ECONOMIC CRISES
AND
RESTRUCTURING IN HISTORY

Experiences of Small Countries

Edited
by
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SCRIPTA MERCATURAE VERLAG
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The International Economic Relations of Small Countries in the 1930s. Belgium and the Netherlands

by Hein A. M. Klemann

Introduction

In a small economy production factors are concentrated in a few industries. Therefore, international trade is necessary. Normally this trade is concentrated on a small number of countries, often bigger than the country itself. Economically there is no reason why a country should not be dependent on trade with only a few partners, but it is the political problem. The world exists of sovereign nations, aggressive to the outside world, also with economic weapons. Whether in the interwar period Belgium (8.2 million inhabitants in 1932) or the Netherlands (8.5 million in 1930) were small economies is a matter of definition. The Dutch economy was not small in every aspect. Production was diversified. In the late 19th century in the land provinces new industries developed, based on agriculture and an elastic supply of labour. In the cities of Holland international shipping, transport and trade gave birth to modern, specialized industries.2 The economy was dependent on international trade. In 1929 exports amounted to 34% of GNP, while imports were 46% of GNP. Of the exports 23% went to Germany, 21% to Britain and 10% to Belgium. The imports came for 31% from Germany, for 9% from Britain and for 10% from Belgium.3

Belgium was easier to define as a small economy. Production was concentrated in industries like steel, coal and textiles and during the interwar period these sectors became even more important. Modern industrial products and

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crude materials were imported, semi-finished products were exported.\textsuperscript{4} Wages were low and in 1926 the franc stabilized below equilibrium. The low internal price level made production based on nineteenth-century technology still profitable, but destroyed modernization.\textsuperscript{5} Belgium was even more than the Netherlands dependent on trade. In 1929 exports were 46\% of national income, whereas imports accounted for 51\%. As much as 19\% of imports came from France, 14 \% from Germany and 11 \% from both the Netherlands and Britain. In comparison, 18 \% of exports were shipped to Britain, 13 \% to both France and the Netherlands. Merely 12 \% went to Germany.\textsuperscript{6}

The Dutch and Belgian economies were dependent on trade. Therefore the economic policy of their trading partners was very important. The problem was that both countries had not one important partner. In this paper it will be made clear that it is less problematic for a small country to have one neighbouring power than to be dependent of a small number of neighbours. Such a country have to compromise, what easily results in a give and take policy without clear direction.

\textbf{Monetary Problems and Trade Relations}

In Belgium and the Netherlands, the 1930s depression was an outside infection. In 1929 Belgian exports still grew with 2\%, only to slump in 1930 with 8\%.\textsuperscript{7} In 1929 in the Netherlands exports fell already a little, and in 1930 it also dropped 8\%. In Belgium the fall in real exports resulted not only from the outside world, but also from the rise of the internal prices that marked the

\begin{itemize}
\item \textsuperscript{6} Stefaan Peeters et al., \textit{Reconstruction of the Belgian national income, 1920-1939. Methodology and results} (Louvain 1986) F; Institut National de Statistique, \textit{Annuaire statistique de la Belgique 1929} (Brussels 1930).
\item \textsuperscript{7} Horlings, \textit{op. cit.}, p. 66.
\end{itemize}
end of the adaptation after the stabilization of 1926 (Table 2). From 1930 on Belgium could not compete anymore on the international markets. This became worse after the 1931 depreciation of sterling. In 1929 13% of the Belgian exports went to France, while 18% was shipped to Britain. The French share rose up to 21% in 1933, while the British share fell to 13%. The gold block lost its share on the British market.\(^8\) The fact that the Belgian share on the Dutch and French markets was stable was not a result of the Belgian competitiveness, but of the quota system of these countries. The division of the import quota was based on the share in imports in some year before the depression.\(^9\) Such a system protects countries that lost their competitiveness.

For the Netherlands not only the gold standard proved fatal. Germany was also a source of depression. The German recovery was limited to its internal economy. In 1936 German imports were still at the 1933 level and before the Second World War real imports never reached more than 40% of the pre-depression level.\(^10\) German exchange control was disastrous for Dutch trade, especially after 1933 when it was manipulated by the Nazis. Adolf Hitler’s government stimulated the economy, but by doing so, it destroyed the possibility to adapt the German prices to the international level that was determined by the British depreciation. Exports became difficult. At the same time there was a tendency for imports to grow as a result of the fiscal policy.\(^11\) Currency control was the only limit to these imports. After the inflation of the 1920s, a devaluation was thought to be a dangerous experiment. Reichsbankpräsident Dr. Hjalmar Schacht therefore decided to go on with currency control and in 1934 he introduced his neue Plan. Only if the regime thought an import transaction important, the importer got license to buy currency.\(^12\)

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\(^12\) BA, R 2/14066: Reichsstelle für Devisenbewirtschaftung an die Überwachungsstellen, den 11. September 1934, Dev. B 28319/34; Dietmar Petzina, *Autarkiepolitik im Dritten Reich. Der national-sozialistischer Vierjahresplan* (Stuttgart 1968), pp. 18-19;
Since 1931 private stocks of currency were prohibited. The Reichsbank, in fact a governmental organization, manipulated trade by currency control. The Dutch were afraid that this policy would be fatal for their agrarian exports, but Hitler was not interested in cheese, butter or vegetables. The German people wanted these products, but it was hardly possible to pass the currency border. In December 1934, the Hague extort a bilateral clearing agreement from Berlin to defend its interests. The Germans could not decide alone anymore what to do with the revenues of their exports, but had to agree with the Dutch what to buy in the Netherland. Both governments tried to buy the products they wanted and sell the products they wanted to get rid of.\(^{13}\) Because trade was bilateral, exports to Germany were limited by imports from Germany and because German prices were high and the Dutch economy depressed, these imports slumped. As a result in 1936, the last Dutch depression year, real exports to Germany were 55% below the 1929 level.\(^{14}\) The Dutch economy hardly could recover because of the German policy.

