

1933.  
NEW ZEALAND.

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# MONETARY AND ECONOMIC CONFERENCE.

(CONVENED BY LEAGUE OF NATIONS AND HELD AT LONDON, JUNE-JULY, 1933.)

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STATEMENT BY THE PRIME MINISTER (RIGHT HON. G. W. FORBES).

*Laid on the Table of both Houses of the General Assembly by Leave.*

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(NOTE.—Portions of this Statement comprise extracts from the Report of the Bureau to the Conference.)

### I. PREPARATION OF THE CONFERENCE.

The Powers which participated in the Lausanne Conference, on the conclusion of their work, undertook to decide upon "the measures necessary to solve the other economic and financial difficulties which are responsible for, and may prolong, the present world crisis." Consequently, they decided to request the League of Nations to convene a Monetary and Economic Conference for this purpose, the agenda for which was to be drawn up by a preparatory Commission of qualified experts.

The Council of the League of Nations, having decided at its meeting on the 15th July, 1932, to comply with this request, set up a small Committee (Committee for the Organization of the Conference) under the chairmanship of Sir John Simon, which was instructed to consider what practical steps should be taken.

As the result of decisions taken at the same meeting by the Council of the League of Nations, and on the 6th October, 1932, by the Council's Committee of Organization, the Preparatory Commission of Experts was finally set up as follows:—

- (a) One financial and one economical expert from each of the following countries: Germany, Belgium, United Kingdom, China, United States of America, France, India, Italy, and Japan.
- (b) Six experts appointed by the Council of the League of Nations, belonging to the following nations:—
  - For financial questions: Poland, Switzerland, Finland.
  - For economic questions: Czechoslovakia, Hungary, Argentine Republic.
- (c) Two experts appointed by the Bank for International Settlements.
- (d) One expert representing the Rapporteur on financial questions to the Council of the League of Nations (Norway).

In addition, an invitation to take part in the work of the Preparatory Commission was issued to the International Labour Office, which appointed three delegates, and to the International Institute of Agriculture, which appointed one.

The participation of the United States of America was the outcome of a correspondence between the Government of the United Kingdom and the Government of the United States, in which it was stipulated that reparations, inter-governmental debts, and specific tariff rates (as distinct from Customs policy) should be excluded from the programme, whereas the problem of silver would be included among the monetary questions.

The Preparatory Commission of Experts met for the first time at Geneva from the 31st October to the 7th November, 1932, under the chairmanship of Dr. L. J. A. Trip, President of the Netherlands Bank and representative of the Bank for International Settlements. It met for the second time at the beginning of January, 1933. Its findings, embodied in a Draft Annotated Agenda which was to serve as the basis for the work of the Conference, were submitted on the 19th January to the Chairman of the Committee of Organization, and forwarded a few days later in that form to the States invited to the Conference.

### II. INAUGURATION OF THE WORK OF THE CONFERENCE.

His Majesty the King opened the work of the Conference at an inaugural meeting held on the 12th June, 1933, at 3 p.m.

The Right Hon. J. Ramsay MacDonald assumed the Presidency, in accordance with a resolution requesting him to do so which the Council of the League of Nations adopted at its meeting on the 25th January, 1933.

Sixty-seven States were invited to take part in the work of the Conference. Sixty-four complied with the invitation and sent representatives. In addition, the following took part in its work in an advisory capacity: The Economic Committee, the Financial Committee, the Organization for Communications and Transit of the League of Nations, the International Labour Office, the International Institute of Agriculture, and the Bank for International Settlements.

The New Zealand delegation reached London on the 14th June and attended all meetings of the Conference from that date until its adjournment on the 27th July.

### III. WORK OF THE CONFERENCE.

At the first meeting, the Right Hon. Ramsay MacDonald, in assuming the Presidency of the Conference, outlined the general plan of the Conference's work on the basis of the annotated agenda drawn up by the Preparatory Commission of Experts. (See Appendix I.)

His Excellency M. P. Hymans, delegate for Belgium, was appointed Vice-President by the Conference.

The Bureau of the Conference (the Management Committee) was set up and was composed of representatives of the following countries: Argentine Republic, the United Kingdom, Canada, China, Czechoslovakia, France, Germany, Hungary, Italy, Japan, Mexico, Netherlands, Spain, Sweden, Union of Soviet Socialist Republics, United States of America.

Following upon the formal opening of the Conference and the setting-up of the machinery necessary for its operation, the delegates of thirty-four countries delivered opening addresses. These addresses dealt for the most part with the effects of depression in the particular countries represented by the speakers, and stressed various possible methods of promoting recovery. Even at this early stage differences in views and aims were discernible. The European countries which later formed the Gold Bloc took the view that the first step towards recovery was the restoration of confidence, and particularly of confidence in stable monetary standards. To secure this, they desired the immediate stabilization of exchange-rates and the assurance that countries which had suspended the gold standard would restore that standard as soon as practicable.

In contrast with this view, countries which had suspended the gold standard tended to look in greater degree toward monetary policy as a method of stimulating general recovery. A strong lead was given to this group by the address of the Right Hon. Neville Chamberlain (see Appendix 2), who suggested a general programme of liberal credit and low money rates, which he hoped might encourage the expansion of trade and economic activity generally, and so lead to the absorption of the unemployed and to an increase of purchasing-power and of demand. This British programme was supported by the British Dominions, the Scandinavian countries, and by other countries within the sterling area.

A third group consisted of certain debtor countries, many of whom had found it impossible to carry the burden of their external debt under existing conditions. Cases were quoted of countries whose external debt service due exceeded the total value of their exports. These countries urged the necessity of such debt adjustments as would reduce the burden of external debt charges to practicable levels.

The leader of the New Zealand delegation took part in this discussion, and his address is published as Appendix 3 of this report.

This general discussion in full Conference occupied most of the first week, and ended on Friday, 16th June.

### IV. THE DIVISION OF WORK.

In order to pursue a method of work in consonance with the suggestions of the Preparatory Commission of Experts, the Conference set up two main Commissions, on each of which all the nations were represented:—

*Monetary and Financial Commission.*—President: The Hon. James M. Cox (United States of America). Vice-Presidents: H. E. M. G. Jung (Italy); Dr. Victor Kienbock (Austria). Rapporteur: H. E. M. Georges Bonnet (France).

*Economic Commission.*—President: H. E. M. H. Colijn (Netherlands). Vice-Presidents: M. C. V. Krogmann (Germany); H. E. M. Thomas Le Breton (Argentine Republic). Rapporteur: The Right Hon. Walter Runciman (United Kingdom).

After adopting at its first meeting, on the 16th June, a programme of work, the Monetary and Financial Commission set up two Sub-Commissions:

- (a) One to consider "Immediate Measures of Financial Reconstruction," with the following items on its agenda: Credit Policy; Price Levels; Limitation of Monetary Fluctuations; Exchange Control; Indebtedness; Resumption of International Lending.

- (b) The other to consider "Permanent Measures for the Re-establishment of an International Monetary Standard," with the following items on its agenda: Functions of Central Banks; Co-ordination of their Policies; Monetary Reserves; Silver.

Whenever the need became apparent, each of these two Sub-Commissions appointed small sub-committees to study special problems or endeavour to harmonize divergent opinions with a view to framing draft resolutions to be submitted to it.

The Economic Commission divided up its programme of work as follows:—

- (a) Commercial policy; return to normal conditions of trade; progressive abolition of trade restrictions and foreign exchange control; tariff and treaty policy, including the regime of the most-favoured-nation clause.
- (b) Co-ordination of production and marketing: Wheat and other food-stuffs (sugar, wine, coffee, &c.); raw materials (coal, timber, &c.); industrial and agricultural agreements, &c.
- (c) Measures other than Customs duties and prohibitions: Various measures coming under the heading of indirect protectionism; marks of origin; veterinary and phyto-pathological questions.
- (d) Direct and indirect subsidies (especially shipping subsidies).
- (e) Public works.

Most of the countries represented at the Conference were represented also on each of these Commissions and Sub-Commissions. New Zealand was represented on the Monetary and Financial Commission by the Prime Minister (Right Hon. G. W. Forbes), with Professor A. H. Tocker assisting on the Sub-Commission dealing with Immediate Measures of Financial Reconstruction, and with Mr. G. C. Rodda assisting on the second Sub-Commission dealing with Permanent Measures for the Re-establishment of an International Monetary Standard. On the Economic Commission, New Zealand was represented by the Hon. R. Masters, assisted by Dr. R. M. Campbell.

## V. WORK OF THE COMMISSIONS.

### MONETARY AND FINANCIAL COMMISSION.

#### (a) *Immediate Measures of Financial Reconstruction.*

This Commission had six separate subjects to deal with, which may conveniently be considered in pairs. A number of meetings was devoted to an exchange of views on the general aspects of the questions forming the programme. This initial work brought to light the interdependence of the majority of problems involved, and the necessity of first settling fundamental questions which might pave the way to the agreements the Sub-Commission was seeking. This early general discussion lasted for days, and revealed in clearer outline the division of views and the variations of emphasis that were apparent in the opening stages of the Conference.

*Credit Policy and Price-levels.*—The first subjects dealt with were world credit policy and price-levels. There was considerable discussion on this matter, lasting several days, but much of it was general in nature, and there were few if any definite and concrete proposals upon the adoption of which the countries represented on the Commission could be unanimous. Again there were certain countries which urged as an essential preliminary to further action the necessity for stabilization of exchange-rates and restoration of gold standards. A definite divergence of views emerged between this group and the larger group of countries which had suspended the gold standard, and which for the most part favoured more expansive monetary policies, based upon the maintenance of easy credit conditions and low interest rates. It was realized that the solution to the question of immediate money measures depended very largely on the conclusions reached regarding permanent money measures, and on the agreements, if any, which would result from the deliberations of the Commission dealing with economic matters such as trade and tariffs, production and marketing control.

*Monetary Stabilization.*—The discussion of the second two subjects, the limitation of monetary fluctuations and exchange control, was largely removed from the public Sub-Commission dealing with immediate monetary measures by the development of events. The committee was meeting during a period when the atmosphere of the Conference was highly charged, and when important changes in the economic world were occurring. At a time when an important group within the Conference was urging the immediate necessity of exchange stabilization as the essential first step to any concerted plan for recovery, the United States of America found itself forced to undertake a far-reaching programme of internal reconstruction. The United States had suspended the gold standard some months earlier, and by the time the Sub-Commission had settled down to its work, during the last week of June and the first week of July, the dollar exchange was fluctuating widely and depreciating rapidly. Since publicity would necessarily lead to speculation and perhaps to more violent fluctuations of the dollar exchange, it was obvious that the discussion of measures for stabilization could not be taken in public. Consequently questions of limitation of monetary fluctuations and exchange control, with particular reference to the acute situation existing at the time, were discussed by a small private committee consisting of representatives only of the chief countries concerned. After much deliberation, this committee agreed upon a formula for limiting exchange fluctuations. This formula was submitted to the President of the United States, but was rejected by him. The draft was reconsidered, modified, and resubmitted to the President, but it was again rejected, the President stating clearly and emphatically that conditions in the United States at the time were not such as would permit exchange stabilization.

The Conference, and particularly the European Gold Bloc of countries, were greatly concerned about this failure to secure any measure of exchange stabilization, and they feared the effects on trade and on world conditions generally of violent fluctuations and possible further depression in a currency as important as the dollar.

