After the termination of the war, we, in this country, taking as it proved too hopeful a view of world tendencies, set ourselves to restore the pre-war situation. We re-established budgetary equilibrium and by a long and stern process of deflation we struggled to put sterling back to its pre-war gold parity; at the same time we made every effort to re-establish peaceful relations in Europe and to restore the international gold standard in the countries whose currencies had broken down. In the early part of 1925 Great Britain, together with the British Empire and certain other countries, returned to the gold standard, and although, in fact, this step entailed further heavy sacrifices for our people in the shape of prolonged unemployment and depression for our industries, there was no reason why the return to gold should not have been a great success had the world price-level at that critical moment displayed a tendency to rise or even remained stable.

But it was not realized at the time how far the conditions which ensured the successful working of the gold standard before the war had altered. It was the practice in those pre-war days for this country to allow its debtors to pay in goods and to assist them in time of difficulty by continuous lending. We did our best after the war to maintain these practices, but our resources had been seriously impaired, and the old conditions could not be restored. The difficulties inherent in the situation were for a long time disguised by the flow of capital from America to Europe, which was such a feature of the decade from 1920. When the flow of American capital had stopped or been reversed, debtor countries were soon left with insufficient means to meet their obligations, and with no prospect of obtaining new resources.

The inevitable result of the economic conditions that actually prevailed was to bring about a progressive appreciation of the value of gold, or, in other words, a fall in the price of commodities. In certain industrial countries, such as Great Britain and Germany, unemployment became a serious problem. Even more drastic was the effect on countries engaged in primary production, since the fall in price of foodstuffs and raw materials far outstripped the fall in the price of manufactured articles. The situation in the primary-producing countries was soon reflected in London as a result of our world-wide trading interests.

We hoped that the difficulty would prove to be only transitory, and we continued to try and avert the crisis by pursuing a policy of lending freely abroad. Unfortunately, the situation in Central Europe, which has been specially affected by the break-up of the old Austro-Hungarian Empire and the difficulties of reparations, proved impossible to maintain. First in Austria, then in Germany, banks began to crash. The lenders of short-term capital, on which these countries had largely depended, attempted to extract their capital. Exchange controls were imposed to save currencies from depreciation, and stand-still agreements or moratoria were resorted to in order to prevent the outflow of capital. London, known to be a large lender on the basis of exiguous gold reserves, was particularly vulnerable. We made every effort to hold the position, raising credits abroad equivalent to our whole gold reserves, but after two months of constant and increasing losses of gold and foreign exchange we were forced in September, 1931, to abandon the gold standard. The National Government had to adopt the strongest measures to maintain our financial and economic equilibrium. We imposed drastic additional taxation and cut down expenditure to balance the Budget. We met the increasing deficit in our balance of payments by resorting to a moderate tariff. We strained every effort to keep the depreciation of sterling within reasonable limits, and we set up an Equalization Fund to try and smooth out the seasonal fluctuations which inevitably affect an unstable currency. This policy has been successful in preventing further deterioration in our economic position. But the unfortunate fact remains that we and many of the countries which returned to gold in 1925 suffered thereby the greatest inconvenience to our internal economy, and the memory of that experience naturally weighs heavily with us at the present time.

Policy at the Conference.

(*a*) *Financial Section.*

With these preliminary observations, I can now come to objectives, and I propose to sketch out in broad outline the policy of the United Kingdom Government on the important questions with which the Conference will have to deal.

In the first place, I should like to emphasize our view that there is a close connection between the monetary, financial, and economic aspects of our problem, and that action must be taken simultaneously in all these spheres.

This is well illustrated by the first proposition which I should like to submit to you—namely, that it is essential to bring about a recovery in the world level of wholesale commodity prices sufficient to yield an economic return to the producers of primary commodities and to restore equilibrium between costs and prices of production generally. It is clear that the present lack of equilibrium between prices and costs can only be remedied *either* by a further drastic reduction of wages and other costs and by widespread bankruptcies, *or* by a sufficient recovery in the level of wholesale prices.

In the opinion of the United Kingdom delegation an attempt to obtain equilibrium by further large reductions of cost would be attended by intolerable suffering and holds out no hope of success. No doubt it would be possible to restore equilibrium between prices and costs by reducing costs if only prices would remain steady. Under present conditions that does not happen, but, on the contrary, an all-round reduction in costs produces further deflationary effects on prices, so that costs and prices chase each other downwards without every getting to equilibrium. Moreover, there is one all-important entity in each country which finds it peculiarly difficult to reduce its own costs, I mean the Central Government. Every Finance Minister in the world knows only too well how tremendously resistant public expenditure is to reduction, if only for the reason that so many of its obligations are fixed in terms of money. A policy of reducing costs and prices has the inevitable effect of very greatly