.

Resources and Economic Activities

Shipping - The dominant part played by shipping in the Norwegian economy is brought out by the fact that her merchant shipping fleet is the fourth largest in the world and that her gross shipping receipts approximately equal her exports in value. On January 1, 1939, she had a total of 4,308 vessels with a registered tonnage of 42 million gross tons. The gross earnings of the Norwegian Merchant Marine engaged in foreign traffic totalled \$186 million in 1937, and the net tonnage of ships entering or clearing Norwegian ports amounted to 9.3 million tons in the same year. The gross tonnage per 1,000 inhabitants in 1936 was 1,412 tons, or more than four times that for the United Kingdom and more than 14 times that for the United States. About 20 percent of the population is directly dependent on shipping and commerce for its livelihood.

Fishing and whaling - The value of the product of the sea fisheries in 1937 was \$20 million. The most important of these is the herring fishery which in 1936 produced \$7 million of herrings and employed

25,000 regularly plus 40,000 during the summer. The cod fisheries accounted for \$6 million in the same year, employing 62,000 full and part-time. Other important fish and shellfish are lobsters, mackerel, salmon, and sea trout. Most of the fishing is done in small boats and the introduction of trawlers is bound to involve serious displacement of labor.

The deep sea catch of whale, walrus, and seal was valued at \$20.5 million in 1937. Almost 1.2 million barrels of whale oil was produced from this catch.

Forestry - Norway's forests constitute one of her chief natural resources. Seventy percent of the forests consist of pine. The paper industry utilizes a major portion of the lumber production consumed in domestic industry. A considerable quantity of lumber is also used for home consumption as timber and fuel. In 1937 the paper and pulp industry consumed raw materials valued at \$76 million to produce a total output valued at \$107 million. The value of the output of other wood industries amounted to almost \$49 million. The exportable surplus of wood products accounts for more than a quarter of Norway's total exports.

Power - Norway has more economically utilizable potential water power than any other European country. While installed capacities of water-wheels in existing plants total 2.9 millions of kilowatt hours, its potential power is 12.0 million kilowatts hours. The per capita production at 2,800 kilowatt hours is the highest in the world, and

2 times that of the United States. This abundant supply has facilitated the development of the metallurgical and electro-chemical industries. Norway is a large producer of nitrogen fertilizers and was a pioneer in the utilization of nitrogen from the air, a process which is closely associated with the electrical industry.

Mining - The total value of ores and minerals produced in 1937 was approximately \$11 million, \$8½ million of which were accounted for by pyrites and iron ore; the balance consisting of copper, molybdenum, zinc and lead ores. The total production of metal and alloys was valued at \$42 million, of which \$10.5 million was accounted for by ferro-alloys, \$9 million by aluminum, \$5 million by nickel, and \$5 million by zinc, lead, and tin. Other metals produced were copper, pig iron, and silver. Over 300,000 tons of coal are produced in the Norwegian Arctic island of Spitsbergen.

Agriculture - Agriculture is primarily of domestic importance in Norway, only 6 percent of its exports being agricultural products. The problem of bringing more land under the plough is of prime importance in Norwegian agriculture.

A vivid picture of the hardships of this process is painted in Ernst Bamsun's Growth of the Soil. In the two years ending 1935 new land brought into cultivation totalled 44,000 acres. The chief crops are potatoes, hay, oats, barley, and wheat. In recent years the acreage of land under wheat has doubled, while that under oats

and dried grains has fallen. The estimated number of livestock in 1938 was: sheep 1,773,000, cattle 1,399,000, hogs 429,000, goats 47,000, and horses 193,000. In 1936, 391,000 silver foxes were raised.

In 1929 there were about 298,000 farming properties in Norway, 75 percent of which were under 25 acres, and nearly 7 percent were between 25 to 125 acres. Only 324 farms in Norway were more than 125 acres; sixty-two percent of the land under cultivation consists of farms under 25 acres, and 98 percent of farms under 125 acres. The intensive nature of Norwegian agriculture is further brought out by the fact that the yield per acre is more than twice as great as in the United States. In 1937, the average yield per acre of wheat in Norway was 31 bushels as compared to 14 in the United States. Yields per acre of other grains are: oats 62 bushels in Norway, 33 in the United States; rye 20 to 13; barley, 40 to 23; and potatoes 243 to 123.

Communications - There are 2,422 miles of railway in Norway, all but 212 miles of which are owned by the State. Ten percent of the railroad mileage is electrified. The rolling stock is of standard quality. Long distance trains have dining cars. Road passable for automotive vehicles total 25,000 miles or 201 miles per square mile of area as compared to one mile per square mile of territory in the United States. The number of registered automobiles on January 1, 1938 were 80,000, or one to every 34 persons. On

January 1, 1936 there were 67 radios per 1,000 persons as compared to 177 to every 1,000 inhabitants of this country. The Government of Norway owns 98 telegraph and telephone stations. The number of telephones per 1,000 inhabitants (70) is almost twice that of Belgium, but 30 percent less than in Denmark. There are summer air lines operated between Oslo, Bergen and Hammerfest and between Oslo, Gothenburg, and Copenhagen.

The relative importance of the main Norwegian industries is indicated by the following table:

Industry	Number of Employees (1937)
Food products	18,975
Machinery and metal work	42,110
Paper and pulp	17,664
Textiles	14,984
Wood	13,541
Chemical and electro-chemical	5,335
Clothing, etc.	14,235
Oils, soaps, etc.	3,375
Quarries and ceramics	8,457
Printing	6,335
Leather and rubber	3,704
Gas works	<u>835</u>
Total	<u>149,550</u>

National Income - In 1929, the national income of Norway totalled \$695 million and the income per head \$248. (The national income per capita in the United States in 1929 was \$650.) In 1934 national income of Norway was only \$494 million, but there has been substantial recovery since.

Education

Norway has a highly developed public school system. Education is compulsory up to the 14th year. There are in Norway nearly 6,000 public elementary schools, 146 secondary schools (12 private), 10 normal schools and a State University at Oslo. State aid amounts to about one-third of the total amount, \$14 million, expended annually in public elementary education in Norway, the rest being provided locally. Most of the secondary schools are co-educational. About 30,000 children, or one in every ten, attend secondary schools. The University at Oslo was founded in 1811; the enrollment in 1937 was 4,000.

Culture

The "ordinary literary language" of Norway is a Norwegian variety of the Danish language which came in during the union with Denmark (1380-1814). Up to the beginning of the 19th century, however, Danish in Norway was confined to the written language. During the 19th century, the upper classes developed a spoken Nowego-Danish, as it is officially styled, with Norwegian sounds and intonation and progressively influenced by the Norwegian popular idiom.

Norway's contribution to world literature has been on a scale far out of proportion to its size. The literary revival of the better half of the 19th century is particularly outstanding. Ibsen was probably the greatest single influence in European 19th century

drama. His plays continue to be a part of the repertory of the United States and European theater. In addition, Norway has produced many distinguished novelists such as Bjornson, Garborg, Hansun, Bojer, and Legred Undsaet. Grieg's music is internationally popular, and Abel was one of the greatest mathematicians of the 19th century, whose premature demise from tuberculosis was one of the supreme tragedies in the history of mathematics. Norway has played a prominent part in Arctic and Antarctic exploration, indulging in a healthy rivalry with the United States in polar expeditions. Its most famous exporers are Nansen and Amundsen.

2

The Political Situation in Norway

The Labor party is worthy of special notice. It is the largest party in Norway and its history since the war is a stormy one. It has suffered from successive splits and internal strife since the World War to a greater degree than any other Labor party in Scandinavia. These quarrels have reflected basic conflicts of policy between the revolutionary and the reformist wings of the Labor movement. The Norwegian party affiliated with the Communist International in 1921. This resulted in a split, with the moderate minority withdrawing from the party to form the Social Democratic party of Norway. The Majority party soon after fell into new quarrels, and split once more in 1923 into the Norwegian Communist party and the Labor party. The struggles between these three factions reduced the Labor movement to impotence between 1923 and 1927. After that period a measure of agreement was reached and the strength of the Labor party began to grow once more. The Communists remain a minority group excluded from the Labor party.

The Labor party's official policy closely resembles that of the British Independent Labor party (the left wing group of the British Labor Party). It is very conscious of its militant tradition and rejects all coalitions with moderate parties. High officials of the party have emphatically denied that their objective is a "middle way" between capitalism and socialism.

At the same time, the Labor party rejects with equal vigor any cooperation with the Communists. It refuses to accept the idea of a

People's Front, preferring to remain in power through short-run agreements with the Agrarian party. It hopes to win a clear-cut majority within the immediate future, and plans to carry out a program of socialization. However, the leadership of the party believes it is necessary to cooperate with the farmers in any case. This is considered to be the limiting factor in the application of the party program.

The Labor government has achieved substantial gains in furthering the welfare of the workers and farmers in Norway. It has not embarked on an ambitious scheme of public works and "compensatory" finance, but it has plans in this direction similar to those of the Swedish government. The Labor party proposes to divide the remaining large estates (of which there are not many) and to encourage independent small holdings. It proposes to bring the Shipbuilding, iron and steel, and the power industries fully under government control. It proposes to socialize the credit system and the insurance business, and to nationalize the great private forests. Foreign trade will be, under Labor plans, a State monopoly. Thus the socialized sector of the national economy will be made strong enough to dominate the private sector.

Whether this program can be carried out depends on the continued support of the farmers, a highly doubtful factor in the situation.

Norway is a democratic constitutional Monarchy. Its present constitution has evolved from the constitution of 1814, under which

Norway had a common King with Sweden and in part the same administration. Under these circumstances, the movement for separation and independence in Norway took the form of a struggle to limit the prerogatives of the King who embodied the Union with Sweden. This is part of the explanation why the King's powers are more closely defined and restricted in Norway than in Sweden. The movement for democratic constitutional reform which had made Norway under the Union among the most democratic of countries, was continued after separation.

In 1905, election to the Storting was made direct instead of indirect; in 1907 women were granted the right to vote; and in 1913 suffrage was made universal.

Norway has a single chamber, the Storting, of 150 members elected for four years. The political supremacy of the Storting is clearly recognized; the King can act only through his Ministers, and they must have the confidence of the Storting. In the early part of the 19th century, Norway's constitution was based on the doctrine of separation of powers. But with the rise in power of the Storting, Norway has developed in the direction of Cabinet government on the British model.

In the present Storting, as a result of the elections of 1936, there are four important political parties. The largest of these is Labor with 70 seats; then the Conservatives with 36; the Liberals 23; the Agrarians, 18.

At the extreme right of the parliamentary parties stands the conservative party. It is the direct descendant of the political groups which during the 19th century supported the monarchy and opposed the advance towards parliamentarism. The conservatives constituted the chief support of the King of Norway and Sweden in resistance to the attacks of the peasant groups. At present the Conservatives have acquiesced in the parliamentary system. The conservatives are hostile to the program of State controls and social security which has been pushed forward by the Labor party. It resists governmental interference with industry and attempts to build up a coalition with the Liberals to defeat Labor's program.

The Conservatives claim that they stand for national interests above party in contrast with Labor and Agrarians who represent narrow interest groups. The Conservatives believe in the slow growth of political institutions with the accretion of experience. They do not believe in theoretic experimentation along radical lines such as the program of the Labor party. The Conservatives are supported by business men, the Church, the larger farmers, shipping owners, many professional men, and by a sizeable part of the rural voters.

The Liberal party was, during the latter part of the 19th century, the leading champion of Constitutional reform in Norway. From 1884 to 1912, they won many sweeping electoral victories. Since that time, however, the Liberal party has declined. It has become

more and more conservative in outlook, and at present it cooperates on most issues with the Conservatives. With the final triumph of constitutional reform in 1913, the Liberals were faced with a major crisis of program. They failed to adopt their program to the aspirations of the masses of the voters, and as a result lost popular support. It is hard to make distinctions between their program and the Conservative program. The Liberals stand for slow and gradual political reforms achieved through common agreement and democratic methods. They are hostile to State socialism and lukewarm to social services. The Liberals are a middle-class party; they are supported by small business men, some farmers, professional people, and civil servants.

The Agrarian party has no support outside the rural areas. It is a small-farmer's party, interested in the protection of agriculture, a strong supporter of the Landsmaal in the language quarrel. In the years before 1935 the Agrarian party was conservative in outlook and policy and supported the Liberal-Conservative coalition in the Storting. In 1935, however, the Agrarians broke with the Liberals and Conservatives because of the failure of the coalition to take vigorous action to support agricultural prices. This left the Liberals without a majority in the Storting, but they refused to resign and remained in office until the new Storting met in March 1935. The Agrarians, in return for Labor support for their agricultural policy, agreed to support a Labor cabinet. But this alliance is not very solid. The Labor party will not enter a coalition government, and the Agrarians do not support the Labor government consistently.

3

Foreign Trade in Norway

1. Norway's exports have been at a higher level in the past two years than in 1929, although her unfavorable balance of trade remains about the same (\$100 million per year). The quantity of goods exported and imported is roughly one-third larger now than in 1929 but the prices are one-sixth lower.

Like most countries, Norway's exports in 1937 reached a peak and since then have been at a somewhat lower level.

Foreign Trade (In millions of dollars)

	Exports	Imports	Balance of Trade
1929	199	287	- 88
1936	171	232	- 61
1937	204	321	-117
1938	190	264	- 74

2. Norway exports a wider variety of goods than any other Scandinavian country, although the commodities are similar to those of Sweden and Finland. Maritime products and metals other than iron constitute one-third of her exports and wood pulp and paper constitute another third. Both of these classes of goods have grown less important in the past decade while metals, principally aluminum, zinc and ferro manganese, fur skins and nitrates have increased in importance.