A division of opinion on whether the committee should continue with its work of discussing immediate monetary policy then developed. Matters of general policy were reviewed by the Bureau of the Conference at a meeting on the 6th July, and the request was made that each Sub-Commission should draw up, as soon as possible, a list of questions which, under the circumstances, could usefully be studied.

The Sub-Commission on Immediate Monetary Policy held two public sessions on the 7th July in connection with this request, and, after a debate which revealed an irreconcilable division of opinion, a proposal of the United Kingdom delegation that all the items on the agenda should be included in the list to be submitted to the Bureau was adopted by twenty-five votes to fifteen votes, with one abstaining. Twenty-three delegations were not present, but three of these subsequently expressed their adherence to the proposal.

The decision reached in the Sub-Commission was considered by the Bureau of the Conference, which on the 11th July decided to recommend that the Sub-Commission should proceed firstly with the discussions on the problem of indebtedness. Consequently, the other items on the programme were deferred for the time being.

*Indebtedness.*—A discussion on indebtedness took place in which certain debtor countries urged the necessity for debt adjustment. Creditor countries considered that no general plan of debt reduction could be adopted, but claimed that each case must be considered separately. After considerable debate the matter was referred to a drafting committee, which submitted the following report. This report was subsequently adopted by the Commission and by the Conference :—

“ 1. The service of external debts is in different degrees an important item among the liabilities in the balance of payments of many countries and can only be assured if the debtor country can procure the necessary resources. The facility with which such resources can be procured in the present and in the future may depend on the revival of economic activity and credit. It would be assisted by a return to a reasonable degree of freedom in the movement of goods and services, and the creditor countries in particular should co-operate to this end. It will also depend on the economic and financial policy adopted by the debtor country. In present conditions a solution of the problem of indebtedness may in certain cases be necessary for the re-establishment of equilibrium. It should not, however, be dealt with in such a way as to impair credit.

“ 2. The conditions in the debtor countries vary considerably, and it is not possible to lay down a uniform treatment applicable to all cases. But debtors should make every possible effort to meet the service of their debts and to fulfil their contracts. It is indispensable, indeed, for the restoration of credit that contracts should be respected in the absence of modifications agreed between the parties concerned.

“ 3. When arrangements are recognized to be necessary, care should be taken by all concerned to secure the maintenance of confidence. They should, therefore, be limited to those cases where they are unavoidable, be made directly between debtors and creditors, and be based on the debtor's ability to pay. As regards State loans, it is in the interest of the creditors themselves to conclude arrangements of such nature as will permit the adoption at the same time of a programme of economic and financial restoration by the debtor countries and its effective application.

“ 4. It is desirable that in each of the countries concerned there should exist organizations in a position to represent the several classes of creditors in respect of foreign loans, including, in suitable cases, short- as well as long-term loans, and that such organizations should maintain such contact with one another as may be necessary to facilitate their proceedings. The Commission therefore recommends to the Governments of these countries that they should encourage the creation of and contact between organizations of this kind where they do not already exist at such times and in such measure as action can in their view be usefully applied.

“ 5. The question of intergovernmental debts lies entirely outside the field of discussion of this Conference.”

*(b) Permanent Measures for the Re-establishment of an International Money Standard.*

The Lausanne Conference laid special emphasis on the necessity of restoring currencies to a healthy basis, and the Preparatory Commission of Experts, who prepared the Conference agenda, considered that the restoration of a satisfactory international monetary standard was of primary importance. One objective of the Conference was the restoration of an effective international monetary standard to which the countries which had abandoned the gold standard could wisely adhere, but each Government must, of course, remain free to decide when and under what conditions it could adopt such a standard. The desirability of agreement among the nations upon an internationally accepted standard, in order to facilitate the free flow of world trade, was duly recognized in the resolutions which were passed by the Special Sub-Commission II, which was set up for the purpose of considering these matters. These resolutions were finally adopted by the Conference in plenary session.

The agenda for this Sub-Commission was :—

The Functions of Central Banks.  
The Co-ordination of their Policies.  
Monetary Reserves.  
Silver.

In view of the proposal to set up a central bank in New Zealand, which was before Parliament last session in the form of the Reserve Bank Bill, the discussions on this subject by leading authorities of the world, including representatives of many central banks, were most interesting and informative to this country's delegates. One could not fail to be impressed by the universal opinion in favour of central banking, an opinion which was generally accepted as a matter of course. Central banks were regarded as the basis of all machinery not only for facilitating transactions between different nations, but also for exercising effective control over internal monetary policy.

The Sub-Commission decided to set up two sub-committees, one to deal with the question of silver, and the second to deal with the technical monetary problems connected with the working of the gold standard.

*Monetary Standard.*—The Sub-Commission unanimously adopted the following resolutions based on a draft submitted by the United States delegation :—

(a) That it is in the interest of all concerned that stability in the international monetary field be attained as quickly as practicable.

(b) That gold should be re-established as the international measure of exchange values, time and parity being for each country to determine.

*Silver.*—The Sub-Commission, on the recommendation of the Sub-Committee on Silver, adopted the following resolution, which was based on a draft submitted by the United States delegation :—

“ Be it resolved to recommend to all the Governments parties to this Conference,—

“ (a) That an agreement be sought between the chief silver-producing countries and those countries which are the largest holders or users of silver, with a view to mitigating fluctuations in the price of silver ; and that the other nations not parties to such agreement should refrain from measures which could appreciably affect the silver market.

“ (b) That Governments parties to this Conference shall refrain from new legislative measures which would involve further debasement of their silver coinage below a fineness of 800/1000.

“ (c) That they shall substitute silver coins for low-value paper currency in so far as the budgetary and local conditions of each country will permit.

“ (d) That all of the provisions of this resolution are subject to the following exceptions and limitations :—

“ The requirements of such provisions shall lapse on April 1st, 1934, if the agreement recommended in paragraph (a) does not come into force by that date, and in no case shall extend beyond January 1st, 1938.

“ Governments may take any action relative to their silver coinage that they may deem necessary to prevent the flight or destruction of their silver coinage by reason of a rise in the bullion price of the silver content of their coin above the nominal or parity value of such silver coin.”

This resolution in no way conflicts with the measures the Government has now in hand for the issue of a special silver coinage for New Zealand. The present British silver currency in use is of a fineness below that mentioned in the resolution, but it is not intended to bring down any legislation for further debasement of our currency to a fineness lower than that of the British coinage which is legal tender at present.

*Monetary Reserves.*—After consideration of the matter of monetary reserves by the Sub-Committee on Technical Monetary problems, the following resolutions were adopted by the Sub-Commission :—

“ (c) That under modern conditions monetary gold is required not for internal circulation, but as a reserve against Central Bank liabilities, and primarily to meet external demands for payments caused by some disequilibrium on the foreign account. It is consequently undesirable to put gold coins or gold certificates into internal circulation.

“ (d) That in order to improve the working of a future gold standard greater elasticity should be given to Central-bank legal-cover provisions ; for instance, in so far as the system of percentage gold cover is applied a minimum ratio of not more than 25 per cent. should be considered as sufficient ; similar elasticity should be achieved by appropriate measures where other systems are applied. However, such changes must not be taken as an excuse for unduly building up a larger superstructure of notes and credits ; in other words, the effect of this resolution should be to increase the free reserve of central banks, and thereby to strengthen their position.”

*Central Banks.*—After full consideration of questions of central banking by the Sub-Committee, the following resolutions were adopted by the Sub-Commission :—

“ II. The Conference considers it to be essential, in order to provide an international gold standard with the necessary mechanism for satisfactory working, that independent central banks, with the requisite powers and freedom to carry out an appropriate currency and credit policy, should be created in such developed countries as have not at present an adequate central banking institution.

“ III. The Conference wish to reaffirm the declarations of previous Conferences with regard to the great utility of close and continuous co-operation between central banks. The Bank for International Settlements should play an increasingly important part not only by improving contact, but also as an instrument for common action.

“ IV. The Sub-Committee has taken note of the suggestions of the Roumanian delegation with a view to securing the adaptation of the central banks of certain agricultural countries to the special economic conditions of these countries and of the views expressed in the discussion thereof. The Sub-Committee feels that the local conditions in each country will to a very large extent determine the solutions to be adopted in this matter and suggests that if any countries desire advice on these questions in view of their technical character they might appropriately be considered by the international organizations specially competent to advise on these matters.”

*Central Bank Policy.*—The Sub-Commission held its final meeting on Monetary Problems on the 20th July. The following resolution was communicated to it :—

“ The Sub-Committee approves the annexed statement of general principles of central banks monetary policy which was laid before it :—

“ (1) The proper functioning of the gold standard requires in the first place the adoption by each individual central bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country. Gold movements which reflect a lack of such an equilibrium constitute, therefore, an essential factor in determining central-bank policy.

“ (2) Gold movements so far as they seem to be of a more permanent character should normally not be prevented from making their influence felt both in the country losing gold and in the country receiving gold.

“(3) While gold should be allowed freely to flow out of and into the countries concerned, central banks should always be prepared to buy gold at a publicly announced fixed price, expressed in their currency, and to sell gold at a publicly announced fixed price, expressed in their currency, the latter at least when exchange-rates reach gold points.

“(4) Central banks should obtain from their market the fullest possible information concerning the demands that might be made upon their reserves.

“(5) Since, as already stated under (1), the proper functioning of the gold standard requires in the first place the adoption by each individual central bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country, the discretion of each central bank in regulating the working of the gold standard in its own country should remain unimpaired. Central banks, however, should recognize that in addition to their national task they have also to fulfil a task of international character. Their aim should be to co-ordinate the policy pursued in the various centres in order to contribute towards the satisfactory working of the international gold-standard system.

“Moreover, they should endeavour to adapt their measures of credit regulation, as far as their domestic position permits, to any tendency towards an undue change in the state of general business activity. An expansion of general business activity of a kind which clearly cannot be permanently maintained should lead central banks to introduce a bias towards credit restriction into the credit policy which they think fit to adopt, having regard to internal conditions in their own countries. On the other hand, an undue decline in general business activity in the world at large should lead them to introduce a bias towards relaxation.

“In pursuing such a policy the central banks will have done what is in their power to reduce fluctuations in business activity, and thereby also undue fluctuations in the purchasing-power of gold.

“(6) With a view to arriving at an agreed interpretation of the data revealing the tendency of developments in general business activity, and at an agreed policy, central banks should consult together continuously, each central bank, in case of difference of opinion, acting on its own judgment of the situation. The Bank for International Settlements constitutes an essential agency for central-bank action designed to harmonize conflicting views and for joint consultation. This instrument should continue to be employed, as far as possible, for the realization of the principles set forth in the present note. It should continuously examine the application of the principles of the working of the gold standard, and study such modifications thereof as experience may prove desirable.

“Agreement on the resolution was reached by all Governments represented at the Sub-Committee on Technical Monetary Problems, except that of the United States, which considered discussion of the question at this time premature, it being understood that the Federal reserve banks would be glad to confer at an opportune time with other central banks on questions of this character to the extent that they are compatible with national policies.”

*Other Matters.*—The Sub-Commission further took note of a report from the Sub-Committee on Technical Monetary Problems concerning the remaining subjects on its agenda. The report was as follows:—

“The committee has not been able during the present session to complete its report on the section of the annotated agenda dealing with the gold-exchange standard, with other methods of economizing gold, and with distribution of monetary reserves.

“As regards the gold-exchange standard, the committee recommends that the Bank for International Settlements should as soon as possible proceed to study the question and particularly that it should examine to what extent it will prove possible to avoid certain of the defects which this system has revealed in the past.”

