Meeting of the Cabinet to be held at No. 10, Downing Street, S.W.1. on WEDNESDAY, DECEMBER 16th, 1931 at 10.30 a.m.

AGENDA.

1. CHINA. EXTRATERRITORIALITY.
   (Reference Cabinet 87(31), Conclusion 4).
   Memorandum by the Secretary of State for Foreign Affairs.
   (C.P. 320(31) - circulated herewith)

2. THE MODEL TREATY TO STRENGTHEN THE MEANS OF PREVENTING WAR.
   Note by the Secretary covering extract from draft Minutes of 254th Meeting of the Committee of Imperial Defence, together with C.I.D. Paper Nos. 1067-B and 1072-B.
   (C.P. 318(31) - already circulated.)
   Memorandum by the Secretary of State for Foreign Affairs.
   (C.P. 319(31) - circulated herewith).

3. THE OTTAWA CONFERENCE.
   (Reference Cabinet 84(31), Conclusion 2).
   Consideration of further Report from the Cabinet Committee.
   (C.P. 324(31) - circulated herewith).

4. RUBBER.
   (Reference Cabinet 89(31), Conclusion 2).
   Memorandum by the Secretary of State for the Colonies.
   (C.P. 318(31) - already circulated).
5. NEWFOUNDLAND, FINANCIAL POSITION OF.

Joint Memorandum by the Chancellor of the Exchequer and the Secretary of State for Dominion Affairs.
(C.P. 321(31) - already circulated).

6. THE TRADE DELEGATION TO INDIA.

(Reference Cabinet 89(31) Conclusion 10).
Question to be raised by the Secretary of State for India and the President of the Board of Trade.

7. THE SUNDAY PERFORMANCES BILL.

Note by the Home Secretary, covering Memorandum by Mr. Oliver Stanley.
(C.P. 314(31) - already circulated).

8. THE WEEKLY ISSUE OF UNEMPLOYMENT FIGURES.

Memorandum by the Minister of Labour.
(C.P. 316(31) - already circulated).

9. HYDROGENATION OF COAL.

Statement to be made by the President of the Board of Trade.

10. CHILDREN AND YOUNG PERSONS BILL.

Memorandum by the Home Secretary.
(C.P. 326(31) - circulated herewith).

11. DATE OF MEETING AFTER CHRISTMAS.

(Signed) M.P.A. HANKEY,
Secretary to the Cabinet.

2, Whitehall Gardens, S.W.1.,
December 15th, 1931.
Meeting of the Cabinet to be held at No. 10 Downing Street, S.W.1, on WEDNESDAY, December 16th, 1931, at 10.30 a.m.

ADDENDUM to AGENDA.

12. HOME PRODUCED MEAT AND BREAD FOR THE FORCES.

Memorandum by the Secretary of State for War.
(C.P. 323 (31) - circulated herewith).

(Signed) M.P.A. HANKEY,
Secretary to the Cabinet.

2 Whitehall Gardens, S.W.1.
December 15th, 1931.
CABINET 98(31).

Meeting of the Cabinet to be held at No. 10 Downing Street, S.W.1., on WEDNESDAY, December 16th, 1931, at 10.30 a.m.

SECOND ADDENDA TO AGENDA.

(i) REPARATIONS AND WAR DEBTS.

Draft Reply to French Memorandum (See C.P. 310(31)), as approved by the Cabinet Committee at their Meeting on December 15th, 1931.

(C.P. 323 (31) - circulated herewith).

(ii) ELIGIBILITY OF INDIAN CADETS FOR APPOINTMENT TO SAPPER AND MINER COMPANIES.

Memorandum by the Secretary of State for India.

(S.P. 313 (31) - already circulated).

(Signed) M.P.A. HANKEY,
Secretary to the Cabinet.

2, Whitehall Gardens, S.W.1.,
December 15th, 1931.
CONCLUSIONS of a Meeting of the Cabinet held at 10, Downing Street, S.W.1., on WEDNESDAY, 16th December, 1931, at 10.30 a.m.

PRESENT:

The Right Hon. J. Ramsay MacDonald, M.P., (In the Chair).

The Right Hon. Neville Chamberlain, M.P., Chancellor of the Exchequer.


The Right Hon. J. H. Thomas, M.P., Secretary of State for Dominion Affairs.

The Most Hon. The Marquess of Londonderry, K.G., M.V.O., Secretary of State for Air.

The Right Hon. Sir Donald Maclean, K.B.E., M.P., President of the Board of Education.