Exports by Commodities

	1928	1937
Wood and wood pulp	21%	16%
Paper	13	10
Metals, other than iron	8	12
Fish and products	5	19
Ships	3	4
Fur skins	1	5
Nitrates	3	6
Other	<u>46</u>	<u>28</u>
Total	100	100

3. The United Kingdom is the most important customer of Norway. Germany is second.

Exports by Countries

	1928	1938
United Kingdom	26%	28%
Germany	14	15
Sweden, Denmark & Finland	10	15
United States	10	8
France	4	7
Netherlands	2	3
Belgium	4	3
Others	<u>20</u>	<u>21</u>
Total	100	100

4. Norway is importing less foodstuffs and textiles than she did a decade ago. Her imports of more metals, metal goods, fuel, machinery and vehicles have increased.

Imports by Commodities

	1928	1937
Foodstuffs	16%	11%
Metals and manufactures	13	19
Machinery and vehicles	8	11
Ships	10	11
Coal, coke and petroleum	8	10
Other	<u>45</u>	<u>38</u>
Total	100	100

5. The United Kingdom has increased its share of Norwegian market at the expense of Germany. The United Kingdom supplies one-half of the mineral imports and one-third of the textiles; Germany supplies the other half of the mineral imports, one-third of the manufactured metals and one-fourth of the machinery and apparatus imported into Norway.

Imports by Countries

	1928	1938
United Kingdom	19%	23%
Germany	21	17
Sweden, Denmark and Finland	16	18
United States	12	11
Other	<u>32</u>	<u>31</u>
Total	100	100

In 1938, we exported to Norway \$23 million, and imported \$16 million, giving us a favorable balance of trade of \$7 million.

Our sales to Norway have risen steadily since 1932 and this past year were \$2 million larger than in 1928, due to larger shipments of iron and steel, machinery, automobiles and cotton. Chemical wood pulp, canned fish, ferro manganese, aluminum, and saltpeter constitute the bulk of our imports from that country.

United States - Norway Trade by Commodities

	United States Exports to Norway	United States Imports from Norway
Fish and products		33%
Wood pulp		23
Metals		17
Saltpeter		14
Automobiles and parts	16%	
Petroleum and products	11	
Iron and Steel	9	
Machinery	8	

4

Business Conditions in Norway

The trend of industrial production in 1939 continued upward, though it was still slightly below the levels of the second and third quarter of 1938 (It was 126 on April 1939, as compared with 121 and 124 in the fourth and second quarters of 1938 respectively). The heavy goods industries, especially mining, iron and metal, and electro-chemical trades are again back at their 1938 peak (161 for 1938 as compared with 100 in 1933) but production in textiles and the pulp and paper industries have undergone marked declines, with prospects somewhat brighter since April. The timber industry had a record output in 1939, but the outlook has not been promising as the pulp industry has large supplies on hand. The State continues to support whaling and fishing, in which there is no definite sign of improvement.

The home market, which has been a major factor in the maintenance of production, has been supported by a substantial upturn in building. Residential building at the end of 1938 was nearly double that of the year, and the total building permits in the first quarter of 1939 is almost 2 1/2 times that of the corresponding period in 1938.

Shipping, whose gross receipts nearly equal the total value of exports experienced a decline of 11 percent in 1938, but in 1939 the freight index turned upward and there was a decline in tonnage laid up.

Both exports and imports for the first five months of 1939 were at the same level as in 1938, while total exports fell almost 5 percent in 1938, and pulp and paper exports fell 20 percent.

The number of registered unemployed fell from 34,000 in January 1939 to 25,000 in May, - a greater than seasonal decline, and is now slightly less than in May of last year.

Wholesale prices have been remarkably steady since the middle of 1938 (the index fell from 107 in the fourth quarter of 1937 to 101 in the third and fourth quarters of 1937 and is now 100).

The industrial share market which fell slightly in 1938, has since undergone a moderate upturn. Long-term interest rates have been steady since 1937 at $4\frac{1}{2}$ percent.

The 1938 harvest was large, but agricultural prices have continued to fall since 1938.

Norway - Business Activity

	Index of Production (1935 = 100)					Total build-	Wholesale	Number un-
	General production	Home industries	Export industries	Iron and metal industry	Pulp and paper industry	ing permits: index (1937 = 100)	price index (1929 = 100)	employed at labor exchanges
End of quarter:								
1937 - IV	121	121	123	146	115	83	107	33,900
1938 - I	118	122	111	146	100	129	104	34,100
II	128	136	115	172	89	184	103	22,900
III	127	139	104	169	94	120	101	26,100
IV	121 ^{1/}	124 ^{1/}	116	156	104	170	101	34,900
1939 - I	126	132	113	159	100	200 (est.)	99	33,200
April	126	135	110	169	91	-	100	25,000 (May)

^{1/} Seasonal; indices for November 1938: (1) General, 129 (2) Home, 137.

5

Norway: Agricultural and Social Legislation, Cooperatives, etc.

Agricultural Situation: The decisive feature of Norway's agrarian economy is the limited amount of cultivable land. Only 3 percent of the land is cultivated. Therefore, the government has enacted legislation to encourage homesteaders who receive state grants in aid and can borrow from a government bank at no interest for the first five years, and 5 percent after.

In the last generation 50,000 new homesteads have been established, and 2,000 new homesteads a year are set up.

The government also encourages farm ownership; 94 percent of the farmers own their own farms.

The government recently instituted a Loan Bank which enables agricultural debtors to convert up to 80 percent of their debts on favorable terms, no interest being charged for the first three years of the loan, and only 3 percent afterwards.

In order to regulate the supply of livestock, a tax has been imposed on stock foods, and by means of a system of refunds from the field of this tax, livestock production and prices are stabilized.

Agricultural Cooperatives: Farmers participate extensively in producer's and marketing organizations but also in consumer-cooperatives. The agricultural cooperative movement is most highly developed with respect to milk; 92½ percent of all milk goes through the hands of the milk pool, and 99 percent of the creameries are cooperatives. The eight milk pools fix the price of milk. Seventy-five percent of the animal raising farmers are in the cooperative marketing pool, and 25 percent of the egg production is cooperatively handled. There are six farmer purchasing cooperatives with 200 affiliated societies.

The state actively encourages agricultural cooperation.

Old-Age Pensions: By an Act of 1936 an advanced old-age pension system was inaugurated. It is financed not by beneficiary contributions but by a 1 percent tax on income. The state is setting up a Special Pension Fund which contributes 1/2 the cost of benefits, the rest being made up by 3/8 contribution from the state, and 1/8 contribution from the municipalities. Benefits run from a minimum of 200 kroner (\$188) in the cities and 600 (\$141) in the country, to as much as 2,100 (\$495) for an urban married couple. There is only one snag — benefits begin at the age of 70 years.

Health Insurance: Is compulsory for all gainfully occupied persons between the ages of 15 and 70, with incomes less than 6,000 kroner (\$1,410). The insurer pays 60 percent of the cost, the employer 10 percent, the state 20 percent, and the municipality 10 percent. The

average contribution per worker runs between 15 and 30 cents per week. Provision is also made for sickness and maternity benefits. Public hospital and health facilities are fairly highly developed.

Workmen's Compensation: Norway has long had a workmen's compensation system, the whole insurance premiums of which are borne by the employer.

The labor laws also require nine days' vacation with pay per year.

Unemployment Insurance: The workers' unemployment benefit societies receive a 50 percent subsidy from the state and municipality. Benefits are paid for periods up to 90 days in any fiscal year.

Collective Bargaining: The right to organize is recognized, but the unions are held legally responsible for the violation of agreements. A system of labor courts and mediation boards handles disputes with respect to agreements. Norway is the home of a classic experiment in compulsory arbitration which was abandoned in 1929 under opposition both from employers and employees. There are restrictions on the employer's right of discharge.

Trade union membership is 220,000.

Child Labor and Welfare: By an act of 1936 child labor under the age of 15 (except in forestry industries) is prohibited. Youths under 18 are excluded from certain occupations. In many municipalities free meals are provided for school children.

Housing: Municipal housing has made great progress. In Oslo 90 percent of the dwellings are owned either by the municipality or by low-profit cooperatives.

Rural housing developments are promoted by the government.

Consumer-Cooperatives: There are 500 nationally organized consumer cooperative societies with 150,000 families as members. Six hundred thousand people are regular customers of these societies. The national Cooperative Union also produces certain commodities. In addition there are hundreds of independent local cooperative societies.

6

Norway
Budget and the Outstanding Debt

Norway — like the other Scandinavian countries — operates under a so-called double budget. The receipts and expenditures on current account are kept distinct from those on capital account.

On current account Norway has had a surplus every year since 1933. On capital account she has been operating on a deficit of varying amounts as indicated in the table below. The deficit on capital account, however, has been less than half the surplus on current account.

(Millions of dollars)

	Receipts		Expenditures		Surplus or Deficit	
	Current	Capital	Current	Capital	Current	Capital
1932-33	66	4	66	10	-	- 6
1933-34	86	9	80	14	6	- 5
1934-35	89	13	82	16	7	- 3
1935-36	104	15	92	19	12	- 4
1936-37	121	15	100	25	21	- 9
1937-38	140	10	119	21	21	- 11
1938-39	133	8	120	21	13	- 5
1939-40	139	19	132	27	32	- 13

The "Extraordinary Crisis Expenditures" (called "extraordinary grants" after fiscal year 1938) are included in current expenditures. They are made for alleviation of unemployment and other depression phenomena. Notwithstanding these expenditures as indicated above there was a surplus each year. Despite the substantial increase in economic activity experienced since 1933 (in 1937 national income in Norway was up 39 percent from 1933 levels) a considerable amount of

unemployment still exists and it is interesting to note that in the "prosperous" year 1937 the extraordinary grants for relief, etc. reached their peak.

The figures for Extraordinary Crisis Expenditure are presented below:

(Millions of dollars)

Fiscal year 1934	\$ 3
1935	10
1936	18
1937	21
1938	17
1939 estimate	17

Capital outlay under the present government has risen considerably, from an annual average of \$12 million in 1929-1935 to an annual average of almost \$25 million for the years 1936-1940 (proposed budget for 1940). However, \$16 million of the capital expenditure in 1938 was due to reduction of the national debt.

According to statements of the Finance Minister in connection with the submission of the 1940 budget it is the view of the government that public works expenditure should be increased for the next few years. It is proposed that \$25 million be allocated in the next three years for additional public work projects — part of this total to be financed by loans. In the 1940 budget \$10 millions are to be spent for public improvements.

Public Debt

The outstanding debt of Norway is about \$360 million (1.4 billion krona). This debt has remained comparatively stable since 1920, having

risen only some 300 million krons or 20 percent in the last 19 years.

The labor government has been eminently conservative in its concern with the size of the public debt. An important conviction behind labor antipathy towards the public debt is the desire to free the State from dependence on the capital market and on banks. Financial dependence on foreign countries has been reduced.

In spite of the extreme conservatism with which Norway has managed its finances the present government is being criticised for its budget policy in that it is not accumulating a reserve to prepare for a depression period that may come in the future. Sweden is pointed to with approbation in contrast with Norwegian policy in this respect.

State Enterprises

The Norwegian Government is engaged in a variety of commercial ventures — the most important, from the standpoint of receipts are (1) grain monopoly, (2) state railways, (3) postal service (4) telegraph service. The lesser state enterprises are electric power works, military undertakings, naval wharves and state forests.

The State enterprises as a whole have operated at a deficit since 1932 averaging over \$10 million a year, which is due chiefly to the fact that they include in their working expenses an interest charge of 5 percent on their invested capital. New investment in state enterprises at the present time averages about \$10 million a year.

7

Norway's Banking Structure

Central Bank

Although its capital is only partly State-owned, the central bank (Norges Bank) is in fact State-controlled. Its Governor and Vice-Governor are appointed by the King, and the other three members of the Board of Directors, as well as the 15 members of the Board of Representatives (acting as an advisory body) are chosen by the Storting (Parliament).

As the sole bank of issue, the Norges Bank may place notes in circulation up to the value of its gold reserve plus a fiduciary which was raised in 1936 from \$60 to \$75 million, and again in May 1939 to \$100 million (Kr. 425 million). Notes now in circulation total \$110 million, only \$18 million below the maximum limit, and the volume is moving upwards. Some further extension of the fiduciary issue may have to be made, or the gold reserve increased either by revaluation (its statutory book value is \$28 million while its current value is \$53 million) or by transferring some of the \$27 million non-reserve gold held abroad to the gold reserve. The last measure was resorted to several times last year.

Until a few years ago, the Bank's principal means of influencing the credit structure was through alteration of the discount

rate, but in 1936 a law was passed allowing the Bank to perform open market operations as well.

Commercial banks

Outstanding features of the commercial banking system are its decentralization and lack of liquidity. While in Sweden, 4 out of 22 commercial banks carry on most of the business, in Norway 2 out of the 106 commercial banks (which are all joint-stock in form) hold 97 percent of total resources. As to non-liquidity, the fact that only 2½ percent of total resources of the principal joint-stock banks consist of cash, while 55 percent represent loans and bonds is partly explained by the high proportion (83 percent) of deposits which are time deposits.

The position of the joint-stock banks has materially improved in recent years. A flood of bank failures occurred in the 'twenties, following a rapid war-time expansion of the number of banks and heavy capital investment in industry (which placed the banks in difficulty in the post-war trade recession). In 1925, the Government was compelled to pass a law providing for public administration of banks in liquidation. At that time, the number of banks had fallen from 200 (1918) to 160, of which 33 were in liquidation. Further consolidation has taken place until now there is only one bank in liquidation out of 106 joint-stock banks.

Since 1936 there has been a tax on deposits with all banks (joint-stock or savings). In the year of enactment, the tax had a noticeable effect on money conditions. Bank deposits fell off during 1936, and the banks, selling bonds to realize cash, depressed bond prices; the resultant rise in interest rates led to the Norges Bank's raising of the discount rate to 4 percent during 1937, the banks' interest rates on deposits following suit.