The following is extracted from the Sub-Commission’s report:—

“The Sub-Committee was asked to clarify the permanent principles of monetary policy that ought to be pursued in future. It is satisfactory to note that it has achieved a measure of success in this task since it has proved possible to reach full agreement on certain important problems. This may be seen from the text of resolutions approved. The same unanimity was evident also in regard to the necessity of central-bank co-operation.

“Finally, it should be stated that the important task which the Bank for International Settlements must discharge in the future was fully recognized.”

The report of the Sub-Commission was embodied in the report of the Monetary and Financial Commission which was forwarded to the Bureau of the Conference by the Rapporteur, Mr. Georges Bonnet (France), who stated, *inter alia*, that,—

“The Sub-Commission took note of a recommendation made to it by the Sub-Committee to the effect that the Bank for International Settlements would examine the problem of the gold-exchange standard as soon as possible, and would, in particular, consider how far it might be found possible to avoid some of the drawbacks which this system has revealed in the past. The Conference will certainly wish to endorse the recommendation.”

The report was adopted by the Conference at the final session.

The adoption of these resolutions in respect of an ultimate adoption of the gold standard does not necessarily mean that our currency should be fixed at parity with sterling. The New Zealand Government has the right, and these resolutions



do not interfere with that right, of determining in respect of its internal currency the relation thereof to gold and to external currencies. On present indications it is not desirable to adopt a gold standard until sterling is stabilized in relation to gold, and until this takes place no action is likely to be taken by this country in respect of these resolutions of the Conference.

#### ECONOMIC COMMISSION.

Four groups of problems were listed for consideration by the Economic Commission :—

- (1) Commercial policy, including Customs tariffs and other direct barriers to trade.
- (2) The co-ordination of production and marketing.
- (3) Subsidies and indirect methods of protection.
- (4) Public works.

The first three of these were referred to Sub-Commissions and were discussed in detail, particular attention being paid to problems and proposals relating to "co-ordination of production and marketing." These are of especial concern to New Zealand, since they involve issues closely akin to those raised by the quota or the quantitative regulation of exports. For this reason the proceedings of the Conference in relation to the second group of problems listed above will be referred to in comparative detail.

##### (1) *Commercial Policy.*

Prior to the commencement of the Conference the United States took the initiative in proposing a tariff truce by the terms of which, it was suggested, Governments should agree that, during the proceedings of the Conference, they would not adopt any new measures which might increase the difficulties affecting international trade. Sixty-one States, representing nearly 90 per cent. of the trade of the world, acceded to the truce, New Zealand being included amongst the adherents.

In discussions it was generally emphasized, without difference of opinion, that a lowering of excessive tariffs is essential to the recovery of world trade. But it must be recorded that no progress was made towards the attainment of the desired end. During the latter part of the Conference, when the impossibility of reaching agreement on currency stabilization had been revealed, this served as a reason for inaction with respect to Customs tariffs. It was then contended that, in the absence of such stabilization, States could not contemplate any effective revision of their protective tariffs or any lessening of other barriers to trade.

However, the divergence of views on currency stabilization cannot properly be regarded as an explanation of the failure seriously to examine the possibilities of removing trade-barriers. Apart altogether from that other issue, there was little or no evidence of any disposition to remove the barriers which were so generally conceded to be an exasperating influence in the depression. Indeed, the very seriousness of the depression clearly intensified the anxiety of countries to safeguard their own production, by maintaining the embargoes, quotas, tariffs, and other restrictions that at present impede trade and hamper general recovery.

It was the contention of several importing countries, too, that the lowering of their protective tariffs and the relaxing of their quotas should be preceded by measures on the part of producing and exporting countries to regulate the volume of their exports. Whatever may be said in reference to proposals of this character, their general effect must obviously be in the direction of substituting one type of control for another, rather than of restoring freedom of trade.

##### (2) *Co-ordination of Production and Marketing.*

The Conference as a whole, and the Commission and Sub-Commissions that dealt with the various economic subjects, were notable for the increasing attention paid, as the Conference developed, to the co-ordination of production and marketing in agricultural foodstuffs and raw materials. This problem at first occupied a comparatively minor place in the agenda. It came, however, into a position of first

importance as one delegation after another brought before the Conference additional commodities in which there was alleged to be overproduction.

In the plenary meeting at the commencement of the Conference the leader of the United Kingdom delegation spoke as under :—

“ As regards quotas, the United Kingdom delegation consider that a clear distinction should be drawn between import quotas arbitrarily imposed by the importing country as an additional measure of protection for the home producer, and production or market quotas established in pursuance of international agreements to regulate production or marketing so as to restore and maintain a remunerative level of wholesale prices for producers in all countries. The United Kingdom delegation are strongly in favour of the progressive abolition of all arbitrary import quotas. On the other hand, the disastrous slump in the prices of certain primary commodities, particularly of agricultural products, raises special problems for which in their view the most practical solution is to be found in international agreements for the better regulation of production and marketing by the countries principally concerned.

“ His Majesty’s Government in the United Kingdom are themselves engaged in promoting the regulation of supplies of several food products. They would be prepared to co-operate in the regulation of wheat supplies and supplies of other foodstuffs on the part of the principal food exporting countries with a view to restoring and maintaining a reasonable level of prices. They are also prepared to consider the question of co-operation in schemes of regulation in regard to other commodities, but in each case it seems to them essential that the scheme should be put forward with the support at least of a large proportion of the producers concerned and should contain adequate provisions for safeguarding the interests of consumers in the importing countries.”

A reference in general terms to the possible limitation of New Zealand exports was made by the Prime Minister in his opening statement to the Conference ; this is reproduced as an appendix to the present report.

At an early stage of the sittings of the Economic Commission the French delegation submitted a proposal in the following terms :—

“ All are agreed that the disequilibrium between the production and consumption of agricultural products and raw materials is at the root of the crisis. The drop in prices which resulted has deprived two-thirds of the population of the world of the greater part of their purchasing-power.

“ A readjustment between supply and demand can be brought about only by a better organization of production and the markets on an international scale.

“ This method, which has given satisfactory results in the form of private agreements when properly applied, was expressly recommended by the technicians and experts at Geneva.

“ In the absence of concerted action by the Governments, who can alone reconcile all the interests at stake, it has not so far given the results expected where agricultural products and raw materials are concerned.

“ From past experience the French delegation considers that no better practical method exists for restoring order in the present anarchy of production and trade. It therefore considers that the Conference should examine with care the possibility of agreements between Governments concerning certain products in regard to which their intervention seems necessary, and should take action to ensure the conclusion of such agreements.

“ Indeed, international measures for the organization of the production of certain basic products affecting large classes of producers cannot fail, by the rapid rise of prices which will ensue and the resulting increase in the purchasing-power of the producers, to restore to industry former markets and to offer new possibilities for the employment of labour.

“ They will further make it easier for debtors to meet their financial obligations.

“ Finally, the prospect of a return to more normal conditions of production and exchange will strengthen the efforts of the Governments to reduce the obstacles to international commerce.

“ It is essential to make a choice of the products to which the first effort at organization must be applied. The French delegation considers that these should fulfil the two following conditions : they should affect the greatest possible number of producers ; they should give the maximum possibility of regulation on international lines.

“ Consequently, the French delegation proposes the examination and conclusion of agreements between Governments on the best methods of regulating the production and exchange of products ; the following are suggested : Wheat, wine, timber, cotton, wool, coal, copper, silver.

“ It further proposes that this problem be placed at the head of the agenda for the discussions of the Economic Commission.”

The French proposal was advanced by M. Sarraut (Minister of Colonies) with a statement in which the root cause of the world’s economic distress was described as “ anarchy of production ” ; “ tariffs, quotas, prohibitions, restrictions, &c., were symptoms and not the causes of the disease ” ; and “ normal conditions ” could only be restored by inter-governmental agreements for regulating the supply of basic products.

A considerable measure of support was at once forthcoming for the proposal in general terms, and delegations proceeded to suggest additional commodities for consideration. Thus the first list of eight products was supplemented by adding

coffee, cocoa, sugar, tobacco, all cereals, live-stock, dates, tin ; and at a later stage dairy products were brought before the Conference under proposals that will presently be described.

Amongst the supporters of the principle of quantitative regulation were the Ministers who spoke on behalf of the United Kingdom. The Right Hon. Walter Runciman (President of the Board of Trade), while expressing a desire to obtain a lowering of obstacles to international trade, urged that proposals for the regulation of production were not in conflict with that object. "While we wish to increase the volume of trade," he said, "we do not wish it to be uncontrolled." "Producers," he said, "were faced with problems not merely of quotas and tariff barriers, but of supply in relation to demand." The Right Hon. Sir Philip Cunliffe-Lister (Secretary of State for the Colonies) likewise endorsed the suggestion that schemes for co-ordinating production with market requirements should be formulated. The root cause of the crisis, he contended, lay in the low price of agricultural products ; and this was due to disequilibrium between their supply and demand. Potential production of agricultural and primary products was far above the visible capacity for absorption. He submitted an outline of conditions which, he thought, should be fulfilled by any plan for co-ordination of production and marketing. This outline was accepted as the basis of discussion, and, after reference to a drafting committee, it was unanimously approved in the following form :—

1. In order to assist in the restoration of world prosperity it is essential to increase the purchasing-power of the producers of primary products by raising the wholesale prices of such products to a reasonable level.

2. In the exceptional conditions of the present world crisis concerted action is required for this purpose. Apart from any other measures that may be taken to restore the purchasing-power of producers and consumers and thus to increase demand, it is desirable that plans should be adopted for co-ordinating the production and marketing of certain commodities.

3. Any agreements to give effect to such plans should conform generally to the following conditions :—

- (a) The commodity must be one of great importance for international trade, in which there is such an excess of production or stocks as to call for special concerted action.
- (b) The agreement should be comprehensive as regards the commodities to be regulated—that is, it should not be so narrowly drawn as to exclude related or substitute products, if their inclusion is necessary or desirable to ensure the success of the plan.
- (c) It should be comprehensive as regards producers, that is—
  - (i) It should in the first instance command a general measure of assent amongst exporting countries, and within these countries a substantial majority of the producers themselves.
  - (ii) Where necessary or desirable for the success of the plan, it should provide for the co-operation of non-exporting countries whose production is considerable.
- (d) It should be fair to all parties, both producers and consumers ; it should be designed to secure and maintain a fair and remunerative price-level ; it should not aim at discriminating against a particular country ; and it should, as far as possible, be worked with the willing co-operation of consuming interests in importing countries who are equally concerned with producers in the maintenance or regular supplies at fair and stable prices.
- (e) It should be administratively practicable—that is, the machinery established for its administration must be workable, and the individual Governments concerned must have the power and the will to enforce it in their respective territories.
- (f) It should be of adequate duration—that is, it should contain provisions for its continuance for such a period as to give assurance to all concerned that its objects can be achieved.
- (g) It should be flexible—that is, the plan should be such as to permit of and provide for the prompt and orderly expansion of supply to meet improvement in demand.
- (h) Due regard should be had in each country to the desirability of encouraging efficient production.

#### *Special Commodities.*

Reference may now be made to the proceedings, inconclusive as they were, in regard to one or two commodities.

*Sugar.*—This was the product first dealt with in detail. An effort was made to reduce the agreed general principles into concrete form, and some interest therefore attaches to the lines of discussion.