The Right Hon. Sir Henry Betterton, Bt., C.B.E., M.P., Minister of Labour.
The Cabinet had before them a Most Secret draft reply (C.F.-328 (31)) to the French Memorandum on Reparations (See C.F.-310 (31)), as approved by the Cabinet Committee on Reparations and War Debts at their meeting on December 15th. This draft had only been circulated late on the previous evening.

The draft reply was discussed in considerable detail from paragraph 6 onwards.

Consideration was given to the question of whether paragraph 10 should not be amended in order to bring out even more strongly the incorrectness of the assumption, so widely held in France, that British credits to Germany were granted at a high rate of interest out of money borrowed at a low rate. To this end it was suggested that extracts from the recent letter from the British Bankers' Association and the Accepting Houses Committees of the Governor of the Bank of England (C.F.-306 (31)) dated November 30th, 1931, might appear either in the paragraph itself or in an Appendix. On the whole, however, the Cabinet felt that it would be better to keep this material for use at a later stage, perhaps during the forthcoming Conference.

The Cabinet approved the Memorandum, subject to a number of detailed alterations in paragraphs 6 to 10, which, without changing the substance, were for the most part designed to soften some of the phrasing.

A copy of the Memorandum, as approved by the Cabinet, is attached as an Appendix.
2. The Cabinet had before them a Memorandum by the Secretary of State for India (C.P.-313 (31)) on the subject of the eligibility of Indian Cadets for appointment to Sapper and Miner companies. In the Memorandum it was stated that it had been provisionally agreed, in consultation with the War Office and the Government of India, that an Indian Cadet at Woolwich may suitably be regarded as eligible for appointment to the Indian Sappers and Miners, provided that he has obtained 70 per cent. of the aggregate marks obtainable throughout the Royal Military Academy course in both Mathematics and Science, and that he is specially recommended by the Commandant as likely both to benefit from the postgraduate course at the School of Military Engineering and to take the required Science Degree.

The Secretary of State did not ask the Cabinet to stereotype this agreement, but to lay down as a general principle that special conditions should be prescribed by the Secretary of State for India, in consultation with the War Office and the Government of India, in regard to the eligibility of Indian Cadets at Woolwich for appointment to Sapper and Miner companies.

The Cabinet approved the latter proposal.
The Cabinet had before them a Memorandum by the Secretary of State for Foreign Affairs (C.P.-320 (31)) covering a Memorandum by the Foreign Office on the Extraterritoriality negotiations with China; a copy of the draft Extraterritoriality Treaty and related documents; as well as a draft telegram to Nanking. In this draft telegram it was proposed to adopt the attitude that the question whether His Majesty's Government are or are not prepared to sign the draft Treaty, or any similar question, cannot arise until negotiations have been actually resumed, which cannot take place for some considerable time. "His Majesty's Government have carried their negotiations to the furthest possible point, and the whole question must therefore remain in abeyance until negotiations with other Powers have made similar progress and until there seems some probability that China will be able to implement any Treaty that may result from such negotiations". That was to be the line if the Chinese Minister for Foreign Affairs approached Sir Miles Lampson again, but the latter was to avoid taking any initiative. The draft telegram also made clear that His Majesty's Government would prefer entirely to ignore the Mandate issued by the Chinese on May 4th decreeing the unilateral abolition of extraterritoriality on January 1, 1932, and did not therefore demand its rescission. But they would take a most serious view of any attempt by the Chinese Government or by any misguided local official to enforce the Mandate on January 1st, or indeed, at any time before the negotiations on the subject of extraterritoriality had been brought to a satisfactory conclusion and an agreement had come into force. Any such attempt would be firmly resisted.
The Secretary of State for Foreign Affairs warned the Cabinet that the postponement of extraterritoriality negotiations might conceivably be followed later on by developments in China calling for serious decisions. If China should make, or revealed a definite intention to make, a unilateral proclamation of neutrality, his idea was to enter into communication with other Powers interested, such as the United States of America and Japan.

On the understanding that the Cabinet were in no way committed to the draft Extraterritoriality Treaty, the Cabinet agreed —

(a) To approve the draft telegram attached to the Memorandum by the Secretary of State for Foreign Affairs (C.P.-320 (31)):

(b) To take note that the Secretary of State for Foreign Affairs would consider the desirability of making a communication on the subject of the telegram to the Governments of the United States of America and Japan.
4. The Cabinet had before them the following documents relating to the Model Treaty to Strengthen the Means of Preventing War:

An Extract from the draft Minutes of the 254th Meeting of the Committee of Imperial Defence, held on December 7th, 1931 (C.P.-512 (31)) covering a Memorandum by the Chiefs of Staff Sub-Committee (C.I.D.-1067-B) containing a recommendation that His Majesty's Government should not commit themselves to the Model Treaty, "which might result in the imposition of unacceptable and harmful conditions and might interfere with and impede the execution of legitimate action for the purpose of maintaining peace and safeguarding British interests":