An amelioration of conditions by the end of 1937 led to the return of the discount rate to $3\frac{1}{2}$ percent, where it now stands.

To assist the joint-stock banks in difficult times, a Guaranty Fund was set up last December; in 10 years it will reach \$4 million through annual guarantees by the participating banks. With total deposits in joint-stock banks now totalling \$245 million, this Fund appears to have little significance.

Other Banks

Decentralization also characterizes the savings bank system in Norway. There are 608 savings banks in free operation and one in liquidation. Similar to the Guaranty Fund for joint-stocks, there is a Guaranty Fund (since 1932) for savings banks, especially to assist such banks in country districts. Total deposits in the 157 larger savings banks, which have 82 percent of the business, are \$400 million. There are several mortgage banks, many of which are semi-governmental institutions, a large part of their capital having been provided by the State. The largest is the Norwegian Mortgage Bank (Kongeriket Norges Hypothekbank).

8

Norway - Foreign Exchange and the Money Market

1. Foreign Assets

Gold holdings and foreign balances of the Norges Bank and joint-stock banks rose from the depression low of \$80 million in 1933 to a record high of \$172 million last December; in May 1939 they amounted to \$165 million. There has been some buying of gold in London and transfer of the Norges Bank's gold and exchange from London to New York since the end of 1937. At that time no gold and only \$3 million deposits were located at the Federal Reserve Bank of New York. Now (July) the Norges Bank has \$11 and \$19 million of gold and dollar balances here. Joint-stock bank foreign balances have not varied much since 1937, and now stand at \$25 million. The Norges Bank's gold rose from \$65 million in 1933 to \$107 million in May 1939, while its foreign balances, after advancing from \$1 to \$50 million between December 1933 and December 1938 have since declined to \$32 million in May 1939.

2. Money Market

Money market conditions were easier in 1938 than in previous years. Interest rates reached an all-time low last November when the yield on $4\frac{1}{2}$ percent State-guaranteed bonds was $4\frac{1}{3}$ percent ($5\frac{1}{4}$ percent in 1929). This year, the yield has risen to

4½ percent. Volume of notes in circulation also rose to a record (\$120 million) at the end of 1938; in 1932 it was only \$75 million. Circulation is still at the record high, and the trend is upward.

Joint-stock bank loans have been mounting since 1936 (in which year the newly-imposed tax on deposits reduced the bank's balance sheets. The latter led the Norges Bank to raise its discount rate to 4 percent in 1937; after a recovery of deposits and loans in 1937 the rate was returned to 3½ percent in early 1938). Joint-stock loans now (May) stand at their highest level in several years (\$240 million). Joint-stock deposits, after reaching a post-depression high of \$240 million in October, 1938, have since declined to \$230 million. The tax on deposits still remains.

3. Exchange Rate

Norway depreciated its currency on September 28, 1931 shortly after the fall in the pound sterling. The exchange rate has been pegged to the pound sterling at the rate of 19.90 kroner to the £ since 1933. The current value of the kroner is \$1.235 which amounts to a depreciation in terms of gold since 1928 by 48 percent compared with 43 percent for the pound sterling and 41 percent for the United States dollar.

9

Norway - Balance of Payments

Shipping is by far Norway's largest source of foreign exchange. Norway's receipts from the carriage of merchandise belonging to foreigners has doubled during the past decade and each year since 1931 has exceeded in amount her unfavorable balance of trade. The outward movement of capital, which in 1937 amounted on balance to \$35 million, had ceased in 1938. Three-fourths of the funds exported in 1937 were short-term balances. In 1928, Norway was an importer of capital, principally on long-term account.

Balance of Payments

(In millions of dollars)

Net Receipts (+) or Net Payments (-)

	1938*	1937	1928
Balance of trade	- 74	-117	- 94
Shipping	+ 88	+120	+ 50
Interest and Dividends	- 20	- 16	- 19
Transfer of capital	- 1	- 35	+ 33
Sundry	+ 7	+ 48	+ 20

Norway's holdings of balances abroad and of foreign securities were larger at the close of 1937 than in 1928. The investment of foreigners in Norway was also larger but by a smaller margin. The net indebtedness of Norway on both long and short-term account was \$4 million lower.

* Estimated, except for Balance of Trade.

Balance of International Indebtedness
(In millions of dollars)

	1937	1938
<u>On short-term account</u>		
Assets	153	112
Liabilities	<u>169</u>	<u>161</u>
Net short-term assets (+) or liabilities (-)	- 16	- 49
<u>On long-term account</u>		
Assets	58	53
Liabilities	<u>418</u>	<u>404</u>
Net long-term assets (+) or liabilities (-)	-360	-351
Net indebtedness (-)	-376	-400

DENMARK

1

Denmark - General Information

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Denmark - General Descriptive Material

Geography

Denmark comprises the peninsula of Jutland and more than 500 islands floating about the sea between Jutland and the Scandinavian peninsula, of which 100 are inhabited. The smallest of the Scandinavian countries, it has an area of 14,600 square miles or about the same as Massachusetts and New Hampshire combined. The eastern side of Jutland and the Baltic Islands are most favorable to human settlement. The west of Jutland presents a smooth dune-bordered coast to the North Sea. There are no natural harbors, Esbjerg being artificially created to handle the trade with the British Isles. The soil in this region is infertile, and here is found most of the unproductive land of Denmark - largely moor, heath and peat bog. The eastern shore has numerous inlets affording deep and safe anchorage. Hence the outlook of Denmark is normally to the Baltic and to the Continent rather than to the North Sea. Much of the area consists of low undulating plains.

Population

Denmark has a population of 3.8 million. The population of Denmark is multiplying at the rate of 1.057, a decline of 25 percent since 1921-25. In 1937, there were 18 births and 10 deaths for every thousand inhabitants. (Nine percent of the children born in 1937 were illegitimate.) The religion is predominantly

Lutheran. Illiteracy is non-existent. Fifty-four percent of the population live in rural districts, although Denmark is much less of a farming country than is generally supposed. In 1930, there were as many persons employed in industry and handicrafts as in agriculture and industrialization has made further progress since then. These two main groups of occupation each provide a means of livelihood for 30 percent of the population. Shipping and commerce account for 17 percent. The only large city is the capital of Copenhagen, which has a population of 843,000 - approximately the same as Baltimore. Other cities with populations of more than 40,000 are Aarhus (90,000), Odense (76,000), and Aalborg (48,000).

Natural Resources and Economic Activities

Agriculture remains the mainstay of Denmark's national economy in spite of the steady advance of industry during the past half century. Approximately 75 percent of the land area is under cultivation, of which 41 percent is devoted to the growth of cereals and 43 percent to green crops and grass fields. The principal crops are potatoes, sugar beets, and oat barley. Farming in Denmark is subsidiary to stock-raising. The number of livestock per head is higher in Denmark than any other European country with 45 cows and 84 pigs per 100 inhabitants in 1935. At present animal husbandry accounts for about 86 percent of the gross yield of the small and medium-size farms which form the backbone of Danish agriculture. Of

the 205,000 farms in Denmark in 1935, 52 percent were less than 25 acres and 45 percent from 25 to 125 acres. The small holdings equal in number the larger farms and estates, but comprise only one-sixth of the land. An exceptionally large number of farms in Denmark are operated by owners, but the farms are burdened with an exceptionally heavy debt burden (estimated a few years ago at \$800 million with an annual interest payment of \$40 to \$50 million. About 40 percent of the people engaged in agriculture are landless, rural laborers. Denmark is not self-sufficient in foodstuffs, either for human consumption or for animal consumption. In 1938, Denmark imported \$61 million of foodstuffs, approximately two-thirds of which was animal-foodstuffs. On the other hand, for every farm in Denmark, produce to a value of \$1200 is exported annually or \$40 per acre of tilled land. The prosperity of the country is dependent upon its agricultural export trade. There are at present 1,411 cooperative dairies with a membership of 190,000 and 62 cooperative bacon factories with 187,000 members. The turnover of these two groups of cooperatives in 1936 amounted to \$20 million. Approximately 90 percent of the butter and 85 percent of the bacon exported from Denmark are handled by cooperatives.

The merchant marine of Denmark consists of 2,000 vessels of 1.2 million registered tons gross. Like the Norwegian fleet, Denmark has a large number of ships designed for special trades,

principally tankers and special fruit boats. The Danish ships engage extensively in the carriage of merchandise between foreign countries. About 70 percent of the gross freight receipts earned in foreign trade by the Danish merchant fleet is earned on freights carried between foreign ports. Internal communications are good. The various districts are connected by rail and a system of good roads is worked by bus service. Denmark has 3,000 miles of railroad open for traffic, of which 1,500 belong to the State. The dense system of railways in Denmark (1 mile of railway per 55 square miles of area) is exceeded by only a few countries of Europe. The ratio for the United States is 1 to every 7.5 square miles. In Denmark, diesel engines have been extensively adopted for passenger service on the main lines. Denmark has about 33,000 miles of roads passable for automotive traffic. There are 145,000 automobiles in Denmark, or approximately one to every 26 people, as compared to one for every five people in the United States. Buses are now running in conjunction with railroads and steamships. Automobile services are operated all the year round. There are 109 licensed holders of radios in Denmark to every 1,000 inhabitants (177 out of every 1,000 in the United States.)

The telephone network in Denmark is more extensive than in any other European country. There is one telephone to every 10 inhabitants as compared to 1 for every 7 in the United States.

Fishing provides employment for 23,000 Danes (18,000 regularly). The fleet in 1936 consisted of 16,000 boats. The catch was valued at \$9 million and consisted principally of herring, mackerel, cod and flat fish.

Industry in Denmark works primarily for the home market and is to a large extent merely an accessory to the thoroughly mechanized farming process. Important food processing industries in addition to the dairying and slaughtering industries are the manufactures of beet sugar, beer, vegetable oils, and margarine. The tobacco industry is in a position to meet the demand of the home market. The machinery and metals industry has made rapid progress in Denmark, even though they are completely dependent upon foreign sources of raw materials. Denmark has no coal, iron, oil, potash, cotton, rubber, timber or tobacco. The index of the volume of production for the metal industries was 34 percent higher in 1938 than in 1928. All industrial production was 46 percent higher. Denmark produces agricultural machinery, dairy and slaughtering utensils. The Danish automobile industry is devoted principally to the assembly of parts imported chiefly from the United States and Great Britain. The manufacture of Diesel engines, both stationary and marines, is a leading industry. Diesel motors and Diesel ships are in such widespread use that Denmark, the native home of the Diesel engine, leads the world. The cement industry is one for which the raw materials - clay and lime - are indigenous. The cement industry

has not recovered to the pre-depression level; volume of production in 1938 was 20 percent below the 1928 figure. Sixty-eight percent of the cement produced in 1937 was exported.

Machinery for cement machinery is one of Denmark's specialities. Denmark produces about 70 percent of the woolen fabrics consumed, 80 percent of the cotton yarn and 50 percent of the cotton cloth. The production of textiles in 1937 was 75 percent above the 1928 level; the production of cotton yarn was up by 100 percent.

Education

Education is compulsory in Denmark for children between the age of 7 and 14. Excepting the private institutions (17 percent), the lower schools are maintained by the local communities. The Central Government supports only 34 out of the 4,500 lower schools in the country. Only a minority of the children pass on to high school. Only about one out of every sixty inhabitants attend a school of higher education. The University of Copenhagen has an enrollment of about 5,200 students, of which somewhat more than one-third are women. The University of Aarhus has about 400 students. Denmark's contribution to education is generally considered to be the folk high school, of which there are 58 with about 5,700 pupils. They are open to young men for five months, November to May, and during the three summer months for girls and women. The students range from 18 to 30 years of age. In the

course of years about a third of the whole rural population has attended these schools. The folk high schools are not vocational nor specialist; for the most part they teach liberal subjects. The State's contribution to the folk high schools covers roughly 50 percent of the teachers' salaries (which are very low, thus necessitating the carrying of excessively heavy teaching loads if the salary is to equal those of ordinary grammar school teachers), 25 percent of the principal's salary as teacher, 35 percent of the cost of materials, and 10 percent of the expenses of maintenance.

Culture

Danish scientists have made fundamental contributions to the progress of modern science. The name of the greatest living theoretical physicist, Niels Bohr of Copenhagen, is closely associated with the modern theory of the atom. Fibinger was the first man to transmit cancer to rats, thus making possible the development of cancer research. Danish drama and paintings since 1933 have been increasingly censored to avoid giving offence to Germans.

2

Denmark: Political System

Denmark is a constitutional monarchy, whose constitution is laid down by the fundamental law of 1915. The present King of Denmark is Christian X. The legislative power is vested in the Rigsdag and the King. The Rigsdag is composed of the Folketing (House of Representatives) and Landsting (Senate). All persons over 25 are eligible to vote in the Folketing elections, and over 35 in the Landsting elections. The Folketing has 169 members, who are elected for a four-year term on a system of proportional representation. The Landsting has 76 members, elected for eight years; 57 members are indirectly elected on a complicated system of proportional representation, and 19 by the outgoing Landsting. The executive power is vested in the King and the Ministry; actually it is largely exercised by the Ministry, consisting of members of the majority party or group of parties. There are 220 noble families in Denmark with privileges mainly of social rather than legal significance.