In support of the case for regulative action, it was stated by the representative of the Cuban Government that the world's present actual and potential annual production of sugar is 38,000,000 tons, to which is to be added 10,000,000 tons of

stock, whereas the maximum consumption is some 27,000,000 tons. Already some steps had been taken towards bringing production into equilibrium with demand. In 1931 seven producing countries, representing 45 per cent. of the total production, agreed to regulate exports to a stated quantity and to create an International Sugar Council. But the effects of this had been offset by increased production in other countries, and “prices were still under one-third of the cost of production.” To cope with the position a draft Convention was submitted under which the contracting parties would agree for a period of ten years,—

- (a) Not to start the construction of new sugar-factories ;
- (b) Not to increase the effective productive capacity of any of the factories now existing ; and
- (c) Not to rebuild the factories which on account of having been totally or partially dismantled have ceased to be active units of production.

The Cuban proposal was supported, in some cases with slight qualifications in detail, by the representatives of the Governments of the Netherlands, Peru, Germany, Belgium, Portugal, Switzerland, the United Kingdom, and Brazil. The spokesman for India and the Union of Soviet Socialist Republics expressed themselves as unable to agree to the proposal.

At the adjournment of the Conference the discussions on sugar (as on other commodities) had not reached finality, and the negotiations for an agreement embracing the various exporters and importers of sugar were left to the Bureau of the Conference, in consultation with the International Sugar Council, with the intention that a further meeting of the countries concerned should be summoned at an expedient date.

*Dairy Products.*—Draft resolutions were submitted by the Polish and the Italian delegations, and these are reproduced in full :—

#### DRAFT RESOLUTION SUBMITTED BY THE POLISH DELEGATION.

“ I. The Conference recommends that the Governments of butter-exporting countries should set up without delay an ‘ International Dairy Council ’ for the purpose—

- “ (1) Of studying the means of reducing competition between the butter-exporting countries in general and on rationed markets in particular ;
- “ (2) Of ensuring a better distribution of butter throughout the year, and prevent a glut at certain seasons and in certain markets.
- “ (3) To study the possibilities of a better international standardization of butter.

“ II. The members of the ‘ International Butter Council ’ shall be chosen by the Governments taking part in this Council from among the persons occupied in the production of and trade in dairy products.

“ III. The seat of the ‘ International Dairy Council ’ shall be at London. The first meeting of the Committee shall be held on . . . . .

#### “ *Reasons in Support.*

“ The fall in butter prices is becoming more and more disastrous, and constitutes a menace not only to a great number of farmers, but also to the whole dairy industry in certain regions. It is further doing the greatest harm to countries whose economy is dependent to any great extent on agricultural production.

“ This situation is brought about by various factors. General impoverishment has everywhere caused a fall in consumption of the produce of cattle-breeding in general and dairy products in particular, and the protectionist policy of the importing countries has often been more implacable in this field than in the case of vegetable products. The abnormal fall in cereal prices has led to an overproduction of live-stock, which has accentuated the disequilibrium.”

#### DRAFT RESOLUTION SUBMITTED BY THE ITALIAN DELEGATION.

“ Whereas the question of dairy products cannot be studied separately, but must be taken in conjunction with all the other problems of agricultural economy, especially those connected with cereal growing, and in relation to the production and marketing of other edible fats, both vegetable and animals.

Whereas there are already institutions which have dealt and are dealing specifically with these questions, in particular the International Institute of Agriculture and the International Dairy Federation.

“ The Commission recommends that the International Institute of Agriculture, in agreement with the International Dairy Federation and in liaison with the Economic Committee of the League of Nations, be asked to consider the best measures for the regulation and co-ordination of the production and marketing of dairy products.”

The following extract from the official "Journal of the Conference" gives a report of the discussion on the resolutions :—

CO-ORDINATION IN RESPECT OF DAIRY-PRODUCTS.

THE PRESIDENT said that there were two proposals before the Sub-Commission : (1) The proposal of the Polish delegation (document Conf. M.E./C.E. 74) which dealt only with the butter market and (2) The proposal of the Italian delegation (document Conf. M.E./C.E. 82) which dealt with all dairy-products, and also with cereals and edible fats. The latter proposal was wider in scope, and he would open the general discussion on the larger questions.

M. PAGANI (Italy) explaining the Italian proposal, said that dairy-products could not be considered apart from other agricultural products, especially cereals. He did not think that there was any real need for the creation of a new organization. There already existed at Rome the International Institute of Agriculture, and there was also the International Dairy Federation of Brussels which dealt particularly with milk and milk products. In view of these facts, some difficulty might be experienced in connection with the appointment of a Council or any additional body. He hoped that any inquiry into existing difficulties might receive the assistance of the Economic Committee of the League of Nations.

M. ROSE (Poland) said that the Polish proposal was for the creation of an international organization of representatives of countries which exported dairy-produce with a view to the improvement of marketing conditions. The dairy-products industry was almost as important as the wheat industry, and agriculture in general was in many cases dependent upon conditions in that industry, which was, however, less well organized on an international basis than was the case with—*e.g.*, timber, wine, and sugar. The Rome Institute was not specially concerned with the improvement of marketing conditions in the butter industry, and the Brussels Federation was more particularly concerned with technical matters. He did not oppose the Italian proposal, but thought that there was a real need for an organization to reduce competition between exporters. The results of this competition were abnormal, even where no quota system existed, and, where quotas did exist, competition reduced prices without increasing exports, which was an absurd result. The proposed body would undertake the preparatory work which had already been done in the case of other products. He would suggest the appointment of a sub-committee composed of representatives of the exporting countries concerned to discuss the need for such an organization, the powers to be given to it, and the question whether it should deal only with butter or also with other products.

M. DE WOCHENFELT (Sweden) supported the Polish resolution. The immediate results might perhaps not be very great, but no methods could be disregarded which might improve the existing situation. He thought that the Brussels Federation, which had done very valuable research work, should be taken into account when considering the creation of the proposed Council, and this observation applied also to the Federation of National Dairy Councils. It was important to avoid overlapping, and the proposed new body should confine itself to the commercial side of the problem.

The present difficulties were due largely to decreased consumption and bad distribution, and he therefore proposed that Section I of Document M.E./C.E. 74 should read "of studying the means of *improving the distribution of butter throughout the world and of reducing, &c.*," and that the words "*and regulations for the marketing of butter*" should be inserted at the end of Section I (3).

He thought it would be better not to decide at present what classes of persons should be chosen as members of the proposed Council, and suggested that the words "from among the persons . . . dairy products" should be deleted from Section II.

M. BEHRENS (Denmark) considered that the most important remedy was to provide for an increase in purchasing-power. If, however, other producing countries agreed to form a Council to inquire into the possibility of improving the present position, his country would be willing to co-operate.

With regard to the Italian proposal that other products as well as dairy-products should be considered, he thought this matter would best be dealt with by the proposed sub-committee.

M. NEDERBRAGT (Netherlands) said that his country, which was a big exporter of dairy-products, supported the Polish proposal. He considered it essential that the proposed Council should contain representatives of all the large exporting countries. It was essential to avoid overlapping, and he supported the Swedish proposal on this point. It was important that the meeting place selected for the proposed Council should be at the centre of the industry. He had not had time to examine the Italian proposal, which seemed to him in general to embody views similar to those put forward in another sub-committee by the Netherlands delegation, and to that extent he was in agreement with them. The question was a very complicated one and he supported the proposal of M. Behrens that it should be inquired into by a sub-committee.

M. LAUR (Switzerland) said that, until two years ago, Switzerland had imported butter, but owing to difficulty in exporting its cheese was now unable to do so. His country would, however, be only too glad to return to the former state of affairs. Although he had no definite instructions on the point, he had no doubt that the Swiss Government would support the Polish proposal.

He thought that some modification would be necessary in the proposal of the Italian delegation. The International Dairy Federation was a federation of scientists and did not deal with the business side of the problem. He thought also that provision should be made for the representation of the International Commission of Agriculture, which had already considered the problem in conferences at Bucarest and at Antwerp.

He doubted whether it would be a good plan to apply to the Economic Committee of the League of Nations, which so far had not dealt to any great extent with dairy-products.

MAJOR ELLIOT (United Kingdom) said that the United Kingdom was not immediately interested as an exporting country, but the question was one of great interest to his country which took 80 per cent. of the world's butter exports and 50 per cent. of the cheese exports. He had not yet had time to study the Italian proposal, but he was inclined to agree with the view expressed by the Swedish delegate. The economic side of the problem was the most important, but on that point he was not at present in a position to make a statement. He therefore supported the proposal for the appointment of a sub-committee.

The United Kingdom was also a large producing, though not exporting, country, and was therefore affected by the existing world surplus of butter and dairy-products. It was estimated that a cut of 50 thousand tons would be necessary to restore the London market to a healthy condition. He wished it to be quite clear that it was the intention of the United Kingdom to increase its output of dairy-products. He supported the proposal that both the recommendations before the meeting should be referred to a sub-committee.

M. GAUTIER (France) supported the proposal of the United Kingdom representative, as he did not consider that this very important matter was yet ripe for final discussion.

M. ANZILOTTI (Italy) said that the Italian delegation considered that the present need was for a thorough inquiry into the question. The inquiry would perhaps be best undertaken by existing organizations which could give all the necessary information. These bodies were not concerned only with butter and could give assistance in connection with other agricultural products. When their Report was received it would be possible to say whether the creation of a new body was necessary. The International Dairy Federation had already dealt with the commercial side of the problem, as was shown in the case of brands of cheese, which was a purely business matter. The Italian delegation had no objection, however, to the whole question being referred to a sub-committee and would gladly co-operate in its work.

MR. MASTERS (New Zealand) felt that both the Polish and Italian proposals were inadequate to meet existing difficulties. The former suggested the immediate formation of an International Dairy Council; he was not in a position to state whether his Government would favour that suggestion. In any case there were three drawbacks to the proposal; it made no mention of dairy-products other than butter; though ensuring distribution, it failed to deal with other pressing problems; and it made no provision for the co-operation of consumers and the agreement between producers within the country which the Sub-Commission had earlier stated to be so desirable.

The New Zealand delegation was disposed to give favourable consideration to the Italian proposal, and endorsed Mr. Walter Elliot's suggestion that a sub-committee should be set up to study it.

THE PRESIDENT, speaking on behalf of the Argentine delegation, agreed that a sub-committee should be set up to consider all dairy-products.

The Sub-Commission appointed the following Sub-Committee: Denmark, Netherlands, Germany, Poland, Latvia, Irish Free State, Argentine Republic, Australia, France, Sweden, New Zealand, Canada, United Kingdom, United States of America, Belgium, Switzerland, Italy, Estonia, Finland.

MR. SHEEHAN (Australia) asked that the representation of his delegation on the sub-committee be left open.

The outcome of the deliberations of the Sub-Committee was a resolution in the following terms, which was endorsed by the Economic Commission and in due course adopted by the Conference:—

“The Conference,—

“Considering the great importance of the production and exportation of dairy-products in agricultural economy and universal economy,

“Considering the extremely serious situation of this branch of production,

“Considering that for the above reasons the delegations of several countries deem it necessary for the Governments to constitute without delay an ‘International Dairy Council’ for the purpose of reducing competition between the countries exporting butter and other dairy-products by co-ordinating production and marketing,

“Considering, moreover, that although certain institutions have already dealt and are dealing with this question, several delegations are nevertheless of opinion that it has not yet been sufficiently studied to allow of definite conclusions being drawn and, in particular, of an immediate solution of the problem being realized,—

“Requests the International Institute of Agriculture, in agreement with the International Agricultural Commission, the International Dairy Federation, and the Economic Committee of the League of Nations to make a preliminary study of the question;

“And invites the Governments of the various countries to send to the Secretariat of the League of Nations, before September 10th next, all the data at their disposal on this question, and, in particular, to inform it of their views on the constitution of an ‘International Dairy Council,’

“In order that the questions may be definitely settled at the next session of the Conference.”