One aspect of the German monetary isolation were an advantage to the Dutch. It was hard to enter the German market, but the German prices were very profitable. The Hague made sure that the small possibilities bilateral clearing left to exports, were used for at least 40% by state-monopolized agricultural exports. The profits made on the German market, were used to dump agrarian production protected for political reasons, on the British market. The fact that the Belgian drop in exports was so much bigger than the Dutch was a result of the difference in export products (Table 1). The Dutch had to get rid of their agricultural products anyway.\(^{15}\) This Dutch policy kept the level of the real export high, but was fatal for the prices.

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Allan Thomas Bonnel, *German control over international economic relations* (Urbana Ill. 1940), p. 90.

\(^{13}\) Klemann, *op. cit.*, pp. 95-98.


TABLE 1. International Trade of Belgium and the Netherlands, 1929-1939

<table>
<thead>
<tr>
<th>Year</th>
<th>Belgium</th>
<th></th>
<th></th>
<th>The Netherlands</th>
<th></th>
<th></th>
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</thead>
<tbody>
<tr>
<td></td>
<td>Exports</td>
<td>Imports</td>
<td></td>
<td>Exports 1929 = 100</td>
<td>Imports 1929 = 100</td>
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<tr>
<td></td>
<td>Nominal</td>
<td>Real</td>
<td>Nominal</td>
<td>Real</td>
<td>Nominal</td>
<td>Real</td>
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<tr>
<td>1929</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<tr>
<td>1930</td>
<td>85</td>
<td>93</td>
<td>88</td>
<td>92</td>
<td>84</td>
<td>92</td>
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<tr>
<td>1931</td>
<td>73</td>
<td>82</td>
<td>66</td>
<td>88</td>
<td>63</td>
<td>85</td>
</tr>
<tr>
<td>1932</td>
<td>48</td>
<td>67</td>
<td>48</td>
<td>72</td>
<td>40</td>
<td>71</td>
</tr>
<tr>
<td>1933</td>
<td>46</td>
<td>61</td>
<td>43</td>
<td>77</td>
<td>35</td>
<td>68</td>
</tr>
<tr>
<td>1934</td>
<td>46</td>
<td>57</td>
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<td>80</td>
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<td>83</td>
<td>33</td>
<td>75</td>
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<tr>
<td>1936</td>
<td>62</td>
<td>70</td>
<td>61</td>
<td>89</td>
<td>36</td>
<td>78</td>
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<tr>
<td>1937</td>
<td>81</td>
<td>79</td>
<td>77</td>
<td>103</td>
<td>55</td>
<td>93</td>
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<td>1938</td>
<td>68</td>
<td>82</td>
<td>65</td>
<td>84</td>
<td>50</td>
<td>88</td>
</tr>
</tbody>
</table>

Sources: CBS, Macro-economische ontwikkelingen; CBS, Maandstatistiek voor den in-, uit-, en doorvoer 1929; Horlings, op. cit.

The Prices

Already in 1930 the export prices decreased by 7% in Belgium and 9% in the Netherlands (Table 2). In 1931, when the sterling was depreciated by 33%, prices dropped with 12% in Belgium and 18% in the Netherlands. Belgium was confronted with an enormous price fall of its most important competitor, the British industry. The depreciation of the pound was followed by the Empire and other countries with strong ties with the UK. Prices on the international markets dropped in gold currency with the exchange rate of sterling. The Belgian franc became overvalued, but in 1931 a depreciation was not even discussed. The problems of the floating franc of the early 1920s were not forgotten, but the gold standard proved not less problematic. A deep depression

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resulted. In 1931 national income slumped with 6%, in 1932 with 7%.\textsuperscript{17} Belgium had to adapt its internal prices, but to deflate proved almost impossible. The costs of living, (Table 2) an indication of the internal prices, hardly fell at all.\textsuperscript{18} The prices of export oriented industries dropped, while their costs, especially of wages, were rigid. Attempts to lower wages below the costs of living were blocked by strikes.\textsuperscript{19} If before the depression prices were in equilibrium, in 1932 a purchasing power parity calculation suggest an overvaluation of the franc with 17%. In 1929 the franc was in fact a little undervalued, but from 1930 on the franc reached equilibrium by rising prices and a price fall in the outside world. The 17% overvaluation of the franc after 1931 is probably an underestimation because all important trade relations except Britain guarded the gold parity of their currencies and had the same problems as Belgium. The overvaluation hardly changed until the devaluation of 1935.

After the British deprecation the Belgian government decided to protect some markets, but that was no solution. For important industries the home market was no alternative. They had to accept that prices were not profitable any more. Defending their market shares as long as possible and hoping for a change was the only strategy they had. In 1932 more than 50% of the companies in branches like coal, glass, steel and textiles suffered losses. In the first months of 1935 70% of the Belgian industry was in the red.\textsuperscript{20} Compared to other gold standard countries protection was unimportant, but for political


\textsuperscript{20} Bu Za Brussel, 2627 B-3: Comité restreint, "Projet de rapport sur l'orientation à donner à la politique commerciale de la Belgique", 31 octobre 1933, pp. 1-2; Bu Za Brussel, 11.179.2: Wet van 30 maart 1935 etc. Verslag aan de wetgevende kamer voorgelegd aangaande de uitvoering dezer wet, 4 april 1936, pp. 4-6.
reasons it was necessary to protect coal and agriculture. This resulted in a stabilization of the internal price level. Between 1929 and 1932 the export prices dropped 33%, whilst the internal prices decreased less than 10%.

