

BANK OF MONTREAL  
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Tariff barriers, the difficulties in the way of exports and the loss of national capital have compelled Germany to borrow enormous sums in order to preserve her national economy and to meet her international obligations. It is only these foreign loans that have hitherto allowed the reparations system to function at all. Germany borrowed from the United States in order to pay reparations to her European creditors. These, in turn, repaid their war debts to the United States out of the receipts from Germany. A vicious circle was thereby set in motion, seriously disturbing international finance. "The vast unilateral payments which are the result of reparations inevitably have a destructive effect upon the money markets," writes Dr. Hjalmar Schacht, former President of the German Reichsbank . . . "Germany's great international tribute payments and her recurring foreign loans upset the movement of gold and exchange. It is impossible to prevent the balance of the gold stream flowing towards the two great centers, which are in the last analysis the beneficiaries of these international payments, Paris and New York . . . Whenever the flow of foreign loans to Germany ceases, and until Germany is able to match her international payments by an adequate export surplus, reparation payments will have to stop." And they did, on July 1, 1931. Until the Hoover moratorium, Germany is estimated to have paid in reparations the equivalent of principal and interest at five per cent. on a capital sum of \$ 3,400,000,000.

The withdrawal of about \$ 700,000,000. of capital from Germany in the first six months of 1931, the necessity of meeting interest payments on foreign loans and to provide for reparation payments precipitated the financial crisis which brought about the Hoover moratorium, the crisis in England and the formation of the National Government, and the abandonment of the gold standard by most countries. Few facts better illustrate the economic interdependence of the nations and the impossibility of isolation.

The effect of the Hoover moratorium, postponing reparation payments to July 1, 1932, was but temporary. The "flight" of capital" prevented Germany from meeting not only her political obligations but also her short-term credits, amounting to about \$ 3,000,000,000., and