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# The Economics and Finance of Bilateral Clearing Agreements: Germany, 1934-8

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# *The Economics and Finance of Bilateral Clearing Agreements: Germany, 1934–8<sup>1</sup>*

BY LARRY NEAL

EXCHANGE controls, both formal and informal, were put into operation by most countries during the international financial crisis of the early 1930s. By the beginning of 1934, when recovery was beginning in most European economies, the future of both domestic and foreign expansion lay in pawn to the political decisions to be made concerning the future extent of exchange controls and special trade agreements. In September 1934, Germany's course became clear. Dr Hjalmar Schacht, President of the Reichsbank and Minister of Finance under Adolf Hitler, announced his "New Plan" which continued and centralized Germany's foreign-exchange controls. Twenty-five supervisory centres allocated available foreign exchange for import transactions approved by the state. To facilitate trade under this regime of direct controls, bilateral clearing agreements were concluded with a number of countries, especially in central Europe and South America, in which German purchases were credited against offset purchases by foreigners in German markets. By spring 1938, some 25 countries had agreed to such arrangements and more than half Germany's foreign trade was carried on with them.<sup>2</sup>

The decisions about mundane matters of trade and finance were made, of course, in a much broader political and strategic context which eventually ended in World War II. The political nature and motivation of Germany's bilateral clearing agreements may or may not have contributed to the outbreak of war; before that question can be treated fully the economic effects of these agreements must be understood clearly. To date, the economic analysis of the bilateral clearing agreements of the 1930s has been cast in terms of the monopoly-monopsony theory which was being perfected at the same time.<sup>3</sup> This certainly appears to be the appropriate tool of analysis: the German economy was so much larger than that of any trading partner that the German authorities had an obvious bargaining advantage in the negotiations setting up the terms of each clearing, or barter, agreement. The final demise of each central European country to Nazi military power was a predictable, if extreme, outcome of monopolistic exploita-

<sup>1</sup> Grateful acknowledgement must be made of the careful reading and helpful comments made on previous drafts of this article by Profs. R. Alltomb, D. L. Kemmerer, C. P. Kindleberger, and I. Weiser.

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