**TABLE 2. International and Internal Price Development in Belgium and the Netherlands during the 1930s**

<table>
<thead>
<tr>
<th>Year</th>
<th>International prices 1929 = 100</th>
<th>Costs of living 1929 = 100</th>
<th>Weighed average of the exchange rate corrected for prices(^{22})</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Belgium</td>
<td>The Netherlands</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Import</td>
<td>Export</td>
<td>Import</td>
</tr>
<tr>
<td>1929</td>
<td>100</td>
<td>100</td>
<td>100</td>
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<tr>
<td>1930</td>
<td>89</td>
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<td>1931</td>
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<td>1932</td>
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<td>1933</td>
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<tr>
<td>1937</td>
<td>80</td>
<td>79</td>
<td>68</td>
</tr>
</tbody>
</table>


\(^{21}\) Bu Za Brussel, 11.179 \(^{1}\)er. Circulation d'Information no. 35, le 25 octobre 1933: "La nouvelle orientation de la politique commerciale du gouvernement belge".

\(^{22}\) The exchange rates are corrected for the development of the costs of living in all relevant countries. The cost of living is the only indication of internal price development known for all these countries. The weighting is based on the weight of the home-countries of these currencies in the Belgian, respectively Dutch exports in 1929. The rate of the Dutch guilder is calculated by comparing the rate of it in six currencies, Reichsmark, pound sterling, the US dollar, the Belgian and French franc and the Dutch-Indian guilder. The Belgian franc is compared with Reichsmark, French franc, guilder, pound sterling and the US dollar.
Brussels had reasons not to depreciate. In 1931 the franc was a strong currency. The gold stock of the Banque National was enormous and international trade was balanced.\(^{23}\) The devaluation of Britain was disastrous, but the country had other partners that wanted to rescue the gold standard. Belgium was the only gold block country with a mayor part of its trade concentrated on other gold standard countries. Above that, just after the fall of the Pound it was thought that the price disequilibrium would easily be overcome by inflation in England. It was common knowledge that a paper currency would result in inflation. Only later in the 1930s it became clear that this inflation failed to come and that deflation was more difficult than expected.

During the interwar period, Belgium tried again and again to become a member of an international block to protect its trade. Therefore, the initiative for the Gold Block seemed a logical step.\(^{24}\) This block was nothing but a paper tiger. Only the British promise to help the block to save its gold parities was of some importance. The 1933-1934 depreciation of the dollar with 40\% was not followed by the Pound. Compared with its gold parity sterling depreciated 36\%, but appreciated a few percent against the dollar. This was done to save the continental gold standard and so to protect British competitiveness. In the last months of 1934 speculators expected the dollar to depreciate further and the pound was thought to follow. This resulted in a sterling depreciation against the desire of the Treasury.\(^{25}\) In March 1935 the exchange rate of sterling decreased below 70 francs, a level London was sure to be fatal for all gold currencies. Nobody doubted any longer that a Belgian devaluation was forthcoming.\(^{26}\) This sterling depreciation was the immediate cause for the 1935 devaluation, but there were also internal Belgian reasons. The banks were in serious problems, the deflation policy failed and the depression, that passed away elsewhere, continued in the Gold Block because the internal

\(^{23}\) Bu Za Brussel, 2627 Bis-3, Comité Restreint: "Projet de Rapport sur l'orientation à donner à la politique commerciale de la Belgique", 31 octobre 1931.

\(^{24}\) NBvB, fotocopiën, L'accord conclu à Londres, le 3 Juillet 1933 entre France etc. Janssens, op. cit., pp. 244-245.

\(^{25}\) PRO, T 188/78, Exchange position (9th November, 1934). Note of 11/4 FP (1934); Howson, op. cit. 56; PRO, T 188/78, Notes on exchange position 7/9 (1934), TP; Ibidem Exchange position 18th November 1934.

price level was too high and too rigid. After the 1935 28% devaluation based on a purchasing power parity calculation, the internal prices were in balance again with the international price level. To restore this balance was, more than a recovery of exports, the target of the devaluation.²⁷

After the depreciation of sterling the situation in the Netherlands was not much different from Belgium. Nobody wanted to depreciate and it seemed unnecessary.²⁸ In the 1930s all countries that depreciated did so because it was impossible to defend the gold parity, or because they were so dependent of a country that depreciated that there was no alternative. The British depreciation was disastrous for the Dutch, but Germany and Belgium still had their gold parity. Dutch export prices, in 1931 already 25% below the 1929 level, decreased with another 21% in 1932 and went on slumping to 49% of the 1929 level in 1935. In this year the costs of living were still at 81%, and the overvaluation of the guilder was 25% (Table 2).