Political Parties:

The following table shows the relative strength of the political parties in the last elections:

	<u>Folketing (1935)</u>	<u>Landsting (1936)</u>
Social Democrats (Government)	68	31
Radical Lefts	14	7
Liberal Lefts	29	22
Conservatives	26	15
Schleswig	1	
Justice Union	4	
Communists	2	
Free Peoples	5	
Independent		1

There are four significant political parties. The Social-Democrats with 68 members in the Lower and 31 members in the Upper House are the largest party, though they have never attained an absolute majority. They are the predominant partner in the Government, with 9 out of 12 members of the Cabinet. In the 1935 elections they polled 46 percent of all votes cast. Most of their support comes from the laboring population and the small farmers. They are the political vehicle or counterpart of the trade union movement and are also closely connected with the consumers' co-operatives. In policy they are moderate constitutionals, or "pink" socialist, somewhat to the right of the British Labour Party. Their program calls for Government control of industry, the maintenance of the living standards of the laboring classes, the division of the large estates (2½ percent of the farms occupy one-sixth of the area under cultivation), the abolition of the Landsting, and universal disarmament. Their leaders are often able administrators, but their interests are largely confined to the narrower local and national issues. They are strongly opposed to the Communists, who have 2 members in the Folketing, and are numerically weak, and to co-operation with Communists. The left wing of the party and its youth organizations are strongly opposed to the dependence of the older leaders on the Radical Lefts, and favor a more actively anti-Nazi policy. It is significant that the Swedish and Norwegian Labor Parties have, in spite of their party solidarity with the Danish Social-Democrats,

criticized it for its subservience to Nazi Germany.

The leader and grand old man of the Social-Democratic Party is Mr. Stauning, who has been Premier for the last ten years. They hold office by virtue of their coalition with the Radical Lefts, who have 14 members in the Lower and 7 members in the Upper House, and a disproportionately large share of the Cabinet portfolios — 3 out of 12 Cabinet seats. Though they command only 9 percent of the votes of the electorate, they actually hold a key position in the Folketing, as not only does the life of the Government depend on them, but no workable parliamentary majority can be achieved without their support. The Radical Lefts draw their support from the small peasantry, but their leadership is recruited from the urban intelligentsia. With the combined vote of these two parties the Government has a working majority. The Radical Lefts exercise a traditional monopoly in the management of foreign policy, in which sphere their main planks are ultra-pacifism, unilateral disarmament, and free trade. In fact, the Radical Lefts control both foreign policy and defense, and have pursued a program which is no less than surrender of position after position to Germany. The few weak attempts the Social-Democrats have made to secure greater independence from Germany, such as Stauning's overtures to England in April 1937, have been crushed by Dr. Munch, the Foreign Minister and leader of the Radical Lefts.

The two main opposition parties are the Liberal Left, with 29 members in the Folketing and 22 in the Landsting and the Conservatives with 26 members and 15 members in the same bodies. The Liberal Lefts represent the landowners, and business and professional groups, while the Conservatives represent the large landowners, and the industrial and financial groups of the cities. The differences between the two parties are not very significant. In municipal politics, the Social-democrats are in a majority in the urban areas, and the Liberal Lefts and Conservatives in the rural areas.

The two main opposition parties and the Liberal Lefts with 29 members in the Folketing and 22 in the Landsting, and the Conservatives with 26 and 15 members in the same bodies. The Liberal Lefts represent the landowners, and business and professional groups, and support the present bicameral system, the union of Church and State, and individualism as opposed to state control of industry and socialism. They constitute an agrarian and right of center group, whose outlook on world affairs is very much a butter and bacon, and when they were in office before and during the war, left the conduct of foreign affairs to the radical Lefts, who then as now were pro-German.

The Conservative party represents the large landowners, and the urban industrial and financial groups. Its program is to the right of but not substantially different from the Liberal Lefts in foreign policy one wing of the party is strongly Nationalist and favors withdrawal from the Nazi orbit but another equally powerful section is

pro-fascist and pro-German. (In October 1938 the independent conservative journalist Bluedel was fired from the editorship of the conservative journal Berlingske Tidende after a demarche from the German envoy in Copenhagen).

Fascist movements in Denmark

There is a powerful Fascist movement in Denmark based first on German Nazi organizations in South Julland and the rest of Denmark, second on Danish Nazi groups, and third on the large landowners' exploitation of the agrarian crisis. The German Nazi organization, the Landesgruppe Danemark, is run by the foreign department of the Nazi party and has an extensive hold on the 20,000 German residents of Denmark and 30,000 German inhabitants of South Julland. The Landesgruppe is operates with the German Labor trend which is extremely powerful in South Julland. No German employer in Denmark hire anybody not recommended by the Labor Front.

The Nazis have developed an extensive espionage service, in which so-called German newspaper correspondents participate. There are ten German newspaper correspondents stationed in Copenhagen (There are only one French, one British, and no American journalists in Copenhagen) one of whom is a notorious political assassin. Their conduct is highly irregular. In November three of them were involved in a sensational espionage unmasked by the Danish police when they arrested 9 Germans and 3 Danes implicated in a farflung naval, aeronautic, military, radio, and political spy organization. Its main purpose was to compile information about the movements of British shipping, but it "practiced" by reporting the movements of Spanish and Russian ships through the Baltic

and coordinating the activities of Franco armed trawlers in the North Sea. Hitherto the Danish police had treated the Nazis with extreme lenience, and even in this case no mention was made of the chief ringleader, who enjoyed diplomatic immunity.

There are a number of Danish Nazi organizations, all more or less linked with the German Nazis, and with a total membership of about 50,000. Though they unite in their hatred of Jews, Bolsheviks, and Liberals, they are fanatically factional. The most important of these is the D.N.S.A.P with a membership of 10 - 15,000, led by the Russianized Dr. Clausen, who enjoys the full confidence of the German Nazis. His movement is strongest in South Jutland, like the Nazi groups in the other Scandinavian countries, where it co-operates with the local German Nazis, even to the extent of admitting armed German groups into his faction and calling for a compromise with Germany on South Jutland, which has in fact been the party's undoing. The other important Danish Nazi Party is the so-called Danish Socialist Party led by Wilfred Petersen who recruits his membership from the lumpen urban elements. His speciality is rowdyism, terrorism, and espionage. In October, 1938, he and ten of his henchmen were arrested for blackmail.

The Danish Nazi parties have suffered a decline since 1933-34, but for the encouragement and subsidies received from Germany, and the leniency of the Danish Government would have probably been defunct by now.

but the main Fascist or semi-Fascist grouping in Denmark is the Landbrugernes Samenslutning (L.S.), or Danish Farmers' Union, which regarded by some observers as the most dangerous indigenous source of Fascism in Denmark. It started in 1931 in the depth of the agrarian crisis with the ostensible purpose of promoting the interests of all farmers, but extra-parliamentary means it necessary. Its total following ranges from 150 to 200,000, its July annual meeting alone being attended by 60 - 50,000 farmers. It has secured a strong ground on the big Danish co-operatives. The L.S. is heavily financed and largely controlled by the Estate Owners' Union (M.F.) a club of large landowners, bankers, nobles, millionaires, Nazis and Germans. This club corresponds to the sinister Herrenklub which played a prominent part in German Fascism's coming to power. Prominent both in the U.S. and the L.S. are Count Knuth (also a member of the D.S.N.A.P.) and Jorgen Sehested, both of whom are closely identified with the direct action tendency in the Farmers' union. They organized the huge farmers' march on Copenhagen in 1935, the setting up of farmers' militia in 1936, and numerous farmers' strikes to withhold meat and milk supplies from the country, and are instilling a spirit of violence, lawlessness and Anti-semitism into what was once a law-abiding organization. They are not alone in the Danish aristocracy which is by now heavily infected with Nazism. The youngest Fascist organization in Denmark is the secretive National League founded in June 1938 to serve as a clearing house for all Danish Fascist organizations. Its model is the Cagoulards,

and its leader Auditor-General Victor Purschel, a conservative member of Parliament. The Conservative youth organization (the K.U.) is rapidly becoming a para-military group under his sway, and takes the German S.A. as its example.

3

DENMARK FOREIGN TRADE

1. The only Scandinavian country in which foreign trade has not recovered to its pre-depression level is that of Denmark. The quantity of exports in 1937 is actually 10 percent lower than the quantity of exports in 1931 or 1932. The rise in value of Danish exports is entirely attributable to the improvement in prices for agricultural products since that time. The unfavorable balance of trade of Denmark, however, has been cut in half in the past decade.

Foreign Trade of Denmark

(In millions of dollars)

	Exports	Imports	Balance of Trade
1928	414	465	-51
1936	294	320	-26
1937	340	364	-24
1938	334	355	-21

2. Agricultural produce, chiefly meat, butter and eggs, constitutes 75 percent of the value of Danish exports. Meat and butter are the two most important exports and together account for 50 percent of the total. In the past decade these two items have diminished in importance but the effect of the total has been offset in part by an increased value of exports of eggs, live cattle and vegetable oils. Exports of industrial produce have also increased, such items as metals and manufactures, machinery, vehicles and ships.

Exports by Commodities

	1928	1938
Meat	31%	25%
Butter	31	25
Eggs	6	9
Live cattle	5	5
Vegetable oils	2	4
Metals, machinery and vehicles	6	7
Ships	2	4

3. The United Kingdom takes 55 percent of Denmark's exports and Germany 20 percent. The United States is unimportant to Denmark as an export market, taking only 1 percent of the total of her exports. Germany and the United Kingdom together take all of Denmark's agricultural exports. What England does not take, Germany does.

Exports by Country

	1928	1932	1938
United Kingdom	56%	64%	56%
Germany	21	13	19
Sweden, Denmark and Norway	12	9	10
United States	.6	.5	1
Other	10	13	14

The reduction in the United Kingdom imports from Denmark between 1932 and 1938 is due to England's policy of imperial preference adopted under the Ottawa agreements of 1932. The reduced purchases by England of agricultural produce induced Denmark to dispose of a larger quantity of her production to Germany. Exports of Germany are on a barter basis, and the manufactured goods imported under the German-Danish agreement are in competition with the domestic industries in Denmark and have been a factor in the rising unemployment in Denmark. The trade agreement between Denmark and Germany signed in 1936 committed Denmark to pay a fixed sum of \$10 million annually in free currency to Germany in anticipation of an unfavorable trade balance. These payments have been made although the trade balance has not occurred.

4. Denmark imports grains, foodstuffs, fuel, metals and machinery. Like the other Scandinavian countries, Denmark has increased sharply her imports of metals and metal goods, machinery and vehicles, coal and coke, while her imports of grains and foodstuffs have declined.

Imports by Commodities

	1928	1938
Grains	11%	7%
Other foodstuffs	17	10
Coal, coke and petroleum	9	15
Iron and steel products	3	7
Machinery and vehicles	5	10
Wood and manufactures	4	4

5. United Kingdom has doubled its share of the Danish market, chiefly at the expense of Germany, United States and France. The trade agreement between England and Denmark following the Ottawa agreements successfully increased England's share in the Danish market. The United States sold Denmark almost as much as did the United Kingdom in 1928 but her share was reduced to only 8 percent in 1938.

Imports by Country

	1928	1938
United Kingdom	14%	35%
Germany	33	25
Sweden, Norway and Finland	9	11
United States	13	8
France	4	1

6. In 1928 our exports to Denmark were \$25 million and our imports \$3 million, giving us a large favorable balance.

The important items in our exports to Denmark are automobiles, cotton and wheat. The only significant import is vegetable oil.

4

Business Conditions in Denmark

Business conditions continued to improve in 1939, the general index of production attaining a record level. (It was 116 in May 1939 as compared with 109 in the second quarter of 1938. The recession in 1938 was extremely mild, but the index of production rose only 9 percent from 1935 to 1937 - a much smaller expansion than that of the other Northern countries.) Except in shipbuilding and the machine trades, recent industrial recovery is largely based on the maintenance of the home market both in investment and consumption goods. Since mid-1938, Denmark has in common with the other Scandinavian countries experienced a recovery in building activity. In June 1939, 122,000 tons of shipping were being built, or 15,000 tons more than in June 1938, and the freight index continued to rise. Unemployment, which reached a peak of 161,000 in December 1938, was down to 93,400 in April 1939, or about the same level as in April 1938.

Wholesale prices fell 5 percent from 1937 to 1938, but have been stable since the summer of 1938.

Industrial share prices have registered slight advances in 1939, and long-term interest rates are steady at 4-1/4 percent.

The last two agricultural harvests have both been abundant. In spite of the fall in agricultural prices in 1938, the value of agricultural exports (70 percent of total exports) was only just under its 1937 level. Largely owing to the recent recovery in world agricultural prices, the value of Danish agricultural exports in the first four months of 1938 was 5 percent higher than for the corresponding period in 1938.

Denmark - Business Activity

	Index of Production (1935 = 100)				Wholesale price index (1929 = 100)	Number unemployed at labor exchanges 1/
	General production	Production of consumer goods	Production of investment goods	Production of investment goods		
End of quarter:						
1937 - IV	104	101	106	111	168,900	
1938 - I	108	107	109	107	119,700	
II	109	109	108	103	86,600	
III	108	108	107	102	89,200	
IV	109	108	110	102	161,300	
1939 - I	113	110	116	101	122,000	
April	116 (May)	111	119	103 (May)	93,400	

1/ Membership of Trade Unions: 475,000, of which 80,750 out of work in April 1939.

5

Denmark: Agricultural and Social Legislation, Cooperatives, etc.

Agricultural Situation: The most important economic problem facing Denmark is the serious plight of the farmers. In 1937 the Board of Federation of Danish Farmers told Premier Stauning that the plight of agriculture "was the most serious for many generations".

Denmark is a highly mechanized agricultural country, and is to a great extent dependent on the capacity of its foreign markets — chiefly England and Germany — to absorb its agricultural products. The Ottawa Imperial Preference program and the Agricultural quota system of England constitute a major threat to the stability of the Danish economy as serious as that of the Eighties, when the United States emerged as a great wheat exporter. While there has, of course, been some recovery in the last few years, it would appear that as a result mainly of British protectionism Denmark is confronted with a chronic agrarian crisis, which may demand a reorientation of the whole economy, especially with respect to butter production.