A Memorandum by the Secretary of State for Foreign Affairs (C.P.-319 (31)), covering a Note by the Foreign Office and observations by Sir William Malkin on the Report of the Chiefs of Staff Sub-Committee. In his covering Note the Secretary of State for Foreign Affairs deprecated a Cabinet decision at this time against signing this Convention. If France and Germany signed, and we did not, the role of Britain at the Disarmament Conference would, he pointed out, become more difficult than ever. If the decision was for signature, he suggested that we should only ratify along with other Powers and should make the reservation that our assent depends on the coming into force of a general Disarmament Convention.

The Secretary of State for Foreign Affairs read to the Cabinet telegrams indicating that Germany was likely to sign the Model Treaty within the next few days, and that France intended to sign it before the meeting of the Disarmament Conference.

As the Memorandum by the Secretary of State for Foreign Affairs (C.P.-319 (31)) had only been circulated late on the previous evening and there had not been any opportunity for the Chiefs of Staff to advise their respective Ministers on the observations, dated December 8th, by Sir William Malkin, the Cabinet agreed —
To postpone consideration of the question until the first Meeting in the New Year.

(NOTE: The Secretary of State for Foreign Affairs asked that any observations by the Defence Departments or the Chiefs of Staff Committee might be communicated to the Foreign Office in advance of the Meeting.)
5. The Cabinet had before them the Second Report of the Cabinet Committee on the Proposed Imperial Economic Conference at Ottawa (C.P. 324 (31)) the recommendations of which were summed up in the last paragraph as follows:

(a) To approve the list of commodities in the table in paragraph 2 in the Report as commodities on which tariff concessions might be granted by the United Kingdom to the Dominions in return for an adequate quid pro quo on the part of the Dominions concerned.

(b) To approve the general principle that tariff concessions to Dominions may in certain circumstances take the form not of free entry for a commodity into the United Kingdom, but of a rate of duty on that commodity more favourable than the rate charged to any foreign country. In other words, it may in certain events be appropriate to contemplate a tariff with three rates of duty, namely, the general rate, a most-favoured-nation rate, and an Empire preferential rate.

On the clear understanding that no Minister was committed in principle or in detail to a tax on foodstuffs of any kind, and that any decision on this subject was reserved until information was before the Cabinet as to what advantages to British trade the Dominions were prepared to offer, the Cabinet agreed —

(a) To take note of the Report of the Cabinet Committee (C.P.-324 (31));

(b) To invite the Committee to discuss the position with the representatives whom the Dominions had been invited to nominate, and to report to the Cabinet their impressions as to the prospects of an arrangement with the Dominions.
6. The Secretary of State for the Colonies recalled that at the Meeting of the Cabinet referred to in the margin, he had indicated that the control of the proposed restriction scheme would be carried out by Governments, but that in addition there would be an Advisory Committee. British and Dutch interests had been consulted and were favourable to the Cabinet's idea of having an American manufacturer on the Advisory Committee.

The Secretary of State for Foreign Affairs asked that, so far as possible, the discussions with the Dutch representatives should be kept confidential, and that no announcement should be made until the discussions on War Debts, as affecting the United States of America, had been concluded.

The Secretary of State for the Colonies undertook to do his best to secure these conditions.

Subject to the above, the Cabinet approved the proposals for international rubber restriction set forth in C.P. 318 (31).
7. The Cabinet had before them a Memorandum by the Chancellor of the Exchequer and the Secretary of State for Dominion Affairs, (C.P. 231 (31)), drawing attention to the difficult financial position of Newfoundland. Details were given to show that, failing assistance, the Newfoundland Government would default on its public debt on the 1st January next and again on the 1st July, 1932. While it was admitted that failure of a Dominion Government to meet its obligations, particularly in respect of Trustee Securities, would have a serious effect on Empire credit generally, it was pointed out that to assume obligations towards Newfoundland in the face of similar contingencies threatening from other directions might constitute a truly formidable precedent. It was therefore proposed in the Memorandum that the Government of Newfoundland to seek assistance if they can elsewhere, e.g., from the Bank of Montreal and the Canadian Government, and an indication was given in the last paragraph of a possible basis on which agreement might be reached with the Canadian Banks. The Governor of Newfoundland had already been advised of the general attitude of His Majesty’s Government in the United Kingdom, and there appeared to be no further action which the latter Government could usefully take at this stage.