In 1931 it was hoped that inflation in Britain in combination with some deflation at home would end the disequilibrium. The Calvinist politician and from 1933 on prime minister Hendrik Colijn told his English friend Walter Runciman, then President of the Board of Trade, that a managed currency with stable prices was impossible. The gold standard should be defended by all countries that had the technical capacity to do so, otherwise chaos would result.²⁹ Just as in Belgium it was necessary to protect some branches of the economy - especially agriculture - but by doing so the internal prices only became more rigid. In 1933 the costs of living even increased as a result of agrarian protection, but the growing right wing extremism among desperate farmers was feared.³⁰

In the Hague every devaluation in a neighbouring country resulted in a discussion about the gold standard policy. In 1933 there were rumours that the

²⁸ H en N 736 map 8: Aanteekeningen inzake de huidige economische positie van Nederland; H en N 736 map 16: Verslag van de Vergadering met de werkgevers- en werknemersorganisaties op maandag 12 oktober 1931.
²⁹ H en N 779 map 3: Colijn aan Beelaerts van Blokland, 26 februari 1932.
³⁰ Financiën, dossierarchief 1918-1940, inv.nr. 277: Nota van de Thesaurier-Generaal aan de Minister van Financiën over de begroting van het crisislandbouwfonds 1933 en 1934, 23 oktober 1933.
Hitler government wanted to devalue the *Reichsmark*. As long as it was not clear whether this was true, Colijn's new five party coalition kept quiet about monetary policy. The US-dollar depreciated in this period and rumors spread that the guilder would follow.\(^{31}\) A petition of famous economists and captains of industry asked for it. When it became clear that Schacht did not want to devalue, the Dutch agreed to become member of the gold block and Dr. Colijn presented himself as the statesman that would save the country from depression and protect the guilder.\(^{32}\) The fact that Berlin did not devalue was reason not to do so either. Colijn was not a friend of the Third Reich, in fact he feared it,\(^{33}\) but he knew that the German trade was essential for the country.

In 1935, after the Belgian devaluation, the position of the guilder was discussed again. The Roman Catholic minister of economics Max P.L. Steenbergheme thought the Belgian devaluation a good opportunity to change policy. He sent a memorandum to the cabinet why he thought it better to devalue.\(^{34}\) Colijn, leader of the Calvinist party and opponent to the Catholic party, reacted with his own memorandum and Steenbergheme had to resign.\(^{35}\) Whether Colijn, by now the champion of the gold standard, feared for his own position is not quite clear, but there are reasons to believe that he was not as opposed to a devaluation as he said. In the summer of 1935 he even enforced a political crisis that humiliated the Roman Catholic party, but that also endangered the guilder. Colijn could not devalue anymore without loss of confidence and now tried to enforce it by a political accident. During this political crisis, the *Nederlandsche Bank* lost gold and the technical details of a devaluation were dis-


\(^{34}\) Hirschfeld, *op. cit.* pp. 54-55 en bijlage V, pp. 219-226.

cussed by the Board of Directors.\textsuperscript{36} Thanks to the Queen Wilhelmina the political crisis was solved in a few days, and Colijn returned with a reconstructed cabinet (as he knew he would) just before a devaluation was a necessity. The country struggled on with an overvalued guilder until a new opportunity to devalue.\textsuperscript{37} This only came in September 1936, when France left the gold standard and the cabinet decided it was nonsense to save the gold standard all alone. In consequence, the guilder depreciated.

During the 1930s it proved for Belgium and the Netherlands almost impossible to find a solution for the monetary problems that threaten their position as trade oriented economies. Their governments feared that following the policy of one partner would be fatal for the trade with other partners. This resulted in a policy of doing nothing and waiting what would happen, like a terrified rabbit in the lights of a car.

The Struggle for Free Trade

On entering World War I, the American president Woodrow Wilson declared not only that he wanted to make the world safe for democracy, but also for free and equal trade. However, free trade was not realized in the interwar period.\textsuperscript{38} There were a number of reasons for that. Protectionism in the United States was not the least, but the wartime experience of the blockade and monetary chaos were at least as important. At different conferences of the League of Nations in the 1920s and 1930s almost every country declared itself a free trader, but for temporary problems. The First World War destroyed what rested of British economic leadership. During the interwar period, there was no country to give leadership to the world economy. Charles Kindleberger blames the USA that it did not take the responsibility it had and did not become the leader in economic matters, as it did after the Second World War. In fact it is not clear whether the USA were in the position to do so. The US economy was rather isolated.\textsuperscript{39} Imports and exports were small compared to the size of production. When Kindleberger blames the USA that it did not take its responsibility he is right in a way. The fact that this enor-

\begin{footnotesize}
\begin{itemize}
\item \textsuperscript{36} Griffiths, \textit{op. cit.}, p. 183.
\item \textsuperscript{37} Klemann, \textit{op. cit.}, 62-71.
\item \textsuperscript{38} William E. Rappard, \textit{Post-war efforts for freer trade} (Geneva 1938), pp. 8-10; Richard T. Griffiths, "The economic desintegration of Europe. Trade and protection in the 1930s." in, \textit{EUC-Colloquium Papers}, DOC IUE, 138/89(Col 13), pp. 2-3.
\end{itemize}
\end{footnotesize}
mous economy became protectionistic increased the economic problems, but other countries were protectionistic for hardly better reasons. In 1925 Germany became protectionistic, immediately after the unilateral free trade clause of the Versailles Treaty expired, and in 1932 even Britain became protectionistic for political reasons.

Protection was a disadvantage also for big economies, but for them international trade was supplementary. For Belgium and the Netherlands protectionism was a greater threat. In 1929 in the Netherlands and Belgium, exports were 34% and 46% of national income. In 1929 tariff walls in some of the surrounding countries were already high. In the following years, protection became more decisive and in 1938 exports of goods were in the Netherlands only 20% of GNP. In Belgium this was 25%. Protectionism destroyed their trade and threatened their economies. Therefore, in the interwar period, the smaller European countries tried to make the world safe for free trade by all small means they had. During the 1920s and 1930s, they did so by participating in a series of conferences organized by the League of Nations. The most important of these conferences was even a Belgian initiative.