The agricultural crisis has provided fertile ground for a native nascent Fascist movement, in which the Landbrugernes Dannelselutning or Danish Farmers' Union plays an active part. Danish farmers were prominent in the demand for a trade agreement with Germany, but the treaty as consummated was most unfavorable to Denmark. Denmark pays Germany a Talata tribute of 50 million kroner per year in the sterling exchange, and when she accumulated a surplus on the clearing movement Schacht demanded its liquidation via German exports which she didn't really need or which competed directly with Danish industry.

One of the most pressing aspects of the farm problem is the debt issue. The Danish Government has always encouraged farm ownership — 90 percent of Danish farmers are landowners. The Government has provided liberal credits up to 90 percent of its value for the purchase of land, so liberal that the system has focussed the spotlight on one of the most serious disadvantages of farm credit, the purchase of land at inflated prices. Partly as a result of this, and partly as a result of the world agrarian crisis, the Danish agricultural debt stands at 4 billion kroner (over \$800,000,000) or 20,000 kroner (over \$4,000) per head for the 200,000 Danish farmers, with an interest burden of 200-250 million kroner (\$40-\$50,000,000) per annum. Fifty thousand properties carry debts of 85-110 percent of their mortgage, and 60,000 of more than 110 percent of their mortgage. Foreclosures reached a peak of 2,029 in 1932, but have since declined to less than 600. In 1936 a debt reduction bill was passed which eased the burden of debt, but much remains to be done.

The government regulates the slaughter of cattle and pigs. There is a tax of 20 kronor (\$418) on the slaughter of full grown cattle, the yield of which is used for the disposal of surplus commodities. The Butter Bill of 1938 prope the price of butter. There are also export subsidies for certain agricultural commodities.

Agricultural Cooperatives: Denmark is the classic home of agricultural cooperation. There are 1,411 cooperative dairies with 190,000 members, and 62 cooperative slaughter houses, with approximately the same number of members, 1,500 fertiliser supply associations, with 55,000 members, and 1,700 animal breeding societies with 54,000 members. The cooperative dairies and slaughter houses respectively handle about 90 percent of the butter and 85 percent of the bacon exported, and their annual turnovers are 570 million kronor (about \$119 millions) and 440 million kronor (about \$92 millions).

The farmers also participate extensively in the consumer-cooperative movement. It should be noted that the large landowners play a prominent part in the cooperative movement. Over 1,000 of the cooperative dairies and 54 of the 62 cooperative slaughter houses are affiliated to the Danish Farmers' Union, the incipient agrarian fascist movement.

Consumer-cooperatives: Membership of consumer societies, like that of the producing and selling cooperatives, is largely recruited from the farming class, so that the whole Danish cooperative movement is predominantly agricultural.

Old-Age Pensions: Denmark has had an Old-age Pension system since 1901. In 1937 the age for eligibility for benefits was reduced from 65 to 60. There are no individual contributions, the state paying 4/7 and the municipality, 3/7 of the cost. The benefits range from 1,086 kronor (\$227) in Copenhagen to 912 kronor (\$190) in other towns, and 702 kronor (\$146) in the country. The benefits now are adjusted to changes in the cost of living.

In 1935 78 million kronor were paid out in benefits to 140,000 people, or half of the population over 65.

Health Insurance: Two-thirds of the population are members of private Group Health Associations, which receive state subsidies. In 1933 the National Insurance act enforced compulsory contributions to the 1,600 existing sick benefit clubs, which also receive state subsidies. The same act also provides for maternity benefits and disability insurance, for which the annual premium is 7.20 kronor (1.50) per employee and 6 kronor (\$1.25) per employer. Every county has a public physician, and socialized medicine has made considerable progress.

Workmen's Compensation: The employers pay all the costs of insurance for occupational disease and injury, and the scheme covers all employed labor.

Unemployment Insurance: There are 70 approved unemployment benefit societies, usually run by the trade unions, with over 400,000 members. More than half the contributions are made by members, almost a third by the state, and the residue by municipalities. The employers do not contribute. Benefits extend from 90 to 150 days and amount to a maximum of 2/3 of the average wage in a given trade. Since the crisis the government has established a state unemployment fund which provides emergency relief, enabling the benefit period to be extended to as much as nine months.

There is a national system of labor exchanges.

Collective Bargaining: The Danish system is very similar to the Norwegian. The right to organize is legally recognized, but unions are held equally responsible with employers for violations of agreements. Labor courts settle disputes about agreements, and mediation boards fulfill the arbitration function. In 1936 a special arbitration board was given plenary power to settle a strike of nation-wide importance.

The trade unions have a membership of 475,000.

Child Labor and Welfare: Child labor is prohibited under the age of 14, but the exceptions are so sweeping as to render the prohibition negatory. Night labor for people under 18 is prohibited. The Public Assistance Act of 1933 provides benefits for orphans, illegitimate children, and children of parents of relief. The scheme is municipally financed.

Housing: Since 1898 the government has advanced loans to building associations, and in the post-war period has given subsidies in the form of grants and low interest rates to municipal, cooperative and private projects. By an Act of 1933 the government can make loans to municipalities and cooperatives up to 95 percent of the total cost of their projects and to private ownership up to 70 percent. Municipalities are allowed to grant housing projects tax exemptions. They have also sponsored housing projects. One-fifth of the population of Copenhagen is housed in dwellings which have been constructed and operated under public or collective ownership.

6

Budget and Outstanding Debt of Denmark

Denmark — as the other Scandinavian countries — operates under a double budget. On current account she has had a surplus until last year but the capital account is so complicated that from our brief study we have been unable to determine whether Denmark is increasing its expenditures on capital account. The fact that its outstanding debt has not been increasing and has even gone down slightly in the last year would seem to indicate that capital expenditures, whatever their amount, are less than the budgetary surplus on current account.

In the last six years both expenditures and receipts have increased over 60 percent. The surplus on current account has been used (1) to build up a crisis fund of \$4 million out of which loans are made for farm relief, (2) to increase investment in state enterprise and (3) to reduce the national debt by \$2 million.

The largest portion of the increase in current expenditure is attributable to the expansion of "Social Services". Social expenditures have risen over \$20 million since 1932-33 chiefly as a result of the passage of the Danish Social Law of 1935 with subsequent amendments. The law transferred financial responsibility for expenditures such as for maintenance of widows and children from the municipalities and communes, who were experiencing fiscal difficulties, to the central government. It also lowered old age pension limits, made sick

benefit insurance compulsory and authorized much larger state contributions to sick benefit societies and to unemployment funds. Farm relief appropriations have gone up considerably over the early 1930's.

State Enterprise

The Danish Government engages in a wide variety of commercial operations, ranging from ownership and operation of railway system to the maintenance of a nation-wide chain of pawn shops. The extent of participation varies from outright ownership and control in some fields to minority share holding in others.

(1) The Government owns and operates the Postal, Telegraph and Telephone systems.

(2) The Government owns docking and harbor facilities.

(3) The Government rents out and operates agricultural and lumbering enterprise.

(4) A variety of smaller commercial undertakings are also engaged in.

The increasing outlays have been financed by the raising of existing tax rates and the imposition of extraordinary taxes both direct and indirect. New investments and operating expenses of state enterprise have exceeded revenue by over \$10 million a year.

7

Denmark Banking Structure

Central Bank

The question of a state central bank versus a private central bank has played an important part in the history of the Danish banking system. In 1936 the state assumed control of the central bank which had operated as a private institution for over 118 years.

The formation of the new bank is in keeping with the general development of the last five years which has witnessed a gradual increase of state control over the country's economic activities. The private shareholders of the old central bank secured in exchange for their shares, special bonds issued by the new bank and guaranteed by the government. The special bonds are to be redeemed in 1948 and the complete control and ownership of the new bank will then pass to the government.

Until 1948 the management of the central bank is placed in the hands of a board of 25 members, 8 directors to be elected by the Riksdag from members of that body, an economist and a lawyer appointed by the Minister of Trade and 15 directors chosen by the bondholders.

Ever since the depression government influence dominated the policy of the old central bank, and the placing of the central bank under the government jurisdiction will bring about little actual change other than the fact that the responsibility, as well as the control will now be in the hands of the State.

A significant change in the new central banking law is the reduction of the gold reserve from 50 percent to 33-1/3 percent of the note circulation.

Commercial banks

Of the 161 commercial banks, the three large Copenhagen banks — Den Danske Landmandsbank, Kjobenhavns Handelsbank and Privatbanken i Kjobenhavn — transact more than half the business. Deposits in all the banks total \$450 million, of which over 70 percent are time deposits.

Savings and Mortgage banks

Of the 522 savings banks, with total deposits of Kr. 2,200 million, three carry 30 percent of the deposits. The mortgage associations carry in their name either "kredit" or "hypothek" depending on whether they deal in first or second mortgages. They issue bonds which are amortized as mortgages are repaid. There is a special Hypothekbank which relates the Danish to foreign money markets by floating loans abroad, proceeds of which are used to buy "kredit" association or State-guaranteed bonds; it is thus a factor of support in the bond market.

8

Denmark - Foreign Exchange and the Money Market

1. Foreign Exchange Assets and Gold

Gold holdings and foreign balances of the central banks and commercial banks amounted to \$85 million in May 1939. No gold is held under Aarmark in the United States. Denmark has \$15 million of gold balances in this country.

The gold holdings of the central bank have remained practically constant since 1935 and now amount to \$53 million. The foreign balances of the central bank have increased from \$3 million at the end of 1936 to \$13 million in May 1939. The foreign balances of the commercial banks have also increased in the same period from \$14 million to \$22 million.

2. Money Market

The abundance of money which characterizes the other three Scandinavian countries has not been as evident in Denmark.

In contrast with the other Scandinavian countries the government bond yield has risen since 1934 from 4 percent to 4½ percent and the government has experienced serious difficulty in floating long-term issues.

Notes in circulation, commercial bank deposits and loans have risen since 1936 but not as rapidly as in the other Scandinavian countries.

3. Exchange

Denmark depreciated her currency on September 29, 1931 just 8 weeks after the pound sterling.

The Danish krone has since 1933 been pegged to the pound sterling. The current value of the Danish krone is 4.20 which amounts to a depreciation in terms of gold since 1928 of 54 percent compared with 43 percent for the pound sterling and 41 percent for the United States dollar.

Exchange control was introduced in November 1931 and the import permit system was introduced in January 1932. Although the list of imports subject to control has been gradually reduced since 1932 a substantial percentage are still subject to control.

9

Denmark - Balance of International Payments and Indebtedness

Denmark normally has an unfavorable balance of trade, which is compensated for by a favorable balance in shipping income. In the past two years shipping income has been in excess of the unfavorable balance of trade, and the difference has taken the form of an export of short-term capital.

Balance of Payments

(In millions of dollars)

Net Receipts (+) or Net Payments (-)

	<u>1938</u>	<u>1937</u>	<u>1928</u>
Balance of trade	- 21	- 24	- 51
Shipping	+ 58	+ 62	+ 51
Interest and dividends	- 2	- 2	- 1
Transfer of capital	- 30	- 28	-
Sundry	- 5	- 8	+ 1

Denmark is an exporter of capital on short-term account and imports capital on long-term. Danish balances abroad which were drastically reduced during the depression have been accumulating during the past four years, at an annual rate of \$23 million in 1937 and 1938. Denmark's short-term assets are under the pre-depression level, but her liabilities are down more. Her position on long-term account is substantially unchanged.

Balance of International Indebtedness

(In millions of dollars)

	<u>1938</u>	<u>1937</u>	<u>1928</u>
<u>On short-term account</u>			
Assets	127	103	140
Liabilities	<u>88</u>	<u>87</u>	<u>111</u>
Net short-term assets (+) or liabilities (-)	+ 39	+ 16	+ 29
<u>On long-term account</u>			
Assets	76	77	60
Liabilities	<u>377</u>	<u>371</u>	<u>363</u>
Net long-term assets (+) or liabilities (-)	- 301	- 294	- 303
Net foreign indebtedness (-)	- 262	- 278	- 274

FINLAND

1

Finland - General Information

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Finland - General Information

Geography

Finland lies in the same latitudes as the main body of Alaska (60° and 70° North). Despite its northerly position, however, Finland is kept fairly temperate by the Gulf Stream. Iiinahamari in Patsamo, Finland's arctic port, is free of ice all the year round. Finland is a country of low hills and marsh forests. The surface is highly glaciated and dotted with countless lakes which have been developed into a fine system of inland waterways. The area of Finland is 150,000 square miles, or slightly less than California's 158,000 square miles. Seventy-five percent of the area is covered with forests, which constitute the principal economic resource, 7 percent is under cultivation, and 9 percent are inland waters.

Population

The population of Finland is roughly 3.8 million. The population is still rising but the changing age composition reflects the falling birth rate. The number of births for every thousand people fell from 25 in 1921-1925 to 20 in 1935-1937; the number of deaths from 15 per one thousand people in the earlier period to 13 in 1935-1937. The average expected life of a child has risen by 10 years during the past quarter century. The expectation of life at birth of a child born in Finland during 1931-1935 was 54 years for a boy and 58 years for a girl. This compares with 59 and 63 respectively for a child born in the United States. One of the causes of the falling birth rate in Finland is undoubtedly the employment of women in industry.

Twenty percent of the industrial workers in Finland are women. This in turn is partly the consequence of the low level of wages. (The average weekly wage of an industrial worker is estimated at 270 marks—roughly \$6.00). In 1927, births in the country districts number 23 per thousand, those in the towns only 14. The difference is striking. Unless more encouragement in the form of leisure can be offered urban working class women to rear families, the population of Finland must fall rapidly before very long.