### (3) *Subsidies and Indirect Methods of Protection.*

*Subsidies.*—Under this heading reference was made to the disturbing effects on normal economic relations due to governmental subsidizing of ship construction and operation. Underlying difficulties, connected with an apparent excess of available ships, were illustrated by the increase in the tonnage of the world's steam and motor shipping from 45.4 million tons in 1914 to 66.6 million tons to-day, an

increase of 47 per cent. compared with which the volume of the world's trade was in 1929, 30 per cent. above that of 1913, and in 1933 had declined to below that level. Having regard to the greater speed and increased efficiency of many of the newer ships, it was argued that "the tonnage available is out of all proportion to the demand for it."

The discussions by the Sub-Committee dealing with this matter were terminated by the inability of the Conference to make progress on the matter of exchange stabilization. To quote the official report:—

"Several delegations belonging to countries which are of special importance from the point of view of maritime shipping were of the opinion that a discussion regarding the possibility of regulating this matter could only be usefully pursued when the special circumstances which had led to the adjournment of part of the Conference's work had disappeared."

*Indirect Protectionism.*—The handicap to international trade alleged to result from legislation enforcing marks of origin was brought under discussion by a proposal submitted by the German delegation supported by the Belgian, Dutch, and Czechoslovakian delegations. This was a proposal for the conclusion of an international agreement for the relaxation and progressive suppression of such legislation.

No general support was forthcoming for the suggestion. It received only a qualified approval by several delegations, and was opposed in principle by the United Kingdom and France. The view expressed on behalf of New Zealand is summarized in the following extract from the "Official Journal":—

"Mr. Masters (New Zealand) said that his country wished its own goods, as well as those sold to it from abroad, to be marked in a way that left no doubt as to their origin. New Zealand considered in principle that the use of marks of origin was necessary and legitimate. If the legislative measures passed in this Dominion had given rise to certain abuses, she was willing to take part in concerted international action to reform them, but she could not support a project intended purely and simply to abolish the system of marks of origin."

Other forms of indirect protectionism, covering in all a wide range of more or less ingenious devices, were brought under notice. It was evident that no single formula could be found that would cover all of them, and the Sub-Commission endeavoured to draft a general "Formula of equitable treatment," which might be included in commercial treaties. In the form in which it was recommended to and adopted by the Conference this read as follows:—

"The Sub-Commission proposes that the Governments participating in the Conference consider the advisability of incorporating into future or existing treaties, wherever such action may be deemed to be suitable, a clause in the sense of the following:—

"If, subsequent to the conclusion of the present treaty, one of the Contracting Parties introduces any measure, which even though it does not result in an infringement of terms of the treaty, is considered by the other Party to be of such a nature as to have the effect of nullifying or impairing any object of the treaty, the former shall not refuse to enter into negotiations with the purpose of either of an examination of proposals made by the latter or of the friendly adjustment of any complaint preferred by it."

#### (4) *Public Works.*

Sharply divergent views were in evidence as to the wisdom of undertaking considerable public-works expenditure as a means of stimulating employment and raising the price-level. It had been intended to refer the subject to a joint sub-committee, representative of the Economic Commission and of the Monetary and Financial Commission, so that both its economic and financial aspects might be examined. But this intention was frustrated by the adjournment of the Conference, and no progress was made beyond a general debate in the Economic Commission and a recommendation to the Bureau of the Conference that an appropriate sub-committee be set up by the Bureau itself.

### VI. THE ACHIEVEMENT OF THE CONFERENCE.

When the Conference adjourned on the 27th July, after a session of nearly seven weeks, the opinion was widely expressed that it had failed. It is true that the Conference achieved little of what was expected of it, yet during the session of the Conference a great deal of work was done. The field to be covered by the Conference proved so vast, the problems so complex, and the situation with which the Conference had to deal was so unstable, that it was not practicable to achieve immediate and definite results.

## IMMEDIATE MONETARY MEASURES.

The breakdown occurred in the work on immediate monetary and financial policy. Under the circumstances, this breakdown was unavoidable. Rightly or wrongly, the important group of countries constituting the European Gold Bloc took the stand that prevention of currency fluctuations was a necessary preliminary and was fundamental to all other measures. The United States could not agree to co-operate by stabilizing the dollar exchange. They had been very near to economic collapse in the early part of 1933. A large proportion of their banks had ceased payment, deposits were frozen, and money was being hoarded, national income had fallen to about half its pre-depression level, and unemployed numbered about twelve millions. America's need to improve her internal conditions was to her much more important than the demand to co-operate in securing world recovery. She had embarked upon a programme which appeared to be easing the situation. Prices were rising, trade and employment were increasing, and her closed banks were rapidly being reopened. The fluctuations and decline in the exchange value of the dollar were, to American eyes, a relatively unimportant incident in an elaborate campaign, the continuation of which was all important.

It follows that under these circumstances the views and the needs of the European Gold Bloc and of the United States were quite irreconcilable, and the fact that the Conference failed to reach agreement on the matter of stabilization was due to circumstances over which the Conference and the countries concerned had little, if any, control.

## PERMANENT MONETARY MEASURES.

In the Sub-Commission dealing with permanent monetary measures, the work done was in the nature of laying down general principles, the practical details of which must be worked out and applied by the particular countries concerned. The resolutions passed by this committee and adopted by the Conference constitute a considerable measure of agreement on monetary matters, and should provide a useful basis for monetary policy and for international monetary co-operation in the future.

## ECONOMIC MEASURES.

The Commission dealing with economic matters and its many Sub-Commissions had a much wider and more intricate field to cover. The field of their discussion covered, in fact, the whole range of the production, trade, and marketing of all major products in all the countries of the world. It was realized generally that it was necessary for the world to return as soon as possible to normal conditions of trade and to abolish emergency restrictions, both upon the exchange of goods and upon dealings in foreign exchange. On the other hand, opinion at the Conference was in general strongly Nationalist and highly protectionist, and there were few, if any, countries who were willing to remove restrictions on imports immediately. The Conference was also much concerned about the surpluses that were said to exist in many primary products, and many delegates were anxious to secure agreements for restricting the amounts of these products produced and marketed.

The exploration of the questions involved in any programme of orderly production and marketing for so wide a range of products drawn from so many countries is in itself a tremendous task. Much detailed work was done, but it would be foolish to expect that work could be completed in the comparatively short period of the Conference. All that could be anticipated was that the questions should be outlined and explored. Their exploration has been begun, and will doubtless be continued. If the development of events is such that controlled production and marketing become necessary, the work that has been done may provide the basis for planning and control. But if events develop in such a way that the world can again resort to free and competitive production and marketing, then this information will still be very useful to the parties concerned.



### FUTURE OF THE CONFERENCE.

Many of these questions have been reserved for further study. The Conference adjourned on the 27th July in the expectation that it would be called together again at some later date. The Bureau of the Conference remained in being, and certain of the committees are to continue their work. It appears unlikely, however, that so large and so representative a Conference will assemble again in the near future, and it might be unwise to call it together until a much more substantial measure of real agreement exists amongst those countries whose position makes them the leaders in world affairs.

Consequent upon the resolutions adopted by the Conference in its closing session on the 27th July, the Bureau took the following resolution:—

“The Bureau—

“Authorizes its President, Vice-President, Presidents, Vice-Presidents, and Rapporteurs of Commissions or such persons replacing them as their respective Governments may nominate, to act during the intervals between the meetings of the Bureau as its Executive Committee.

“Authorizes the Executive Committee—

“(a) To take measures in the light of the development of the monetary and financial situation for the resumption of work on the questions which the Monetary and Financial Commission has had before it;

“(b) To arrange for the execution of the proposals of the sub-committees of the Economic Commission and generally to take all measures which conditions permit in order to further the work of the Economic Commission.

“The Bureau has, moreover, authorized the Executive Committee to constitute, at a suitable moment, a sub-committee for the purpose of studying the question of public works, in conformity with the letter addressed by the President of the Economic Commission to the President of the Conference on July 14th, 1933.”

In addition, it is proposed that work should be continued upon a wide range of questions already opened up by the Economic Commission.

### BRITISH DOMINIONS AGREEMENT.

During the whole of the time that the Conference was sitting the delegations from the United Kingdom and from the British Dominions were in constant consultation. About the time when the currency stabilization programme was abandoned, the representatives of the chief Gold Bloc countries—France, Italy, Belgium, Poland, Holland, and Switzerland—issued a press statement affirming their intention to maintain the free functioning of the gold standard in their respective countries at the existing gold parities. Towards the end of the Conference it was felt that a statement of monetary policy was required from the leading countries in the sterling area. In consequence, an agreement upon monetary policy was drafted and signed by representatives of Great Britain and the British Dominions. This document was published as a statement of sterling policy. A copy is attached as Appendix 4 of this report.

Other appendices attached present reports of various addresses delivered to the Conference which may be of special interest to New Zealand. The appendices are arranged in the order in which they were delivered:—

- (1) Opening address of the President of the Conference, the Right Hon. J. Ramsay MacDonald.
- (2) Opening address on behalf of the United Kingdom delegation by the Right Hon. Neville Chamberlain.
- (3) Opening address on behalf of the New Zealand delegation by the Right Hon. G. W. Forbes.
- (4) Agreement on monetary policy, published jointly by the United Kingdom and the British Dominions delegations.

## APPENDICES.

## APPENDIX 1.

## OPENING SPEECH BY THE PRESIDENT OF THE CONFERENCE.

MR. MACDONALD, President of the Conference, spoke as follows :—

On behalf of His Majesty's Government in the United Kingdom, I offer you all a most hearty welcome to London. I hope that your stay here will be pleasant and, above everything else, profitable in results, and that, when you leave, you will have carved the name of the London Economic Conference amongst the great international gatherings which have brought blessings to mankind. The purpose of our meeting is of the gravest importance. His Majesty himself has opened the Conference in a gracious Speech, which showed his keen appreciation of our work and his deep concern for our success, and I propose to offer him in your name an expression of our gratitude for the honour done to us and the interest he has taken in our objects.

Sixty-seven Governments have been invited, ten who are not members of the League of Nations, and the importance attached to our purposes is recognized by the fact that practically every Government invited has accepted the invitation. There is a greater authority gathered in this hall to-day than has perhaps ever been brought under one roof in the world's history. The economic life of the world has for years been suffering from a decline which has closed factories, limited employment, reduced standards of living, brought some States to the verge of bankruptcy and inflicted upon others recurring budgets that cannot be balanced. The machinery of international commerce, upon which the vigour of the human life of the world and the prosperity of nations depend, has been steadily slowed up. The markets are there, the labour to supply them is there, but the labour is not employed and the markets are not filled. When we had a less efficient equipment for the making of wealth, our national incomes were greater. All the machinery of prosperity is there. But it is slowing down ; it is not working.