The Conference on the Abolition of Quotas

In 1927 the first trade conference organized by the League gathered in Geneva. It was a meeting of economic experts, initiated by France in 1925. This was the year of the Treaty of Locarno. Approach and a peaceful settlement of problems were also the targets of this initiative. At the conference the demolition of trade restrictions and a wide interpretation of the most favoured nation clause were the credo. The quota system should be prohibited and governments should develop plans to break down tariff walls. The Conference realized that there was an enormous gap between their agreement on principal matters, and treaties between governments. The Dutch expert Colijn therefore thought it the duty of the League to organise conferences to realize the plans. The League initiated such a conference and in 1927 a diplomatic conference met in Geneva with Colijn as its chairman. A certain optimism

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40 CBS, Macro-economische ontwikkelingen; Peeters et al., op. cit.; Institut National de Statistique, Annuaire statistique.
42 E.C. van Dorp, "De economische conferentie." in, ESB 1 juni 1927, pp. 490-492.
43 Archief Colijn, nr. 54, doos 8: Slotrede van Colijn op de Economische Conferentie te Genève, 24 mei 1927.
seemed reasonable. The international relations were normalized, the economic situation seemed healthy, and the first conference was a success. In October 1927 the meeting agreed that export quotas should be abolished. Of course the abolition of all quotas was impossible. Already in the concept exceptions were possible in abnormal circumstances.\textsuperscript{44} A great number of countries claimed that their circumstances were. Others did not want to ratify if the exceptions of neighbours were accepted, and Colijn became pessimistic about the treaty. In November 1929, more than two years after it was signed, there were only 18 ratifications, most of them conditional. In the end 6 countries were bound, only to use the first opportunity to recite.\textsuperscript{45}

This was the first attempt to enter the path to free trade. After the start of the depression the small countries became initiators of new attempts to better trade relations. To understand this role, the foreign policy of Belgium and the Netherlands should be clear.

\subsection*{International Position}

In the interwar period the international position of Belgium and the Netherlands was difficult. The Netherlands was too small to defend its independence or colonial empire. Its neutrality was not based on military power, but on lack of an alternative.\textsuperscript{46} It was believed that a balance of power would safeguard the country. No European power could accept that any other threatened Dutch independence. It was also thought that none of the powers would accept any violation of the Indies by another great power. Because of the fact that non of the First World War belligerents thought it in its interest to violate the neutrality, this policy was thought to be successful. This timid policy had its match in a more proud, moralistic policy. It was emphasized that the Netherlands were not a small country, because of its colonies.\textsuperscript{47} Its size made the Kingdom respectable. It only lacked the power to command respect, but respect could be won by promoting justice as a base for international relations. Dutch poli-

\textsuperscript{45} Archief Colijn, nr 54, doos 12: Sokolowski à Colijn, le 28 octobre 1929; Archief Colijn, nr 54, doos 12: Stoppani to Colijn, Geneva, November 28th, 1929; Archief Colijn, nr 54, doos 13: Slater to Colijn, June 13th, 1930.
\textsuperscript{47} Manning, \textit{op. cit.}, p. 351.
ticians not only hoped to win respect by such a policy, but also to make the world safe for small countries without the power to defend their enormous interests. Ideals went hand in hand with pragmatism. In the interwar period the League was the platform to express moral feelings about international politics. In 1920 the Netherlands became a member.

Neutrality and a pursuit of legalistic relations were the instruments to protect the existing situation. Free trade was the way to do this in the economic field. Until the 1930s Dutch markets were open. Low fiscal duties were the only barriers. The Hague was not ready to negotiate about their trade policy because the only policy they got was free trade. It was defended in a moralistic tone. The Foreign Office thought it not unreasonable to ask for concessions from countries with a more protectionistic policy without giving anything in return. Foreign products had already free access to the Dutch market, so there was nothing to demand. In Dutch politics this aspect of the trade policy was in discussion.

Nobody wanted protectionism, but the Roman Catholic Party wanted tariffs to be used in negotiations, but the Foreign Office was opposed to it. High principles were not the only reason. It feared diplomatic conflicts from a more aggressive trade policy. Above that, Amsterdam and Rotterdam business men with interests in financial markets and the ports had more political influence than the industry from the Roman Catholic land provinces.

How to make the world safe for small, hardly defensible countries was also a problem of the Belgian diplomacy, but Belgium had another experience during the First World War. In 1914 it became clear that neutrality did not guarantee safety for a small country with aggressive, neighbours. Because in 1919 Britain did not want a military obligation to warrant the inviolability of the country, Brussels had to hide under a French umbrella. This was interesting for Paris because it wanted support for its firm, but in Anglo-Saxon and neutral countries, unpopular policy against Germany. Belgium was loyal, and it seemed more and more a satellite of France. Only in the late 1930s, when a war between Germany and France was again forthcoming, did the country restore its neutrality, without much hope. The fact that France built its Maginot-line only along the German-French border made this policy even less safe.

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48 Voorhoeve, op. cit., p. 57.
50 Klemann, op. cit., pp. 144-145; See also: Houwink ten Cate, op. cit., pp. 123-138.
than in 1914. Just as the Hague, Brussels could not find a safe and realistic policy to guarantee its independence, but the different experience resulted in a different policy. Belgium had also a little different trade policy. As an industrialized country without the predominance of trade and financial markets, it had more protectionistic elements in its policy, and it had tariffs to strengthen its position during trade negotiations. In Belgium the political influence of industry and agriculture were more important, but just as in the Netherlands the final goal of its policy was to keep the markets of its neighbours open.