Ninety percent of the population of Finland speak Finnish and nearly 10 percent, Swedish. The religion is predominantly Lutheran. Illiteracy is virtually nil. One out of every 500 persons is in attendance at one of the three universities as compared to one out of every 120 in the United States. Seventy-eight percent of the population of Finland live in the country. Helsingfors, the capital and largest city, has a population of less than 300,000, or slightly more than half that of Washington. In 1930, 60 percent of the population were engaged in agriculture, including forestry, 17 percent in industry and manual labor and 8 percent in commerce and transportation.

Resources and Economic Activities

Forestry and its related industries are the mainstay of the Finnish economy. Finland is richer in forests than any other country in Europe, if the relative area of forest is taken as the comparison and the second richest if the absolute area in forest is used. Moreover,

through an intelligent control over forest lands by the federal government, Finland is constantly adding to its forest resources. The growing stocks of timber are estimated to be 57 billion cubic feet, chiefly pine (61 percent), spruce (28 percent), and birch (11 percent). The annual increment is estimated to be 1.6 billion cubic feet and the annual fellings 1.4 billion cubic feet. The sale, cutting and hauling of timber is an important supplementary source of income to the Finnish farmer. Private forest owners supply eighty percent of the requirements of the timber and wood industries. Wood, woodpulp and paper account for four-fifths of the total value of Finnish exports. In 1937 the number of persons employed in these three industries was 80,000 and the value of the output \$200 million.

Agriculture has been losing ground relatively to industry in the economy of Finland since the close of the World War. The total number of agricultural population in Finland decreased by 15,000, 1920-1930, for the first time during a ten-year period. However, the government by means of tariffs and subsidies has aided agriculture and encouraged the clearing of land for tillage and pasture. Between 1920-1936, 1.3 million acres were added to the field area. The dependence of Finland upon foreign food supplies has decreased by approximately one-half during the past decade.

Finland has made considerable progress in the solution of her farm tenancy problem. In 1930, only 6 percent of the rural population were tenants (as compared to 40 percent in 1910), but 32 percent were farm laborers and only 62 percent landowners (59 percent in 1910).

Seventy-six percent have less than 25 acres under cultivation. On the other hand, there are 827 estates of 250 acres or more of cultivated land; in other words, one-thousandth of the population owns one-fifteenth of the arable land. Hay, oats, rye, barley and potatoes are the principal crops and account for 87 percent of the land under cultivation. Some 80 percent of the yield plus pasture grass is used for feeding domestic animals. Three-fourths of the eggs and approximately one-half of the butter and cheese produced are exported.

The gross income from agriculture in 1937 is estimated at \$153 million, 8 percent of which was derived from exports.

Mineral resources. Finland is fairly rich in mineral resources. The gross value of mineral production was \$3 million. She has copper, iron, zinc, sulphur, and nickel. The biggest and most important ore deposit in inland is that of Outokumpu. Her copper production is more than sufficient for Finland's needs, but the by-products, iron and sulphur, fall short by over half of satisfying her demand for these products. The amount of copper mined in Finland has increased sevenfold during the past 10 years and the production of pig iron and ferro-alloys almost threefold. In Finnish Lapland are numerous large deposits of iron ore but these, because of lack of cheap means of transportation, are not being worked at present. Rich nickel deposits have been located in the mountains of Petsamo. These deposits have not been thoroughly prospected and actual mining and smelting will not get under way for

several years to come. In 1937, 15,000 people were engaged in mining and mineral industries of Finland.

Transportation. The merchant fleet of Finland on April 1, 1938 consisted of 850 vessels of 610,000 gross tons. Finnish ships carry about 50 percent of Finland imports and 60 percent of her exports.

The Finnish railway system is still far from complete. Large districts, especially in the central and northern parts of the country are not connected with the coast and leading centers. The state owns all but 160 of the 3,700 miles of existing railways.

Roads in Finland suitable for motor traffic total 41,000 miles. A new net work of Diesel engine bus-service has linked together the larger villages, breaking down the old barriers of isolation and parochialism which have characterized Finland throughout her history. The number of registered automobile vehicles on January 1, 1938 was 38,000 or one for each 100 inhabitants. (The proportion for the United States is one to every 5 persons.) Most of the automobiles are of American manufacture. Trucks have replaced horses in the transporting service during the past 10 years. In the country, trucks are sold mostly to small landholders' sons who cannot earn their living from the soil. They buy a truck on "time payment" and go into the trucking business.

Industry in Finland has made tremendous progress during the last 20 years. Rationalization and modernization of the industrial plant

has continued through the depression. Power consumption doubled, 1926 to 1937. Production per man employed rose steadily and in 1937 was 37 percent higher than in 1929. The output per man hour rose even more. The volume of industrial production in 1937 was 79 percent higher than in 1926; the value of output was up 95 percent. In 1937, the four thousand industrial establishments in Finland employed 200 thousand workers and produced goods valued at 6460 million. The wood, paper, and mineral industries account for 45 percent of all industrial workers and 46 percent of the total value of industrial production in Finland. The metal and machinery industry, which is of relatively recent development, accounts for another fifth of the workers and another sixth of the value of production. Foodstuffs, tobacco, etc. and textiles are the most important consumption goods industries and together account for another fifth of the industrial workers and of the value of production.

Production of electricity is still relatively unimportant in the Finnish economy but the pulp and timber industries, the largest consumers of power at the present, may be expected to increase their demand for some time to come. Increased consumption of power may also be expected in the expanding mineral, metal and machinery industries. Production of electricity in Finland trebled 1928-1937.

Principal Industries in Finland in 1937

Industry	Number of Establishments	No. of workers (in thousands)	Value of Production (millions of dollars)
Paper	207	21	\$ 102
Wood industries	1,024	58	96
Metals and machinery	825	40	69
Foodstuffs, tobacco, etc.	669	14	75
Textiles	359	36	49
Leather, rubber, etc.	182	11	21
Minerals	328	14	16
Chemicals	153	3	11
Lighting, power & water	279	3	10
Other	<u>220</u>	<u>8</u>	<u>11</u>
Total	4,246	208	\$ 460

Education

In Finland, all children are compelled to attend elementary school between the age of seven and thirteen, after which 60 percent attend vocational schools until fifteen and 40 percent go on to secondary schools where they prepare for the civil service, teachers' training colleges or the University. For children under fifteen living more than 33 miles away from the school the public authorities provide free transportation or board and lodging allowances. Tuition is free at the state supported institutions except for a nominal fee paid by the children of the well-to-do. Besides Helsinki University, which has an enrollment of 6,600 pupils, half women, the state maintains a Technical High School and a High School of Pedagogy with a combined enrollment of about 1,000. There are two small privately endowed universities at Tuusula, one Swedish-speaking and one Finnish-speaking. They each have 300 students.

Culture

German culture was the inspiration and the model for the well-to-do and educated Finn throughout the 19th and on into the 20th century. The Finns bought a third of their imports from Germany; they took a third of their ideas from there. The first Finnish secondary schools were modelled on the German Lyceums. Many of the conceptions embodied in the Finnish constitution were derived from Weiman. Helsinki's first public buildings were the work of a German architect, Engel, and the best of Finnish graduates went to German universities to complete their studies. This cultural liaison was weakened by the rise of Hitler and the closer trade relations developed with England after 1933. English ideas are now taking the place of German. Finns are wearing English clothes, operating English machines, dealing with English salesmen and working with English technicians. A Finnish-British society flourishes in Helsinki and a similar society was organized in Turku in the winter of 1937-1938.

Arts and crafts of the pre-industrial days are being rapidly forgotten. Some progress has been made towards transmitting some of the handicrafts into industrial crafts. This is true of glass, pottery and furniture.

Architecture is the most flourishing of Finnish arts, the consequence of the rapid development of cities and industries. Saarinen designed the railway stations at Viipuri and Helsinki, Sonck ranks among the foremost modern church architects. The Parliament House,

one of the first places of pilgrimage for tourists, is the work of Siren. The public library at Viipuri is the best known building of Aalto, one of the younger group of architects.

Music in Finland makes one think instantly of Sibelius, whose early symphonic poems like nearly all Finnish music from the middle of the 19th century to the first quarter of the 20th, was founded in folk tunes and in themes from the Kalevala; Pacius's operas. The Finnish singers best known abroad are Aino, Aikte and Aulikki Rautawaara. The Helsinki Opera is reputed to be the best north of Berlin and the orchestra that plays at Capelli under the baton of Sibelius' son-in-law, one of the best cafe orchestras in Europe.

Painting in Finland has not reached a high state of development. Finland produced no painters of note until the latter part of the 19th century when there appeared Edelfelt and Gallen-Kallela. Among the contemporary painters are Sellinen and Collin. The possibilities are small of earning a livelihood by painting in Finland for there are few private buyers and the states give little or no encouragement to it.

2

Political Situation in Finland

Finland is among those countries most often held up as an example of the triumph of democratic ideals as opposed to tyranny and the violation of civil rights. In some respects, however, Finland's achievement in liberalism is incomplete. Since the time of the White Terror in 1918-1919, an important minority of the Finnish people, the Communist group, has been denied all political rights. They attempted to evade the restrictions imposed on them by reorganizing as the Finnish Labour party. As such they were supported by a considerable part of the population; they elected 23 delegates to a Diet of 200 in 1929.

The Lapua Fascist movement, however, was not concerned with party labels. When the Fascist movement was preparing for a coup d'état in 1930, they chose the "Communists" as their principal target. As has been related above, the coup d'état failed to come off completely, because of dissension in the Conservative ranks. But the revolt achieved most of its objectives nonetheless. The Conservative government of Svinhufvud hastily accepted the demands of Kosala, Wallenius and the other Fascist leaders. The twenty-three "Communist" deputies were arrested and removed from the Diet. Many suspected communists were arrested and sentenced to penal servitude for long terms. After the removal of the "Communist" deputies, the illegal rump Diet proceeded to pass drastic anti-working class laws. The Trades Unions were dissolved. Left wing political

parties were forbidden to engage in any form of political activity whatever. Fascist gangs were allowed to beat up, kidnap, and terrorize their political opponents.

At the same time, the government did nothing to discourage the Fascists, even when it developed that they were working in conjunction with German Nazis. The triumph of the Social Democrats did not alter this situation very much. Fascists such as General Wallenius who confessed to a leading part in the plot to overthrow the republic were let off with suspended sentences. This sharp contrast in the treatment of Fascists and of Communists is an ominous reflection of the strength of Pro-Nazi elements in Finnish politics.

The Trades Unions have made some progress towards reconstruction since their dissolution in 1930 under pressure of the Lapua movement. But they have only reached about 90,000, compared with 160,000 in 1918. Only printing and a few of the smaller trades have collective agreements. Timber and the other big industries have none. The weakness of labor organization is reflected in the fact that, in spite of the trade boom which has continued over several years, real wages in agriculture and in timbering (as distinct from lumbering) are still below 1928. Real wages in industry have increased by about 9 percent over the 1928 level.

In her program of Social Security, Finland lags behind the nations of Western Europe. There is no insurance against unemployment, and old age pensions are not adequate. Housing conditions are congested in the towns and bad also in the rural areas. In Helsinki, the

average number of inhabitants per room is 1.5. Rents in the towns consume about one-third of the worker's income.

The Co-operative movement is well developed in Finland. It has a fine achievement in providing workers and farmers with better and cheaper products than were formerly available. In its wider political objective of bringing social cooperation in place of class rivalry, it has not been so successful. The co-operative movement is split into two main sections, the Progressive and the Neutral. The Progressive Co-ops, while they refuse affiliation with the labor movement, are in general pro-Labour in outlook. Not so the Neutral Co-ops; they do not employ union members. They have engaged in bitter struggles with the Progressives for markets. In the hope of destroying the Progressives, the Neutrals gave large subsidies to the Fascist movement in 1930.

The Social Democratic party has not had very great success in carrying out its program, in spite of its preponderant position in the Diet. It has not been able, or it has not wished, to defend the democratic rights of working men to organize and act politically according to their own ideals. At the same time, Fascist groups have been allowed to work in Finland with impunity, even when their acts have been flagrantly treasonable.

The Social Democrats have not worked out a foreign policy which gives any promise at all of preserving the independence of their country. The government has spent most of its energies in denouncing

Russia as a menace — a menace which appears purely imaginary, as no serious student has ever suggested that the U.S.S.R. has territorial ambitions in Finland. By joining in the anti-Soviet chorus, Finland has given material aid to Nazi expansion and brought nearer the danger of a war in which Finland is likely to be swallowed up. A sound foreign policy for Finland would have dictated strong support for the League at every point, including Art. 16. Finland should have made every effort to advance the formation of a democratic front. Instead, Finland has placed obstacles in the way of such an alignment.

Finland is governed by an indirectly elected President and a single Diet of 200 members, elected by direct universal suffrage. The Diet has sole powers of making laws. The President of Finland occupies a very strong position. The Finnish constitution attempts to apply the doctrine of separation of powers. The President has a suspensive veto, he has the right to issue administrative decrees; he has considerable discretion in the selection of Cabinets, in the control of foreign affairs, and in the control of the semi-private army, the Protective Corps.

The Government of Finland since 1937 has been a coalition of Social-Democrats, Agrarians, and Progressive (Liberals). Previous to 1937, President Svinkuvfud has persistently refused to accept any Cabinets containing Social Democrats, in spite of their great plurality in the Diet. Since 1933, however, the parties of the extreme right had been losing their hold, while the Social Democrats

had increased their vote. The Social Democrats determined to defeat Svinhufvud when he ran for re-election as President in 1937. Therefore, they formed a coalition with the Agrarians, with the result that Kallio, the candidate of the latter was elected.

Kallio called on Professor Cajander, a Progressive, to form a Cabinet which contains 5 Social Democrats, 5 Agrarians, 2 Progressives, and 1 Concentrationist.