The briefest reference to the astounding facts will show the magnitude of the problems before us and at the same time direct our thoughts to the points of attack. Since 1929, prices have fallen and have kept well below levels at which production can be remunerative. They have fallen irregularly, moreover, and have distorted the normal relationships upon which economic activity is pivoted. The fall in prices has added oppressively to the burden of world indebtedness. In 1932, compared with 1929, the production of raw materials has fallen 30 per cent. and the exchange between town and country has been tragically limited. National income has fallen seriously everywhere—in some countries by 40 and 50 per cent. The general crisis, accentuated by restrictions, by tariffs, quota, exchange-control, has reduced international trade between 1929 and 1932 to less than three-quarters in volume, exchanging at about half the price. The gold standard has had to be deserted more generally than has been the case in time of peace since it was erected into the international measure of exchange. And inevitably, irrespective of fiscal policy and of forms of government, unemployment has mounted up until the world figure issued by the International Labour Office has reached 30,000,000.

This cannot go on. The world is being driven upon a state of things which may well bring it face to face once again with a time in which life revolts against hardship, and the gains of the past are swept away by the forces of despair.

In this drama of deterioration, Governments and State policy have played important parts.

Behind the subjects I have just mentioned is another in the front rank of importance. It cannot be dealt with here, because obviously this Conference is not constituted in such a way as to enable it to consider and settle the matter. I refer to the question of war debts, which must be dealt with before every obstacle to general recovery has been removed, and it must be taken up without delay by the nations concerned. Lausanne has to be completed, and this vexed question settled once for all in the light of present world conditions.

This Conference is a sequel to the work done at Lausanne last year when, by a conditional agreement on how to deal with war debts and reparations, Europe was saved from an immediate financial collapse. It will be remembered that, having finished its own immediate work, the Lausanne Conference recorded that for a clearance of the world crisis a wider Conference should be called and that the League of Nations should be invited to take that in hand without delay. Lausanne indicated the subjects which ought to be dealt with and the general steps which should be taken to prepare for the Conference.

The Council of the League moved at once. In the intervening months of preparation and negotiation the work assigned to us has not been made lighter or easier. Indeed, the problems which compose our agenda have in some respects been intensified in both the political and economic fields, and we have been advised from some quarters that we should postpone this meeting until circumstances more promising for its success have arisen. What prospect is there that these circumstances can arise if the situation is left to right itself, or if all that can be done is that each nation independently should take measures to protect itself against catastrophe ? Indeed, one of the causes of the later phases of deterioration is the fact that nations, left to pursue a policy of national protection, have been driven to resort to measures which, whilst offering some temporary relief from a pressure which threatens them, add to the general stagnation of world trade and so intensify the influences which increase our troubles. If the world is left to right itself, without international effort and international agreement, how long is the process of recovery to be ? How dark are the depths of misery and unsettlement which have still to be gone through ? No one who has surveyed the facts

and watched their progress can doubt for a moment that the experiences of the last few years have proved that a purely national economic policy in this modern world is one which by impoverishing other nations impoverishes those who pursue it. No nation can permanently enrich itself at the expense of others. Mutual enrichment is the condition of individual enrichment. Nationalism in the sphere of politics may be essential to human freedom; self-sufficient nationalism in economics is the death-knell of advancing prosperity. The nearer we can make the world an economic unit the better will it be for each nation. In any event, international co-operation is our best way to national recovery; and the nation which looks after itself in an international frame of mind will not only lead the world in enlightenment but in well-being.

We are here, therefore, to pursue the better course of international agreement.

The Council of the League, on the advice of the Lausanne Conference, appointed a very able and most representative body of experts to report upon an agenda for our business and it is before you and will be made the basis for your deliberations. The heartiest thanks of this Conference are due to those experts for the work and ability they have embodied in this report.

The agenda deals only with government policy in relation to recovery, and no one must think of it as being a complete programme. We do not profess to touch upon the internal machinery and transactions of business—for instance hours of labour and rates of wages in relation to production, the destructive effect of speculation and gambling on a recovering national credit, the part played by the middleman in his different activities upon the lowering of wholesale prices. We are concentrating upon what primarily belongs to the responsibilities of governments as to common action. When we have done our part, the various governments must face their own problems of internal industrial policy in co-operation, where that is possible or necessary, with the International Labour Office.

My thanks are due to the League of Nations for the honour they have done me by inviting me to preside over the Conference. I have accepted the invitation knowing full well how formidable is the work, but relying upon the trust and co-operation of the whole body of delegates and the invaluable experience and help of M. Avenol and his staff from Geneva. M. Avenol we greet for the first time since his appointment as Secretary-General of the League. He will shortly be taking up his duties and we wish him many years of high endeavour successfully accomplished.

I am sure that we are all aware of the heavy responsibilities which are upon us, and that we have met determined to make the Conference a success. The fate of generations may well depend upon the courage, the sincerity, the width of view which we are to show during the next few weeks. As the experts have reminded us: "It will not, in our judgment, be possible to make substantial progress by piecemeal measures. A policy of 'nibbling' will not solve this crisis." Have we come to deliberate and decide as though our respective nations were isolated units in the world? Then we shall fail, and a world which looks upon us to-day with expectation will have to drain a bitter cup of disappointment. Have we come knowing that the permanent good of each is dependent on the permanent good of all and determined to co-operate in coming to agreements which will make a renewal of prosperity possible? Then we shall succeed and the expectations of the world will be justified. We must not fail. Men who succeed must face their work in the spirit of conquerors. We give to the world as the note of our first meeting that we are determined to succeed.

Nor can we delay. Rapidity of agreement is essential to success. Let the world know that we can show decision and give leadership. Our programme is intricate and raises subjects upon which we have held views hitherto irreconcilable. And yet, the needs of the day are so pressing, the experiences of these years have been so illuminating and so tragic, that surely we must approach our work with fresh and flexible minds. The facts of our time have answered many of the stiffest theories and dogmas of the past. Statesmanship to-day will be judged by what it devises to dispel the stern realities of the present and anticipate the requirements of the future. I think that I express the wishes of the great body of the delegates when I say that we have not come to discuss mere economic theories and generalities, but to make practical proposals to meet urgent necessities. I should therefore invite each delegation to submit its proposals in terms that are definite, so that we may enter without loss of time into an examination of what can be translated into action and begin deliberations upon what each of us can do in co-operation with others, either for emergency or for more permanent purposes.

Let this London Conference put new heart and new confidence into the world and let it mark the end of years of uncertainties and of policies which have brought this distress upon us all. Let us see to it that, before we disperse, we shall have revived hope and energy and opportunity. For these the world waits and it is in our power to provide them.

## APPENDIX 2.

STATEMENT BY THE CHANCELLOR OF THE EXCHEQUER (RIGHT HON. NEVILLE CHAMBERLAIN) AT THE MONETARY AND ECONOMIC CONFERENCE ON 14TH JUNE, 1933.

LIKE the speakers who have preceded me, I am deeply impressed by the critical nature of the position in which the world finds itself. Like them I realize the hopes and expectations which are entertained that this Conference will find means of mitigating our difficulties and like them I am anxious to make some useful contribution to this end.

It seems to me that I can best achieve my purpose if I begin by drawing the attention of the Conference to certain salient facts and incidents in the history of the last few years and then proceed to indicate in the light of those facts and incidents the objectives at which in the opinion of the United Kingdom delegation the Conference should aim.

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

reducing the national income with the consequence that in order to balance its accounts the Government must take by taxation a larger and larger proportion of the income of the country. Sooner or later, usually sooner, this process is found to be intolerable, and countries bent on securing heavy reductions in costs and prices find that they have merely secured an unbalanced Budget for which no practical cure can be found. In the view of the British delegation therefore a solution of our present difficulties must be solved by means of a recovery in the wholesale price level.

To bring about a recovery in wholesale prices action in various spheres will be necessary. The final settlement of reparations and war debts is not within the scope of this Conference, but such a settlement is essential if the measures taken in other fields are to be effective.

As regards these, a number of reforms are required in the financial sphere: For example, the abrogation of exchange controls and the resumption of international lending; and also in the economic sphere, such as the co-ordination of production and marketing, the removal of prohibitions and similar trade barriers, and the reduction of excessive tariffs in order to permit a normal flow of international trade. I will refer to these later.

But in order to attain the object of a recovery in prices, action is also necessary in the monetary sphere. The fundamental monetary condition of the recovery of prices is that credit should be made available by a policy of cheap money, and that such credit should be actively employed. This, together with the revival of business confidence, must form the indispensable background of trade recovery.

The control of monetary policy is largely in the hands of the central banks, and the practical steps to give effect to the requisite monetary policy have to be taken by them, and, in particular, by those of the most important financial centres. These central banks should therefore undertake to co-operate with a view to securing the monetary conditions required for a rise in prices. In order that their action may have the desired effect, it is necessary that the policy of cheap and plentiful money should be clearly announced and vigorously pursued. Particularly, the wider extension of what is known as "open market operations" by central banks should in our view be developed.

Experience in recent months has shown that cheap money in itself may not be enough to achieve the desired end rapidly unless means are taken to ensure that the credit made available is actively employed. This in turn depends upon the establishment of a sense of security and confidence in the public, and so again it is seen how inextricably finance and politics are intermingled.

The question whether Governments can effectively assist in this matter by schemes of governmental capital expenditure will also require consideration. The United Kingdom delegation will be very ready to examine with the other delegations how far employment can be stimulated by such action. In our view, however, it would be a mistake to attempt to lay down any rigidly uniform policy for different countries on this point. The extent to which employment can be stimulated by governmental capital expenditure necessarily depends upon the circumstances of each country, and, in particular, upon the extent to which opportunities are still open for self-supporting schemes, which in turn must depend partly upon the extent to which in each country such schemes have already been promoted in the past. Each Government must therefore determine, in the light of the situation in its own country, the size and nature of any further programme which it can widely promote, and the method by which it should be financed.

A further matter which falls within the monetary sphere concerns the values of the principal currencies of the world in relation to each other. As the greatest international traders in the world, we fully recognize the great importance to international trade of stability of exchange rates. In our opinion, the attainment of this object must necessarily be attempted in two stages. The immediate objective should be to secure approximate stability between the currencies of the principal countries of the world in order that trade may not be hampered by violent and unpredictable fluctuations of what I may call the basic currencies. This end will be achieved in so far as the principal countries use their resources in order to counteract fluctuations in the value of their currency caused by temporary movements of capital rather than by fundamental economic factors.

This first stage should be dealt with immediately. As regards the second stage, the United Kingdom delegation endorse the view that the ultimate aim of monetary policy should be the restoration of a satisfactory international standard, and there is no doubt that a gold standard seems most likely to be generally acceptable. The time and the exchange parity at which a return to gold could safely be made, must, as was pointed out in the annotated agenda prepared by the Preparatory Commission, fall to be determined by the proper authorities in each country separately, but in order that all countries may work harmoniously towards the same goal I have no doubt that the Conference would wish me to state, in as positive and concrete terms as possible, the conditions under which the United Kingdom would feel justified in returning to the gold standard.

One of these conditions is a rise in the general level of the wholesale prices of commodities sufficient to restore equilibrium between prices and costs.

A second condition is an adjustment of the factors which caused the breakdown of the gold standard in the past, and which, if not corrected, would inevitably lead to a repetition of the process in the future. These factors include, of course, the disturbances due to reparations and war debt payments, and the obstacles to international trade caused by excessive tariffs, exchange restrictions, and other abnormal impediments to the flow of commerce.