The Tariff Truce Negotiations

In Germany the top of the economic cycle was in 1927. After that the economy kept going by increased expenditures of the Länder, but agriculture was in depression. In 1929 farmers claimed protection. For the food exporting countries of Europe, Germany was the second important market after Britain. Growing right wing sympathies among farmers worried the politicians and the centre-left Heinrich Müller government took already some measures to protect the food market. As long as cereals were protected, this was not dangerous for the Netherlands, but claims to protect dairy products were a threat. Inside the presidential Heinz Brüning cabinet there was disagreement about the trade policy. M. Schiele, the minister of agriculture wanted protection for food, but the foreign minister and his colleague of industry were afraid for the reactions in other countries. The farmers became more and more extreme in their political feelings and Schiele, a nationalist and political friend of Paul von Hindenburg, was prepared to risk a crisis about butter tariffs. Such a crisis was not only dangerous for the cabinet but even a danger for the Republic itself.

It were, however, British developments that worried Brussels so much that it initiated a conference. Britain was one of the most important markets for the Continent. Most of Britain's imports came from Europe. Most of its exports went to other continents. Almost every European country had an active

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53 See: Klemann, *op. cit.*, p. 121.

trade relation with the UK.\textsuperscript{55} In 1929 the continent became concerned because the Conservative Party became protectionistic. Difficult economic circumstances were at the roots of this change of opinion. Britain was not the leading industrial nation anymore. Protected by imperial preference, British industry struggled on, but unemployment was high. Imperial preference was a protectionistic system based on tariffs in all countries of the Empire, with free trade for British products. The Conservative Party wanted a systematization of this policy. Imperial free trade was the slogan of the Torries in the 1929 elections. It was an euphemism for protection against non-Empire countries.\textsuperscript{56} At the same time Canadian trade suffered from American protectionism, and the Canadian Government claimed something in return for the advantages Britain got on the Canadian market. Other dominions, in grave problems as a result of the agricultural depression, backed this claim.\textsuperscript{57}

Labour won the 1929 elections, but it had no majority in Parliament and it was common opinion that the Labour victory was only a temporal escape.\textsuperscript{58} As long as Labour was in power there was time to do something against British protectionism. This time was used by the Belgian foreign minister Paul Hymans. After the consultation of Whitehall he introduced a plan to attach Britain to its free trade tradition by an international treaty and at the same time force other European countries to give up some tariffs. For most European countries, the British market was important enough to give something in exchange if London was ready to record its free trade policy. The idea was to agree a tariff truce for two years, a period to negotiate lower tariffs. Most enthusiastic was Britain's Labour government. W. Graham, the president of the Board of Trade, promised to come to the Conference himself. It uplifted the Conference on the ministerial level.\textsuperscript{59}

The Tariff Truce Conference was in a hurry. Not only was the position of Labour rather weak, but as a result of the slump free trade also became diffi-

\textsuperscript{55} Mitchell and Deane, op. cit., pp. 323-326.
\textsuperscript{56} P. Geijl, "De Britse Rijksconferentie." in, ESB, 22 oktober 1930, pp. 940-942.
\textsuperscript{57} PRO, T 172/1688: Telegram from the Secretary of State for Dominions Affairs to the Prime Minister of the Commonwealth of Australia, 21st July, 1930; Imperial Conference 1930. Note by the Secretary of State for Dominions Affairs, October 30th, 1930.
\textsuperscript{58} Forrest Capie, Depression and Protectionism. Britain between the Wars (London 1983), pp. 45-46.
\textsuperscript{59} J.A. Nederbragt: "De conferentie Colijn" in: ESB, 10 december 1930, pp. 1080-1082.
cult in other countries. Because of these problems the Belgo-Britain idea to freeze all tariffs for two years, proved impossible. It was feared that the flood of exceptions needed to make this acceptable would result in the same kind of problems as with the former treaty.⁶⁰ Because of the most favoured nation clause non-signers could get all advantages of the treaty. For the small countries this was unacceptable and they initiated a discussion about the clause. Was it acceptable that countries that did not sign a treaty open to all, got the advantages of such an agreement?⁶¹ The European powers, however, did not want to answer this question before it was clear what their interests were.

The initiative to discuss the most favoured nation clause was the first sign of cooperation between the Netherlands, Belgium, Luxembourg and the Scandinavian countries. The Netherlands and the Scandinavian countries were in competition on the markets of dairy products, but were all opposed against protection in Germany or Britain.⁶² In Germany, however, the struggle inside the cabinet was decided in favour of Schiele and the Dutch had no trade policy to do anything against it. Diplomatic protests of the Dutch minister in Berlin was all the Hague could do. Schiele was not impressed. The Dutch can do nothing but grumble, he said.⁶³ It was all the Dutch government could do, but the Dutch farmers initiated a boycott against German products. This boycott was not only a success among farmers but also among the urban population.⁶⁴ The object of the well organised Dutch farmers was to press the German industry to fight against further agrarian protection in their country. The imports of German industrial products was much more important than the exports of agrarian products to Germany. Dutch agricultural organisations

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⁶⁰ Archief Colijn, nr 54, doos 13: Van Langenhove à Colijn, le 4 novembre 1930; L.J.A. Trip, "De Conferentie te Geneve voor het voeren van eene geconcerteerde economische actie" in, ESB, 2 april 1930, pp. 300-301.
⁶⁴ H en N 723 map 5: De chef der 6e afdeeling van de inspectie van den landbouw aan Handel en Nijverheid; Ministerie van Buitenlandse Zaken, Den Haag, DEZ 1924-1940, inv.nr. 110 Duit doos 491: Uittreksel uit de notulen van de vergadering van de Commissie voor de herziening der handelsverdragen, 23 juli (1930 HK).
had contacts with the Reichsverband der deutschen Industrie. This industrial organisation backed their foreign minister against the protectionism of Schiele.