This was a serious defeat for the Conservatives. For the first time they had failed to prevent the inclusion of Socialists in the Cabinet. There was the threat of a thorough-going realignment in national politics. In fact, however, the revolution was not very profound. The Social Democrats remained a minority party. More important, they did not display any ambitions to dominate national politics, in spite of their great plurality in the Diet. Under the new Cabinet, Finland adopted a more positive policy of neutrality; her foreign policy showed less subservience to Germany and less hostility to the U.S.S.R. But the Social Democrats did not press for an anti-Nazi foreign policy. They were content to affirm with greater emphasis the position of Finland as a member of the neutral Scandinavian bloc.

The following table shows the numerical strength of the various parties in the Diet:

	<u>Party</u>	<u>1936</u>	<u>1939 (July 5)</u>
Gov't	(Soc Dem	83	85
	(Agrarian	53	56
	(Progressive	7	6
Opp't	(Swedish party	21	18
	(Unionist Party (Concentration)	20	25
	(Patriotic National Movement)	14	8
	(Others	2	2

The Social Democratic Party is a party of industrial and farm workers, professional and academic people, and small farmers. Formally, the party is committed to a Socialist program. In fact, the Social Democrats are essentially conservative in outlook. They do not aspire to a dominant position in national politics, but rather regard themselves as a pressure group working for increased Social Services and better working conditions within the limits of the traditional economic and political system. They are essentially an administrative party; they are content to administer a policy which does not spring from their own initiative, but which expresses the will of more conservative groups. They find it easier to collaborate with the conservative parties than to develop an independent policy of their own. They are strongly anti-Soviet and they have rejected all proposals for the formation of a People's Front.

This limited-objective policy of the official Social-Democratic party has met with strong and persistent criticism from elements within the party, including most of the intellectual leaderships. The critics

of the official policy argue that the rejection of an independent policy results in the party's having to accept a permanent subordinate situation of Finland. These groups have tried to form a People's Front movement in Finland on the French pattern. But the official leadership of the party has rejected this policy with great firmness. In May 1937 all the advocates of this activist policy have been expelled, among them the important Academic Socialist Society, leading journalists of the party, and even several deputies.

The Agrarian party is a centrist party of small farmers. Its principal asset is its historical achievement - the Lex Kallio which was the legal basis of the revision of land tenure in Finland. Under the Kallio law, tenants were given a certain amount of State aid in purchasing farms. Under this law, landholding in Finland has become more general and there has been some reduction in the concentration of holdings. Compared with the situation in Poland, Italy, or even France, Finland has become a country of small holders. The Agrarian party assumes the credit for this, although the Lex Kallio was also supported by the Social Democrats. The Agrarian party has pursued a policy of protection for Finnish agricultural products as well as extension of tenure. By this policy, Finnish agricultural production has increased to about three times the level of 1913, and the cultivated area extended by 30 percent.

The Agrarian party is a party without much doctrine. It is not opposed to State controls of industry, but it is hostile to all forms

of socialism and particularly to Communism. In contrast to the French Socialist-Radical party, the Finnish Agrarians are under a pronounced clerical influence. The Progressives are a very small party representing certain middle class groups of Liberal-Conservative tendencies. They work in coalition with the Agrarians. The Unionist (Concentrationist) party together with the Swedish party (and the Fascists) form the Right. These parties represent the timber trade, the manufacturers, the larger landholders, the church hierarchy, and the Army. The Swedish People's party has its own peculiarities. Its program is ostensibly one of defense of Swedish language and culture, but in fact the main interest of the party is in defending the privileges of the wealthy and governing classes, a very large proportion of whom are Swedo-Finns. By coming forward as the champion of the Swedish people, the party has been able to control practically all of the Swedo-Finn vote, although the majority of Swedo-Finns are fishermen, sailors, lumber workers, and farm laborers who might be expected to vote for the Left parties.

The Patriotic National Movement was a clerical fascist movement centered in Lapua, which was very strong in 1930, but which has declined since then. In recent elections it lost half of its 14 deputies. In 1930 it was strong enough to make full preparations for a coup, which failed because of dissension in the ranks of the conservatives. Although the Fascists did not succeed in their coup, they did succeed in forcing the suppression of the Communist party, the arrest of all the Communist deputies, and they were permitted to

engage in a terrorist campaign of beatings, kidnappings, and intimidation against the Left parties. By contrast with the severe repressive measures against the Communists, the Fascists were never punished for any of their activities.

The Communists were not permitted to exist legally even before 1918. Under the name of the Finnish Labor Party, however, they had 23 deputies in 1930. Under the pressure of the Fascist movement, the Communists were (and still are) deprived of practically all civil rights. Most of the Communists have evidently entered the Social Democratic party, although they are not allowed to do so if known.

Although the electoral strength of the Fascist party has been declining, pro-Nazi elements in Finland are very strong. They have a strong press, friendly relations with the conservative parties, and a strong position in the Protective Corps and the diplomatic service, as well as in the church hierarchy. Germany succeeded in securing the dismissal of Holsti, the Finnish foreign minister, November, 1932, because he was suspected of wanting better relations with the U.S.S.R. The most respected and powerful political figures in the country openly advocate an anti-Soviet foreign policy based on collaboration with Germany. General Mannerheim has publicly urged Finland to make preparations to meet the menace on her Eastern frontier.

In case of war with Germany and the U.S.S.R., Finland will probably become a battleground in spite of any efforts she may make to remain neutral.

3

Foreign Trade - Finland

Finland has increased her exports in the past decade, and has eliminated her unfavorable balance of trade. Finland's exports are running 30 percent higher than in 1929. Her terms of trade have improved during the past decade for the prices she receives from her exports are almost as high as they were in 1929 while the prices paid for her imports are 20 percent lower.

Foreign Trade (In millions of dollars)

	<u>Exports</u>	<u>Imports</u>	<u>Balance</u>
1928	157	202	- 45
1929	162	176	- 14
1936	158	139	+ 19
1937	205	203	+ 2
1938	181	186	- 5

The bulk of Finnish exports (80 percent) consist of wood, wood products and paper. There has been no substantial shift in the commodity composition of Finnish exports in the past decade although some progress has been made towards the greater exportation of processed wood products.

Exports by Commodities

	<u>1928</u>	<u>1937</u>
<u>Wood and manufactures</u>		
Boards and planks	41%	30%
Wood pulp	17	25
Other	14	14
<u>Paper</u>	<u>11</u>	<u>12</u>
Total	83%	81%

The United Kingdom is by far the most important market for Finnish products and is today more important than she was a decade ago. The importance of France, the Netherlands and Belgium to Finnish exporters has been sharply reduced in the past decade although these three countries still take a substantial share of her exports. The United States has increased her purchases of Finnish products.

Exports by Country

	<u>1928</u>	<u>1938</u>
United Kingdom	35%	44%
Germany	16	15
United States	7	9
Netherlands	8	4
Belgium	7	3
France	6	3
Sweden, Norway & Denmark	5	9
Other	<u>16</u>	<u>13</u>
Total	100%	100%

The changed composition of Finland's import trade reflects the increased industrialization of the country. Imports of iron and steel products and machinery have increased substantially while the imports of foodstuffs and textiles have declined. (Industrial production of Finland was 50 percent greater in 1938 than in 1929 with the increase chiefly in the consumption goods industries, particularly textiles.

Imports by Commodities

	<u>1928</u>	<u>1938</u>
Metals and manufactures	12%	16%
Machinery	8	9
Ships and vehicles	6	5
Coal and coke	3	6
Textiles	11	8
Foodstuffs	20	10
Other	<u>40</u>	<u>46</u>
Total	100%	100%

Germany formerly was the most important supplier of Finland's imports but her position is now about the same as the United Kingdom and the other Scandinavian countries. The United Kingdom in particular has increased its share of the Finnish market through the pressure which she brought on Finland in the trade agreement of September 1933.

The United States share of the Finnish market dropped from 16 percent in 1928 to only 9 percent in 1938. The drop in our exports to Finland was due mainly to smaller shipments of grains and automobiles. We sold more than twice as much cotton to Finland in 1938 as we did in 1928 due to the increased production of textiles in that country.

Imports by Country

	<u>1928</u>	<u>1938</u>
Germany	37%	20%
United Kingdom	12	19
Norway, Denmark and Sweden	13	19
United States	15	9
Belgium	4	5
Netherlands	5	4
France	3	2
Other	<u>11</u>	<u>22</u>
Total	100%	100%

During each of the two past years, the United States has bought about \$18 million of merchandise from, and sold \$12 million of goods to, Finland, giving that country a favorable balance with us of \$6 million a year. Almost 60 percent of our purchases from Finland consist of wood pulp and 30 percent of newsprint. We sell to Finland cotton (23 percent), automobiles and parts (15 percent), machinery (10 percent), and fruits and nuts (7 percent).

4

Business Conditions in Finland

The progress of recovery initiated last summer has been sustained in 1939. (The index of production reached a peak of 135 in May as compared with 108 last June.) The fall in exports in 1938 was more than made up by home market production, which was 7 percent higher than in 1937. The greatest advances have been registered by the metal and machinery industries, whose output in the first quarter of 1939 was 40 percent greater than in the same period in 1938. The wood industries, which suffered a sharp decline of 20 percent in 1938, have recovered some of their leeway, and sales of timber abroad in the first half-year 1939 were double those of last year. Exports for the first five months of 1939 show some improvement over 1938. Value of internal trade was 6 percent higher in 1938 than in 1937, and attained a record high in March 1939.

There has been some improvement in the building industry in the course of the last year, although a sustained building boom is unlikely.

The number of unemployed in May 1939 was only 3,000 (excluding 10,000 on public work) but barely a third of the labor force is covered by this figure.

Wholesale prices which fell from 126 in September 1937 to 111 in August 1938 have improved slightly to 114 (May 1939). While timber prices have recovered, the downward trend of pulp prices has been maintained.

Industrial share prices which fell 10 percent from 1937 to 1938 have again experienced an upturn in 1939. Since 1937 long-term

rates of interest have been steady at 4.7 percent.

While 1938 was a good year for Finnish agriculture, 1939 harvest prospects are poor. 1938 agricultural prices were slightly better than in 1937, and the export of animal foodstuffs increased 15 percent.

Finland - Business Activity

	Index of Production (1935 = 100)						Total	Wholesale	Number
	General production	Home industries	Export industries	Metal and machinery	Sawn timber	Paper and pulp 2/	building permits Index	price index (1929 = 100)	unemployed at labor exchanges (1935 = 100)
End of quarter:									
1937 - IV	120	126	111	134	93	123	166	122	3,770
1938 - I	132	137	126	137	102	144	606	116	3,635
II	108	126	83	158	58	100	266	112	2,414
III	121	138	98	153	78	112	297	111	3,192
IV	118 1/	128 1/	103	129	83	116	268	113	4,294
1939 - I	135	148	116	190	89	135	264	113	4,331
April	135 (May)	-	-	-	-	-	172	114 (May)	2,985 (May)

1/ Seasonal; indices for November 1938: (1) General, 126 (a) Home, 144.

2/ Production reflects execution of orders placed long before; actual orders in hand December 1938: 2,122,000 tons, 24 percent less than end of 1937. Orders in hand March 1939: 2,100,000 tons, slightly above March, 1938, but below December.

5

Finland - Agriculture and Social Security

Agricultural situation

The land problem is the basic economic and political problem facing Finland. In 1910 478,000 families were on the land, of which only 24 percent were owners, 33 percent tenants, and 43 percent agricultural laborers.

In 1927 the key land reform, the Lex Kallio, was enacted, by which the State aids farmers in the purchase of hitherto uncultivated land. Two types of farming are aided: The middle farmer who acquires a farm consisting of 20 hectares (about 50 acres) of cultivable land and 20 hectares of timber land, and the cottagers, who acquire 2 hectare (about 5 acres) plots. The landlords receive 7 percent State bonds in compensation. The new landowners pay 7 percent interest on their debts and the cottagers pay 9 percent.

By 1934 65,000 previous tenants had become landowners, and there were 53,000 new plotowners. One family out of three in Finland now owns land; two million additional acres have been brought into cultivation.

The Government also has crop marketing and price stabilization schemes, and has a system of premiums on the export of dairy products.

Agricultural cooperatives

There are 1,300 agricultural cooperative credit banks with a membership of 140,000, and outstanding credits of about \$25 million. There are 684 cooperative dairies with 75,000 members.

The value of the cooperative in marketing produce is indicated by the fact that the farmer receives 84 percent of the retail price of butter. The agricultural cooperatives have done much to raise the productivity of agriculture in Finland by education and financial assistance.

Social Security in Finland

Finland is the least progressive of the Scandinavian countries in social legislation.

Old-age pensions

A law was enacted for the first time in 1937, the scheme to go into effect in 1940. Two million persons are affected. One percent of their income in the first five years, and two percent afterwards are deducted by employers, who contribute half again as much to the old age funds. The state and municipalities also contribute.

Health

There is no system of health insurance, though the Government has instituted maternity benefits and assists the hospitals, especially the tuberculosis sanatoria. Tuberculosis is a serious national problem, the tuberculosis rate being 18.5 per 10,000, or double that of Sweden.

Labor conditions

Labor conditions are more backward than in any other Scandinavian country. The trade unions, which are split into three

rival organizations, have about 90,000 members. The fact that 40 percent of the labor supply is female, has been an important factor in the maintenance of cheap labor costs. Average wages for industrial workers are about \$5-6. Relief is in the hands of private charity and the municipalities.

Consumer cooperatives

Over half the adult population are cooperators in one form or another. There are two great cooperator movements both affiliated to the Scandinavian Cooperative Society. The S.O.K. or neutral cooperative society is supposed to be a non-political, but is actually deeply involved in reactionary intrigues; in 1932 it financed the big Fascist Lapua movement and attempted putsch. The Progressive cooperatives recruits its members largely though not exclusively from the Social-Democratic and labor elements. In Helsinki alone they have 48,000 members and 329 shops. The cooperative movement has an extensive adult education program and press.