A third condition is that the gold standard shall in the future be so administered that wide fluctuations in the purchasing-power of gold (in so far as they arise from monetary causes) will be to the greatest possible extent prevented. Without entering in detail into the question of the requisite reforms in the working of the gold standard (in regard to which I hope that a substantial measure of international agreement will be found to exist) I will only mention three which seem to us essential—namely, the withdrawal of gold from internal circulation and its use only for settlement of international balances; the reduction in the legal minimum proportions of gold which central banks are required to hold in their reserves; and a closer permanent co-operation between central banks.

I have mentioned two of the objectives which the United Kingdom delegation desire that the Conference should attain in the financial sphere—namely, a recovery in prices and greater stability in the relative value of currencies; but there remains a third to which the United Kingdom delegation attach the greatest importance—namely, the abolition of exchange restrictions. At the Stresa Conference held nearly a year ago, and at many other international meetings, resolutions have been passed condemning exchange restrictions in general terms. But the United Kingdom delegation recognize that in practice exchange restrictions will not be abolished until the exchange difficulties which have given rise to them have been overcome. The United Kingdom delegation trust that the Conference will take positive action to attain this end.

A rise in wholesale prices of foodstuffs and raw materials and an increase of world trade would contribute powerfully to reduce exchange difficulties, and would assist in bringing to an end both stand-still arrangements in respect of short-term debts, and transfer difficulties as regards external indebtedness as a whole.

These exchange and transfer difficulties would also be greatly diminished by the resumption of normal international lending. Indeed, the revival of world trade depends largely upon the renewal of the international flow of capital, and every effort should be made to restore the stability and confidence required to render this possible. It must be recognized that certain States are not likely to view with favour the abandonment of their exchange restrictions unless they can be safeguarded against the danger that at the outset the reserves of their central banks might be weakened to an undesirable degree. And it would be Utopian to expect that the normal flow of international lending will take place until this danger has been surmounted.

The United Kingdom delegation therefore regard it as desirable that the Conference should examine some means whereby those countries which need financial assistance in order to enable exchange restrictions to be abolished could, under appropriate conditions, obtain it from the creditor countries which possess an available surplus of gold reserves.

#### (b) *Economic Section.*

I have put forward the proposition that it is essential to bring about a recovery in the level of wholesale prices sufficient to yield an economic return to the producers of primary commodities, and I have suggested the action which might be taken in the financial sphere to bring this about. But financial action cannot operate successfully without an economic foundation. Loans cannot be justified if the borrowers cannot meet their service by exporting what they produce. A recovery in prices cannot be permanent without an increase in the volume of trade. Action in the financial field must therefore be supplemented by simultaneous action to reduce excessive tariffs and other obstacles to international trade. In the last four years the value of the world's trade has shrunk by nearly two-thirds. This has been partly caused, and certainly intensified, by the growing obstacles to international trade. The United Kingdom delegation are convinced that the full restoration of the world's economic life can only be achieved if existing facilities for international trade are increased.

In the first place, there should be not merely a cessation of further increases but a reduction of excessive customs tariffs wherever these occur. Customs tariffs may be imposed for the purpose of revenue, for the maintenance of a country's standard of living, and for the encouragement of forms of industry and production which are regarded as essential to the economic life of particular countries. I submit, however, that these considerations do not justify the maintenance by prohibitive tariffs of industries which cannot be efficiently and economically carried on. Further, subject to any special exceptions which the particular interests of individual countries may require, the protective element in any Customs tariff should not exceed what is necessary to place the efficient domestic producers in a position to compete with producers abroad.

The United Kingdom delegation have no wish to rule out any method of securing the reduction of excessive tariffs which may commend itself to the Conference, and they are quite prepared to examine any proposals that may be put forward for attaining this end by multilateral action. In their view any such proposal should conform to the following conditions—first, it must be effective in securing really tangible reductions of excessive tariffs; secondly, it must command a sufficiently general measure of support, and cover a wide enough area; thirdly, it must not impose upon low tariff countries sacrifices disproportionate with those demanded of other countries; and fourthly, it must not have injurious repercussions, or lead to tariff wars or other economic hostilities.

The United Kingdom delegation are, however, impressed by the diversity of the conditions prevailing in different countries, and by the large number of special considerations which would have to be taken into account in framing a Convention of universal application. In their view the reduction of Customs tariffs can best be achieved by a series of bilateral negotiations which take detailed account of the particular trade relations of the negotiating countries. They would accordingly urge that the Conference should do all in its power to promote the negotiation of bilateral agreements between countries with a view to the general reduction of excessive Customs duties. These agreements should be valid for at least some years to come, so as to give traders certainty for the future.

With this aim in view, we submit that commercial treaties should not be terminated before tariff negotiations are undertaken, and then only after every effort has been made to reach agreements by negotiation.

Reductions of tariffs obtained by bilateral agreements will be given the fullest effect by the application of the most-favoured-nation clause under which concessions granted to one country are shared by all countries entitled to most-favoured-nation treatment. It is our view, however, that this treatment cannot be maintained to countries which now enjoy its benefit, unless they are willing to adopt a reasonable policy in framing their own tariffs and in negotiating new agreements.

It has long been the policy of the United Kingdom to secure the widest and most unconditional interpretation, in favour of British exports, of the most-favoured-nation clause in their commercial treaties with foreign countries. Accordingly, the United Kingdom Government would find it difficult to agree to any formula allowing derogations from most-favoured-nation treatment in respect of regional or group agreements (falling short of full Customs unions) except those based on historical associations such as are already generally recognized. Apart from this, however, they would, without committing themselves in advance, be prepared to examine on their merits specific proposals for temporary and limited exceptions which are accepted by other countries entitled to most-favoured-nation treatment and which are not prejudicial to British interests.

I turn from the tariffs to the still more drastic ways in which international trade has been restricted by prohibitions and quotas, and I would refer particularly to the growth of quota restrictions in recent times. In our view, international agreement should be sought to abolish all import prohibitions adopted on grounds of commercial policy, without prejudice to the admitted exceptions on other special grounds which have been generally recognized internationally.

As regards quotas, the United Kingdom delegation consider that a clear distinction should be drawn between import quotas arbitrarily imposed by the importing country as an additional measure of protection for the home producer, and production or market quotas established in pursuance of international agreements to regulate production or marketing so as to restore and maintain a remunerative level of wholesale prices for producers in all countries. The United Kingdom delegation are strongly in favour of the progressive abolition of all arbitrary import quotas. On the other hand, the disastrous slump in the prices of certain primary commodities, particularly of agricultural products, raises special problems for which in their view the most practical solution is to be found in international agreements for the better regulation of production and marketing by the countries principally concerned.

His Majesty's Government in the United Kingdom are themselves engaged in promoting the regulation of supplies of several food products. They would be prepared to co-operate in the regulation of wheat supplies and supplies of other foodstuffs on the part of the principal food-exporting countries with a view to restoring and maintaining a reasonable level of prices. They are also prepared to consider the question of co-operation in schemes of regulation in regard to other commodities, but in each case it seems to them essential that the scheme should be put forward with the support at least of a large proportion of the producers concerned, and should contain adequate provisions for safeguarding the interests of consumers in the importing countries.

Before leaving the subject of obstacles to international trade I wish also to refer to questions connected with the balance of trade, clearing agreements and similar arrangements. There is a widespread belief in many quarters that a favourable balance of trade—*i.e.*, a surplus of visible exports over imports—is a sign of prosperity. But in the case of a creditor country a favourable trade balance is only appropriate under special conditions as, for example, when its citizens are spending money freely on foreign travel or when it is making new loans abroad. If a creditor country wishes to obtain payment of its claims on foreign countries it must accept goods and services in settlement of these claims over and above the imports it takes in exchange for its own exports. The revival of trade depends largely on the extent to which creditor countries will be prepared to give practical effect to this principle.

Moreover, international trade cannot prosper if it is to be reorganized on a basis of the exchange of commodities between each two countries being precisely balanced. In many cases trade is triangular—*i.e.*, one country will pay for its imports from a second country by means of its exports to a third country. In some cases the flow of trade is even more complicated. The course of trade will be greatly hampered and its volume reduced if it is diverted from its normal channels in order to secure a direct balance between each pair of countries.

Clearing agreements and barter arrangements which have the effect of diverting trade into channels in which, but for such arrangements, it would not naturally flow, are clearly inconsistent with these principles, and unless the present tendency to adopt such arrangements can be checked, other countries which have hitherto avoided such arrangements will be compelled to adopt them. The United Kingdom delegation therefore trust that the Conference will secure international agreement for the abandonment of arrangements which limit the movement of trade to unnatural channels.

Finally, I would refer to another question to which the United Kingdom delegation attach great importance. The stress of competition has in some cases led Governments to attempt to assist their own subjects by the grant of subsidies, an expedient which all will probably agree is unsound in principle. In the view of the United Kingdom delegation, the Conference should consider those types of State subsidy to private enterprise which react directly on other countries—namely, export subsidies and shipping subsidies.

State subsidies to export trades involve unfair competition and the adoption of this policy by one Government tends inevitably to force the same unsound expedient on the Governments of other countries engaged in the same trade. In the long-run, therefore, such subsidies involve a burden on the Budgets of all the Governments concerned without securing advantage to the export trade of any one nation.

These considerations apply with particular force to shipping subsidies whether for shipbuilding, or for the operation of ships on competitive routes, whether in the form of direct subsidies or as mail contract payments not based on normal charges for services rendered. As is pointed out in the annotated agenda, this policy has in many countries made shipping a burden on the national economy instead of a contribution to its welfare. The United Kingdom delegation therefore consider that a determined effort should be made to secure the reduction and the eventual abolition of export and shipping subsidies by international agreement.

I have now concluded my survey, which has covered a wide field but which will, I hope, help to clarify the issues before us. While I have necessarily emphasized the objectives to which the United Kingdom delegation attach importance, I do not wish to give the impression that I am putting forward at this early stage a cut-and-dried programme. The views which I have expressed are laid before the Conference as our suggestions: we are ready and anxious to discuss them fully and frankly with the other delegations: we desire to hear their criticisms and suggestions and to do what we can to meet them. We realize that, even where agreement can be reached as to the objectives in view, there may be differences, and serious differences, as to the precise measures by which these objectives can best be attained. Nevertheless, these differences must be reconciled in the course of our discussions.

The great concourse of nations here assembled has met to find the means of self-preservation, and it cannot afford to fail in its quest. The future of all of us is at stake and each of us must bring to our common task the utmost measure of goodwill and determination to succeed. On behalf of the United Kingdom delegation, I undertake that we will spare neither good will nor determination in our efforts to ensure success.

### APPENDIX 3.

#### THE PRIME MINISTER'S SPEECH (NEW ZEALAND).

THE statement that I desire to make on behalf of New Zealand is a brief one.

The effects of the depression on our country have been substantially the same as those described by representatives of other countries.

*Effects of the Depression.*—New Zealand is dependent to an exceptional extent on the prices in European markets for the primary products which we export. More than half our total value of production consists of pastoral products, and 40 per cent. of this total production—mainly wool, meat, and dairy produce—is exported. Since 1929 the average level of prices for exported products, expressed in sterling, has fallen by 60 per cent. In consequence, the sterling value of our total exports has declined by nearly 40 per cent., and this despite an increase of 24 per cent. in the quantity exported.

From the funds received abroad in payment for these exports the Dominion has to meet heavy charges on Government, local-body, and private debt due overseas. The remainder of the proceeds from exports is available to buy imports. But, since 1929, export prices have fallen by more than half, so that the quantity of exports absorbed in payment of overseas debt charges has more than doubled.