During the Tariff Truce Conference, a Dutch plan was accepted. The free trade countries, Britain, the Netherlands, Portugal, Denmark and Norway promised not to introduce protectionism. The other countries promised not to terminate their treaties. Because it was allowed to change treaties and to introduce new tariffs on products that were free, the free traders were stronger committed than the protectionistic countries, but the treaty, valid until April 1931, should create a period of rest for further negotiations. This was the traditional Dutch trade policy introduced on an international level. The idea was accepted and the treaty should be ratified by as many countries as possible. Another initiative of the Conference was an inquiry among the members of the League to find out what problems they had from protectionism of their neighbours. Because the Netherlands and Denmark had the same problems, the Danish government asked the Dutch to coordinate the answering of the questionnaire. There was already an intensive cooperation in Scandinavia, so the Dutch joint this company of northern countries.

During the Conference, also a new form of cooperation started between the Dutch and the Belgian delegation. In the Hague and Brussels, the Foreign Ministers were hardly enthusiastic about this approach to the country that was traditional more a rival than a friend. At the same time, the Dutch and Belgian diplomats agreed that their trade policy had much in common. These men consulted each other more and more. Both countries were in favour of free trade, because protectionism was against their interests. A close cooperation between the two countries could solve a lot of problems, it was thought. Belgium exported industrial products, the Netherlands exported agricultural products, so cooperation would open interesting markets. In fact the markets were not half as supplementary as was thought. Belgium im-

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65 Bu Za Den Haag, DEZ 1924-1940, inv.nr. 110 Duit doos 491: De Consul te Frankfurt aan de Gezant te Berlijn, 8 augustus 1930 no 2200/126; De Consul te Duisburg aan de Gezant te Berlijn, 11 augustus 1930 no 1597; De Consul te Dusseldorf aan de Gezant te Berlijn, 8 augustus 1930, no 4513/136.


67 Bu Za Den Haag, DEZ 1924-1940, inv.nr. 110 Conf doos 475: De Gezant te Kopenhagen aan de Minister van Buitenlandsche Zaken, 15 mei 1930, no 850 h 23/532; De Gezant te Kopenhagen aan de Minister van Buitenlandsche Zaken, 22 mei 1930 no 885 h 23/547.
ported food, but the dairy products and vegetables the Dutch exported, were also produced in Belgium. In the Netherlands, industry had a less prominent place than in Belgium, but it is nonsense to think of the Netherlands merely as an agricultural country. The idea that a close cooperation between these two countries could solve their problems if protectionism in most other countries destroyed the traditional markets, was too simple. But approach between the two countries could strengthen the call for free trade. To overcome the opposition to such an approach, each diplomat gave his minister the impression that an informal initiative to political coordination was taken by the other minister. Both ministers believed this and gave permission for informal contacts.\textsuperscript{68}

In the months after the conference it became clear that the new treaty also would be ratified by only a small number of countries. A total failure was not immediately feared because nobody wanted to be blamed for that, but success was far off.\textsuperscript{69} The protectionistic tendencies in Germany went on and this strengthened cooperation between the Netherlands and the Scandinavian countries. At the same time the overture between the Netherlands and Belgium became less informal. In May 1930 Hymans became more positive about cooperation and in June he proposed to coordinate the answers on the questionnaire.\textsuperscript{70} After that it did not take long before the Dutch, Belgians and Scandinavians, met on a Conference at the Hague. This Conference of October 1930 was only a month before the second Tariff Truce Conference. In The Hague these small European countries promised to coordinate their trade policy. They even agreed to implement the truce only among each other if the Conference proved a failure.\textsuperscript{71}

**The Treaties of Oslo and Ouchy**

In November 1930 it became clear that the Geneva policy was a failure. The Scandinavian countries, Belgium, the Netherlands and Luxemburg decided to give the great countries a moral example. Therefore they agreed on the Treaty of Oslo. In this treaty these countries promised not to hurt the economic in-

\textsuperscript{68} Klemann, *op. cit.*, pp. 129-131.

\textsuperscript{69} L.J.A. Trip, "De conferentie te Genève voor het voeren van eene geconcerteerde economische actie, II" in, *ESB*, 9 april 1930, pp. 324-327, 324.

\textsuperscript{70} Bu Za Den Haag, DEZ 1924-1940, inv.nr. 110 Conf doos 475: Légation de Belgique au Ministre des affaires étrangères, le 6 juin 1930, no 2124.