Finland - Public Debt and Budget

The public debt of Finland has declined substantially in the period 1932-1938, from \$89 million to \$71 million, a decline of \$18 million or over 20 percent.

Finnish Public Debt (In millions of dollars)

Dec. 31, 1932	\$89
1933	88
1934	87
1935	80
1936	76
1937	76
1938	71

Another significant change was the reduction in Finland's foreign debt and its substitution by internal loans. Foreign indebtedness at the end of 1938 represented only 24 percent of the total public debt while only 4 years earlier, the foreign debt was 70 percent of the public debt.

Budget

Finland adopted the "Capital-Current Budget" system in 1932. Her financial year coincides with the calendar year.

The receipts and expenditures on capital and current accounts since 1932 are shown on the following page.

(Millions of dollars)

	Revenue		Expenditures		Surplus or Deficit
	Current	Capital	Current	Capital	
1932	49	9	49	11	- 2
1933	57	9	51	14	1
1934	67	16	52	30	1
1935	70	21	57	36	-
1936	74	22	59	37	-
1937	86	33	71	47	2
1938	97	13	70	39	2

Finland has maintained a balanced budget since 1932. As Finland includes in her total receipts and expenditures receipts from loans, amortization of the national debt, and amounts set aside to be used for public works in future years, the figures of total expenditures and receipts do not give a true picture of the budget surplus.

From 1932 to 1938, the current revenue of the state practically doubled. Part of the increase in recent years was due to the imposition of higher income and property taxes, although the rise represents chiefly the improvement in economic activity which has been reflected both in tax revenue and receipts from state-owned business enterprises. "Capital Revenue" which includes receipts from loans, amortization of the investment in state business enterprises and revenue from the sale of state property, has also risen since 1932. The increase in 1937 was not, however, an actual increase in capital revenues but merely a bookkeeping transaction which increased both capital in revenue and capital expenditures.

The item "Current expenditure" has increased persistently throughout the 1932-1938 period with the exception of 1938, but has always been well below the current revenue figure. During the 1932-1938 period current expenditure increased by \$20 million or over 40 percent. "Capital expenditure" which consists of capital investments in the various state enterprises, retirement of the national debt, and transfers to the budget equalization account has more than trebled since 1932. The latter two items account for almost the entire increase as new investment in state enterprises has risen only slightly.

Budget Equalization Fund

In 1934 there was set up a "Budget Equalization Fund" which represents a cash reserve against emergency demands on the general budget accounts. The Equalization Fund is designed to compensate for variations in the budget resulting from cyclical changes. The general plan involves (1) the accumulation of funds in prosperous years through transferring in part of or in whole the surplus accruing to the regular budget, (2) building up the Account through regular budgetary appropriations, and (3) crediting it with the proceeds of loans raised exclusively for this purpose.

In addition to combating depressions it is believed that the severity of cyclical fluctuations might be reduced. When the cyclical budget balancing scheme was first formulated it was planned to

transfer funds to the Budget Equalization Account until \$10 million of liquid assets had been accumulated. In November, 1938 this limit was raised to \$20 million liquid assets because of the government's feeling that the former limit would be inadequate to meet depression demands. This new figure, however, is being substantially exceeded in practice.

The most recent available statement of the composition of the Budget Equalization Fund (December 31, 1937) is given below:

(Millions of dollars)

Bonds (all dollar bonds of Finnish State)	\$2.7
F.E.F. gold bullion account	2.1
F.E.F. current account with Bank of Finland	.1
Deposits in reliable foreign currencies (14.5 million Swedish krone at 11.71)	3.3
Loans	<u>12.5</u>
Total	\$20.7

The last item ("loans") consists of outstanding state credits — loans which are not included in government budget. These loans are being gradually liquidated through amortization at the rate of about \$1 million yearly.

The fund was estimated to total \$26 million at the end of 1938, and will reach at least \$28 million this year.

State Enterprise

The Finnish Government owns and operates numerous business enterprises and natural resources. Practically the entire railway system is governmentally owned and operated, and in 1938 produced

a net revenue of \$4 million. State owned forests produced a revenue of \$5 million and the state's post and telegraph system, \$1 million.

New investments and income from state enterprises since 1935 were as follows:

(Millions of dollars)

	New Investments	Income	Income in excess of new investment
1935	5	6	1
1936	5	7	2
1937	8	10	2
1938	7	11	4

7

Finland - Banking Structure

The Bank of Finland, founded in 1811, is the State Bank and the only bank of issue. The capital, \$27,000,000, is held entirely by the state. The management and working of the bank are entrusted to a Board of Management, consisting of a chairman and not more than four members appointed by the President of the Republic. The Board of Management functions under the supervision of the Bank Supervisors of the Dist, whose duties are defined by law in detail and include various functions normally carried out by the executive or directing body of a Central Bank, such as fixing the rate of discount and interest, decisions on questions of foreign credit, the distribution of work among the Managers, and the settlement of all matters relating to salaries. Their powers are broad enough to enable them to determine the broad questions of policy of the bank as well as many administrative details.

By law, as amended December 1938, the bank is entitled to issue notes to the sum of the full amount of its gold reserve, its foreign currency holdings and 1.8 billion marks (approximately 3400 million) against a so-called supplementary cover. The notes in circulation on June 15, 1939 were \$474 million against which the bank held a stock of gold of \$237 million and foreign currency of \$453 million.

Of Finland's 9 joint stock banks with 487 offices, 2 conduct about 80 percent of the business. These 2 banks -- the Kansallis-Osake-Pankki and Nordiska Föreningsbanken -- recently increased their share of capital, a move necessitated by expansion of turnover. The Finnish banking law requires that (1) the banks keep a minimum reserve of 20 percent in cash assets against sight liabilities and (2) that share capital and reserves represent at least 10 percent of total liabilities. Actually, the banks have a cash ratio far in excess of the legal minimum (at the close of 1937 70 percent). In order to meet the second requirement the 2 leading banks had to increase their share capital.

Interest is paid in both time and demand deposits. Net deposit liabilities of joint stock banks on April 30, 1939 totalled \$1,967 million, of which 75 percent were time deposits.

At the close of 1937 there were in Finland the Post Office Savings Banks with 184,000 depositors and \$10 million deposits, 482 ordinary Savings Banks with 1 million depositors having \$173 million to their account, and 1,120 Cooperative Credit Societies with deposits of \$324 million.

Finland - Foreign Exchange and the Money Market

1. Foreign Exchange Assets

Gold holdings and foreign balances of the central bank and commercial banks amounted to \$78 million in May 1939. The central bank placed \$3 million of gold under earmark in the United States early this year. The dollar balances of the commercial banks and central bank in the United States now amount to \$10 million.

The gold holdings of the central bank have remained practically stable since 1935 and now amount to \$24 million. The foreign balances of the central bank have increased from \$39 million at the end of 1936 to \$44 million in May 1939, while the foreign balances of the commercial banks are now at the same level as the end of 1936 or \$10 million after rising to \$14 million in March 1939.

2. Money Market

There has been an abundance of money available at low interest rates for several years.

The yield on government bonds has declined from 5.7 percent in 1934 to 4.7 percent at the present time.

Notes in circulation, deposits and loans of commercial banks have steadily increased since 1936, and are now at an all time high. Though the currency in circulation has increased about 30 percent in the last three years, prices have increased about 10 percent during this period.

3. Exchange

Finland depreciated her currency on October 12, 1931 shortly after the United Kingdom. Since 1932 her currency has been pegged to the pound

sterling at the rate of 227 finnmaks to the pound. The current value of the finnmak is \$.0205 which amounts to a depreciation in terms of gold since 1929 of 52 percent compared with 43 percent for United Kingdom and 41 percent for United States.

9

Finland - Balance of International Payments and Indebtedness

Finland's balance of international payments has undergone a radical transformation during the past decade. The large excess of merchandise imports, which was paid for with loans floated abroad, and emigrant remittances and services, has been sharply reduced. Shipping, previously an insignificant item in the balance of payments, has become an important source of foreign exchange. A net borrower on international account a decade ago, Finland has been since 1931 a net exporter of capital.

Balance of Payments

(In millions of dollars)

Net Receipts (+) or Net Payments (-)

	1938*	1937	1929
Balance of trade	- 5	+ 2	- 45
Shipping	+ 10	+ 17	+ 1
Interest and dividends	- 4	- 4	- 1
Transfer of capital	- 12	- 29	+ 28
Sundry	+ 11	+ 14	+ 17

The net long-term international indebtedness of Finland has been cut by more than two-thirds, 1931 to 1938, and on short-term account Finland has become a net exporter of capital, having larger balances abroad than foreigners have on deposit in Finland. Two-thirds of the net short-term assets represent balances held abroad by the Bank of Finland. Balances of joint stock banks and exporters account for the remaining third.

Balance of International Indebtedness

(In millions of dollars)

	1938	1937	1931	1929
<u>On short-term account</u>				
Assets	78	74	27	30
Liabilities	38	35	53	108
Net short-term assets (+) or liabilities (-)	+ 40	+ 39	- 26	- 78
<u>Net long-term indebtedness (-)</u>	- 54	- 65	- 193	- 113
<u>Net foreign indebtedness (-)</u>	- 14	- 26	- 219	- 191

* Estimated, except for Balance of Trade.

Scandinavian
Economists

The Scandinavian Economists

The world's discovery of the Scandinavian economists was simultaneous with its discovery of Sweden as a land which was apparently free from the more pressing social problems and abundantly fertile in its social experimentation. The best economists of Scandinavia, most of whom are Swedish, rank with the leading English and American economists. Their main contribution has been in the field of the monetary explanation of the business cycle and remedial fiscal policy. Although many of the contemporary Swedish economists actively participate in politics and in the formulation and administration of public policy they have not produced a substantial literature on the problems of social legislation and reform.

The most distinguished Swedish economist was Knut Wicksell, who died in 1926 but whose influence is paramount among the younger Swedish economists. In many respects his work in the sphere of theory and policy anticipates that of Keynes. He was forward-looking and freer from doctrinaire prejudices than most professional academic economists.

The most famous and perhaps the least original of the reputable Swedish economists is Gustav Cassel, whose main function has been to popularize the teachings of others in the sphere of pure theory and the theory of money, business

cycles, and international trade. He is more conservative in bent than other Swedish economists.

The oldest living Swedish economist is David Davidson, who though classical in his approach, is more critical and independent than Cassel.

Among the outstanding neo-Wicksellians are Myrdal, Lindahl, Ohlin, the Akermans, and Lundberg. Most of these economists have either studied or taught in the United States. Myrdal, besides bringing the Swedish population problem to the fore in his book on the Crisis in the Population Problem, has written extensively on business cycle and monetary problems, and was actively identified with the expansionist program pursued by the Swedish Government since 1932. He visited the United States in 1938, and is now here engaged in a two year study of the Negro Problem for an American Foundation. Lindahl has specialized in researches into the national income and the more obtruse portions of monetary theory. Ohlin has contributed to the theory of international trade and extended Wicksell's analysis of savings and investment. The two Akermans and Lundberg are associated with the investigation of dynamic problems which earlier economists had only just begun to grapple with. Other prominent Swedish economists are Bagge who has specialized in wages and labor problems, Montgomery, and Karin Kook.

Norway's outstanding economist, Ragnar Frisch, has concentrated on the extension of mathematical methods in economics, and Denmark's most famous economist, Zeuthen, has dealt with the theory of monopoly price and output.

In general, following Wicksell, the contemporary Scandinavian economists emphasize the role of the monetary and credit mechanism in the trade cycle. Wicksell believed that the price level would fluctuate whenever the long-term market rate of interest was above or below what of the economic situation demanded. A large literature has developed among his followers as to the proper measures of monetary control to combat business fluctuations. There is general agreement among the Scandinavian economists as to the desirability of using the machinery of the State in order to secure full and stable employment of resources.

Wicksell, but not all his followers, believed that in an economy which was highly monopolized, buying associations of consumers should be encouraged as an offsetting factor to the monopolies. He was also in favor of organizations of workers to strengthen their bargaining position. The followers of Wicksell are, in general, advocates of a low long-term rate of interest, though they agree that by itself it will not be sufficient to maintain full employment and that it must be accompanied by a long-range public works plan. Myrdal is representative of a considerable group who maintain that

long-term equilibrium requires a redistribution of income to be brought about by a tax policy which bears heavily upon the high income groups where the tendencies toward over-saving are the strongest.

There is no general agreement among the Scandinavian economists as to whether government policy should be directed towards achieving a stable price level, or a falling price level, for consumers goods. Lindahl is probably representative in preferring a managed standard (i.e., British) to a fiscal international standard (i.e., Belgium) so that internal prices will not be allowed to fall when external depressions affect the export markets.

Lindahl is probably representative in emphasizing the use of open market operations and discount rates by the central bank to combat unemployment. The Swedish economists in general prefer low rates of interest in depressed periods. Lindahl is an exponent of differentiated rates of interest so that lower rates will be made available to certain classes of borrowers. There is general agreement of the other economists with the position taken by Lindahl that enlarged government expenditures should occur when uncertainty is resulting in the contraction of private business expenditures.

A number of the Swedish economists have advocated separate budgetary accounts for capital and current expenditures and receipts. They are strongly in favor of self-liquidating capital

investments by the Government. Sweden has a long list of governmental enterprises in competition with private enterprises and these furnish a large field for planned public investment during bad times.

The Swedish economists are perhaps the keenest of all analysts of business uncertainty. Their position seems to be that if a compensatory budget policy is well understood by the business community this policy will greatly aid in dissipating business uncertainties when they arise. They have done much to educate their own politicians and business men in this direction.