The result is a substantial reduction in the amount of imports New Zealand can buy. From 1929 to 1932 imports, valued in sterling, fell by about 55 per cent. If the volume of overseas trade is taken, between 1929 and 1932, the quantities of exports per head increased by 16 per cent., while the quantities of imports per head declined by nearly 50 per cent.

*Measures taken by Way of Adjustment.*—The depression has thus imposed a severe contraction of our trade, which has caused a heavy strain on the public and private finances of our country.

In the effort to reduce costs and assist recovery we have drastically cut expenditure and have increased taxation.

We have taken unprecedented action to ease the burden of fixed charges. By legislation, a general reduction of one-fifth has been made in interest payable within the Dominion under mortgages and similar obligations. Rents have been reduced by one-fifth. The whole of the internal public debt has been converted so as to reduce the interest burden by about one-fifth. In addition, special taxation has been imposed to provide relief work for our unemployed and for general purposes.

On the other hand, our exchange-rates, which are based on sterling, are now 20 per cent. below their previous parity, but are pegged at that level. Beyond the pegging we have no exchange restriction in operation, and no immediate reason to fear instability in our exchange against sterling in the near future. The alteration in exchange has raised our prices somewhat, while we have reduced our costs, but there still remains a wide gap to be bridged before the level of cost and prices reach such equilibrium as will enable primary production to be carried on profitably.

*The British Statement.*—We have heard with great interest the statements presented to the Conference, and were particularly impressed with that of the British Chancellor. We represent a British Dominion closely linked with Britain in matters of commerce, finance, and currency. The British statement sets out very aptly the situation as it has affected us. It also suggests measures for improvement in trade and monetary relations which appear to us to provide a practical basis upon which co-operative action, leading to general recovery, might be secured, and which we would do our utmost to support.

There are, however, certain other matters to which we would like to draw attention.

*Existing Debts.*—It does not seem possible to escape the conclusion that, unless commodity prices can be raised so as substantially to reduce the real burden of existing public and private debts, there must be a general scaling-down of these debts. Indeed, such action may in any case be necessary, not as an alternative but in addition, to the raising of the price-level. Adjustment may be more easily



obtained in part by raising prices, and in part by reducing debt charges, rather than by recourse to one method alone. Moreover, a rise in prices seems to depend on the adjustment of debt; for the raising of prices requires trade-recovery, and this in turn is seriously impeded by the burden of impossible debts.

In reference to monetary and credit policy, the draft annotated agenda for this Conference contains the exhortation that the budgets of public enterprises, such as railways, should be balanced. It is, however, difficult to see how this very desirable object can be attained, under present depressed conditions, without an adjustment of their debts on account of capital.

We recognize that adjustment of debt charges must be a matter for consideration mainly by the countries and the parties immediately concerned. Yet the problem is one of such pressing and general concern as to warrant the consideration of the Conference. At any rate, if reliance is placed on action to raise prices it would seem reasonable to provide also for the adjustment of debts that have now become impossible.

*Obstructions to Trade.*—The urgency of the need for reducing or removing barriers to trade does not require to be further emphasized by us. But a point to be made is that excessive debt charges must be included in any adequate list of trade obstructions. In our own case, the experience of the past few years has shown how the collapse in world prices has vastly intensified the real burden of the country's external debt, and has thereby reduced our imports.

Bearing also on trade obstructions, we suggest that the Conference might move towards ensuring equitable shipping conditions, including, in particular, the right for ships, without discrimination on the grounds of nationality, to compete in trade which is not merely local and coastwise.

*Quantitative Regulation of Trade.*—As an exporter of primary products, New Zealand is particularly concerned with the suggestions for the quantitative regulation of the supply of such products.

It is proper that I should at once state that producers in New Zealand are most reluctant to agree to limitation either of exports or of production. We look to the removal of barriers, and to the restoration of purchasing-power, to enable increasing supplies to be absorbed. As mentioned before, it was in anticipation of expanding markets that the Dominion borrowed to the extent that she has for capital development.

Whether the mere removal of barriers will suffice to restore prosperity, or whether, on the other hand, the orderly regulation of supplies is necessary, are questions for examination in detail. Whatever may be done, however, we feel that the whole purpose must be to avoid reduction and to secure an expansion of both consumption and production.

It is important, too, that direct governmental control in administration should be reduced to a minimum, and that reliance should be placed on the functioning of responsible bodies representative as far as possible of the producers immediately concerned.

We, in New Zealand, have had to meet many and great difficulties during the past three years. We have met them to the best of our ability, but we have not overcome them. We recognize that other countries have had to meet similar difficulties. The problems this Conference has to face are intricate and are composed of many interdependent factors. But this Conference has been rightly described as the greatest gathering of authority ever assembled under one roof. In view of the critical nature of the present situation, we trust the Conference will use its authority, and combine all its experience and ability as well, to achieve definite results from which all nations may benefit.

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#### APPENDIX 4.

##### DECLARATION BY DELEGATIONS OF THE BRITISH COMMONWEALTH.

1. Now that the World Economic and Monetary Conference has adjourned, the undersigned delegations of the British Commonwealth consider it appropriate to put on record their views on some of the more important matters of financial and monetary policy which were raised but not decided at the Conference. During the course of the Conference they have had the opportunity of consulting together and reviewing, in the light of present-day conditions, the conclusions arrived at at their meeting at Ottawa a year ago, in so far as they had reference to the issues before the Conference.

##### ECONOMIC POLICY.

2. The undersigned delegations are satisfied that the Ottawa Agreements have already had beneficial effects on many branches of inter-Imperial trade, and that this process is likely to continue as the purchasing-power of the various countries concerned increases. While there has not yet been sufficient time to give full effect to the various agreements made, they are convinced that the general principles agreed upon are sound. The undersigned delegations reaffirm their conviction that the lowering or removal of barriers between the countries of the Empire provided for in the Ottawa Agreements will not only facilitate the flow of goods between them, but will stimulate and increase the trade of the world.

3. The delegations now desire to draw attention to the principles of monetary and financial policy which have emerged from the work of both the Ottawa and World Conferences, and which are of the utmost importance for the countries within the British Commonwealth. The following paragraphs embody their views as to the principles of policy which they consider desirable for their countries.

## MONETARY AND FINANCIAL.

*1. Price-levels.*

4. At the Ottawa Conference the Governments represented declared their view that a rise throughout the world in the general level of wholesale prices was in the highest degree desirable, and stated that they were anxious to co-operate with other nations in any practicable measures for raising wholesale prices. They agreed that a rise in prices could not be effected by monetary action alone, since various other factors which combined to bring about the present depression must also be modified or removed before a remedy is assured.

It was indicated that international action would be needed to remove the various non-monetary factors which were depressing the level of prices.

In the monetary sphere the primary line of action towards a rise in prices was stated to be the creation and maintenance within the limits of sound finance of such conditions as would assist in the revival of enterprise and trade, including low rates of interest and an abundance of short-term money. The inflationary creation of additional means of payment to finance public expenditure was deprecated, and an orderly monetary policy was demanded with safeguards to limit the scope of violent speculative movements of commodities and securities.

5. Since then the policy of the British Commonwealth has been directed to raising prices. The undersigned delegations note with satisfaction that this policy has been attended with an encouraging measure of success. For some months, indeed, it had to encounter obstacles arising from the continuance of a downward trend of gold prices, and during that period the results achieved were in the main limited to raising prices in Empire currencies relatively to gold prices. In the last few months the persistent adherence of the United Kingdom to the policy of cheap and plentiful money has been increasingly effective under the more favourable conditions that have been created for the time being by the change of policy of the United States, and by the halt in the fall of gold prices.

Taking the whole period from the 29th June, 1932, just before the assembly of the Ottawa Conference, a rise in sterling wholesale prices has taken place of 12 per cent. according to the *Economist* index. The rise in the sterling prices of primary products during the same period has been much more substantial, being in the neighbourhood of 20 per cent.

6. The undersigned delegations are of opinion that the views they expressed at Ottawa as to the necessity of a rise in the price-level still hold good, and that it is of the greatest importance that this rise which has begun should continue. As to the ultimate level to be aimed at they do not consider it practicable to state this in precise terms. Any price-level would be satisfactory which restores the normal activity of industry and employment, which ensures an economic return to the producer of primary commodities, and which harmonizes the burden of debts and fixed charges with economic capacity. It is important that the rise in prices should not be carried to such a pitch as to produce an inflated scale of profits and threaten a disturbance of equilibrium in the opposite direction. They therefore consider that the Governments of the British Commonwealth should persist by all means in their power, whether monetary or economic, within the limits of sound finance, in the policy of furthering the rise in wholesale prices until there is evidence that equilibrium has been re-established, and that thereupon they should take whatever measures are possible to stabilize the position thus attained.

7. With reference to the proposal which has been made from time to time for the expansion of Government programmes of capital outlay, the British Commonwealth delegations consider that this is a matter which must be dealt with by each Government in the light of its own experience and of its own conditions.

*2. International Standard.*

8. The Ottawa Conference declared that the ultimate aim of monetary policy must be the restoration of a satisfactory international monetary standard, having in mind not merely stable exchange rates between all countries, but the deliberate management of the international standard in such a manner as to ensure the smooth and efficient working of international trade and finance. The principal conditions precedent to the re-establishment of any international monetary standard were stated, particularly a rise in the general level of commodity prices in the various countries to a height more in keeping with the level of costs, including the burden of debt and other fixed and semi-fixed charges, and the Conference expressed its sense of the importance of securing and maintaining international co-operation with a view to avoiding, so far as may be found practicable, wide fluctuations in the purchasing-power of the standard of value.

9. The undersigned delegations now reaffirm their view that the ultimate aim of monetary policy should be the restoration of a satisfactory international gold standard under which international co-operation would be secured and maintained with a view to avoiding, so far as may be found practicable, undue fluctuations in the purchasing-power of gold. The problem with which the world is faced is to reconcile the stability of exchange-rates with a reasonable measure of stability not merely in the price-level of a particular country, but in world prices. Effective action in this matter must largely depend on international co-operation, and in any further sessions of the World Economic and Monetary Conference this subject must have special prominence.

10. In the meantime the undersigned delegations recognize the importance of stability of exchange-rates between the countries of the Empire in the interests of trade. This objective will be constantly kept in mind in determining their monetary policy, and its achievement will be aided by the

pursuit of a common policy of raising price-levels. Inter-Imperial stability of exchange-rates is facilitated by the fact that the United Kingdom Government has no commitments to other countries as regards the future management of sterling, and retains complete freedom of action in this respect. The adherence of other countries to a policy on similar lines would make possible the attainment and maintenance of exchange stability over a still wider area.

11. Among the factors working for the economic recovery of the countries of the Commonwealth, special importance attaches to the decline in the rate of interest on long-term loans. The undersigned delegations note with satisfaction the progress which has been made in that direction, as well as in the resumption of overseas lending by the London market. They agree that further advances on these lines will be beneficial as and when they can be made.

12. The undersigned delegations have agreed that they will recommend their Governments to consult with one another from time to time on monetary and economic policy, with a view to establishing their common purpose and to the framing of such measures as may conduce towards its achievement.

Signed on behalf of the respective delegations—

NEVILLE CHAMBERLAIN,  
United Kingdom of Great Britain and Northern Ireland.

R. B. BENNETT,  
Canada.

S. M. BRUCE,  
Commonwealth of Australia.

GEO. W. FORBES,  
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J. C. SMUTS,  
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