\textsuperscript{71} Bu Za Den Haag, DEZ 1924-1940, inv.nr. 110\textsuperscript{Conf} ds 478: Telegram uit Genève, 23/09/1930.
terests of the other members of the Oslo-group. The treaty lacked any concrete agreement and it was only a symbolic step. The Oslo-governments hoped that the greater countries should pick up the example and that so the Geneva-negotiations could be revived.\textsuperscript{72} In fact the greater European powers countries understood quite well that the Oslo-countries with their free trade policy only pursued their own interests, and purchasing once interests is not a very strong moral example. The impression of the treaty was limited. Only some industrial circles in Germany were worried. They feared that the Treaty of Oslo and the cooperation between these important markets for the German industry were directed against German protectionism. Further protection of the German food markets could be dangerous for the industrial exports, they thought.\textsuperscript{73} This fear, based on nothing, helped to postpone some new tariffs in Germany, but in the long run the German Governments had to win support among the electorate to save the Republic. Every electoral victory of right wing parties resulted in stronger influence of agricultural and less influence of industrial pressure groups.\textsuperscript{74}

In March 1931, the Tariff Truce Conference gathered again in Geneva. Now it finally became an un concealed failure. The only result of all negotiations was that some countries slowed down their protectionistic programme because they did not want to be blamed for the failure.\textsuperscript{75} Even after this the small countries did not give up. There was a lot of talking about closer economic cooperation among each other. The countries should give each other advantages in an open treaty.\textsuperscript{76} In 1931 Britain abandoned the gold standard. A great number of other countries followed this step, among them the Scan-

\textsuperscript{72} G.M. Verrijn Stuart, "Het verdrag van Oslo." in, ESB, 7 januari 1931, 41-42; Van Roon, \textit{op. cit.}; Blaisse, \textit{op. cit.}, p. 127.


\textsuperscript{74} ARA, Financiën, Doss.arch. 1918-1940, inv.nr. 621 nr. 16: Nota van Ries voor de Minister, 15 augustus 1932.


\textsuperscript{76} H. Colijn, St.Vitusdans, \textit{Rede op 1 februari 1932 gehouden voor de Vereeniging voor actieve Handelspolitiek} (s.l. 1932) 8; Handel en Nijverheid 779 map 3, Telegram van Beelaerts uit Genève, 7 februari 1932.
dinavian countries. The Netherlands and Belgium stuck to the gold standard. The already weak Oslo Block fell apart in two different monetary blocks. In the same period, Britain became protectionistic.

The cooperation between the Oslo countries was rather weak from the start, but the cooperation between the Netherlands and Belgium became closer and closer. The economic setback became a threat after the depreciation of sterling, and the cooperation between the two countries developed more intensive, but the problem of the most favoured nation clause was insoluble. Every concession to the partner was also an advantage to even the most protectionistic neighbour. The most favoured nation clause is useful in a period of increasing free trade. In this period of protection, it proved an obstacle to rescue what was left of free trade relations.\textsuperscript{77} The only solution seemed to use the still unaccepted exception on the most favoured nation clause. Because Great Britain introduced its imperial preference policy, a policy not officially recognized as an exception but accepted by almost every country, a reinterpretation of the clause seemed possible. In June 1932 in Ouchy, near Lausanne, a treaty was signed by Belgium, the Netherlands and Luxembourg. It was a treaty open to all other countries, so in the opinion of the three partners the advantages were not to be given to the most favoured trading partners. According to the treaty, tariffs were to be reduced step by step until an unimportant level was reached.\textsuperscript{78} The European powers did not accept it. Most clear about this was Britain. Immediately after the treaty was signed the President of the Board of Trade said that this interpretation of the clause was unacceptable to the HM Government. Imperial preference was a direct violation of the clause, but the British Empire was powerful enough and its trade was so important to all other countries, that this was accepted. The Belgo-Dutch policy, a last attempt to rescue the free trade tradition, was not accepted. In April 1933 these countries had to give up. The Dutch government accepted the British interpretation of the most favoured nation clause because it feared problems for its exports to Britain.

Conclusions

During the interwar period, it was not only impossible for Belgium or the Netherlands to formulate a realistic foreign policy that guaranteed the freedom and independence of these countries, it was also impossible to formulate

\textsuperscript{77} Van Roon, \textit{op. cit.}, p. 97; Suetens, \textit{op. cit.}, p. 238.

\textsuperscript{78} Griffiths, \textit{The economic desintegration of Europe}, \textit{op. cit.}
a realistic monetary or trade policy. Just as the countries were too small to
defend their sovereignty or their colonies, they were too small to formulate a
monetary policy totally independent from the surrounding powers. Their eco-
nomic problems in the second half of this period were strongly aggravated by
the fact that there was neither any coordination between the greater Euro-
pean powers, nor was there one leading economy strong enough to be ac-
cepted by all. For a small economy too big to accept dependency from a re-
geonal power, periods without a clear superior economy in the world are diffi-
cult. When there is such a power it is always in its interest to protect free
trade and monetary stability, just as it is in the interest of small countries. The
best thing small powers can do in such a situation is to strengthen the position
of the power in the position to lead the world economy. It is not amazing that
the Netherlands and Belgium became loyal allies of the United States after
the Second World War. To back the position of the dominant economy is a
method to promote international relations based on law and justice. When
there is no power strong enough to save free and equal trade and monetary
stability, it will always result in economic problems for the smaller countries.
Monetary chaos or extreme protectionism is fatal for their economies. The
cases of Belgium and the Netherlands in the 1930s suggest that monetary
chaos is even worse than protectionism. During a deep depression, protection-
ism is, however, almost as dangerous and the small countries are powerless
against it. The most favoured nation clause is in such a situation no instru-
ment to save free trade. May be it can be a solution to become a member of a
regional economic block, as Belgium tried during the 1930s and after the war
is done by both countries, but it is not sure whether the loss of economic
contacts with the outside world because of the protectionism that is charac-
teristic of such blocks, is not worse for the smaller members than it is for the
greater powers, that will formulate the economic policy of the block. How-
ever, when it is impossible to promote international agreements on monetary
stability and free trade by backing a dominant economy, it may be the only
solution to become a member of a block. It is a pity that such blocks are often
a threat to the sovereignty and independence of smaller nations.

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