The Cabinet approved the line of action it was proposed to take, as set forth in C.P.-321 (31) and summarised above, and invited the Secretary of State for Dominion Affairs to send a full and formal despatch to the Government of Newfoundland, setting out the main considerations in his Memorandum.
8. The Secretary of State for India informed the Cabinet that the Lancashire industries and representatives of Lancashire constituencies in Parliament were most anxious that a Trade Delegation should be sent to India. He stated that the President of the Board of Trade supported the proposal. The obvious criticism would be that it was useless to send a Delegation when a boycott was about to start. He had no certainty, however, as to whether a boycott would be started or not. He therefore asked approval to the principle of sending a Trade Delegation, which would cost £6,000 to £7,000. The next stage would be to communicate with the Government of India, who would, no doubt, in their reply make clear the position as to a boycott. This would influence the final decision as to sending a Delegation.

The Cabinet were informed that the Department of Overseas Trade had a sum of £10,000 to surrender to the Treasury. It was proposed that part of this sum should be used for the purposes of the proposed Trade Delegation, instead of asking for a Supplementary Vote.

The Cabinet agreed —

Subject to the approval of the Chancellor of the Exchequer (who had not yet been consulted), to approve the principle of a Trade Delegation to India.
The Cabinet had before them a Note by the Home Secretary (C.P.-314 (31)) covering a Memorandum by Mr Oliver Stanley on the subject of the Sunday Performances Bill. In this Memorandum four possible courses of action were discussed:

(i) To extend the existing Act for a short period if it is felt there would be no Parliamentary opportunity for discussion this year:

(ii) To allow the present Act to expire without introducing any further legislation:

(iii) To deal comprehensively with the problem of Sunday Entertainment:

(iv) To introduce a Bill on the lines of Mr Clynes' Bill of 1931.

If the latter course were adopted, it was urged that priority should be given to the Bill, in order to avoid the risk of failure to pass the Committee Stage before the close of the Session.

The Cabinet agreed —

(a) That the Home Secretary should prepare a Bill on the lines of Mr Clynes' Bill of 1931, as amended in the Committee Stage:

(b) That the Bill should be introduced as a Government measure, but should not be supported by the Government whip.
The Cabinet had before them a Memorandum by the Secretary of State for War (C.P.-323 (31)) recalling that the Election Programme of the Conservative Government in 1929 included proposals that home-fed beef should be supplied to the Fighting Forces at home for six months in the year and that flour supplied to Army and Air Force bakeries for the six months after harvest should contain a percentage of English wheat; that the proposal had been rejected by the Labour Government in 1929 and 1930 on economic and financial grounds, but that the matter was likely to be raised again in the near future. He therefore enclosed a Memorandum by the War Office dealing with the proposals from the standpoint of cost and practicability. The Secretary of State added a warning that he was unable to find money for this change from Army Estimates. Any additional charge in a matter which was of no military advantage to the Army was beyond his capacity to meet. The Cabinet invited the Secretary of State for War to send the Memorandum to the Cabinet Committee on Agricultural Policy.
The Cabinet agreed —
To meet the same afternoon at 2.30 p.m. to complete the Agenda.

2, Whitehall Gardens, S.W.1,
December 16, 1931.
Draft Reply to French Memorandum on Reparations (See C.P. 310(31)) as amended and approved by the Cabinet at their Meeting on December 16th, 1931.

1. His Majesty's Government in the United Kingdom have studied with the greatest care the Memorandum stating the point of view of the French Government in regard to Reparations. H.M. Government are deeply impressed, as no doubt are the French Government also, with the vital necessity for reaching a satisfactory settlement of the problem of reparation and war debts without delay and they therefore welcome the full and authoritative statement of the views of the French Government and desire to state their own views with equal frankness.

2. The point of view of H.M. Government is as follows.

In July last the London Conference recommended that the commercial creditors of Germany should agree to maintain the volume of their existing credits to Germany and that a Committee should be appointed to enquire into the further credit needs of Germany. In making this recommendation the Governments at the same time gave the assurance that "in order to ensure the maintenance of the financial stability of Germany, they (the Governments) were ready to co-operate, so far as lies within their power, to restore confidence." The Conference also expressed the view that if the measures they recommended were carried through, they would form "a basis of more permanent action to follow". The measures proposed by the London Conference were duly carried out; the "Wiggin Committee" was appointed by the Bank for International
Settlements and the banking credits were, on the faith of the declarations made by the London Conference, maintained at their existing volume till February 29th, 1932, by means of the Standstill agreements.

3. In their Report, the Wiggin Committee emphasised the need for the Governments to act without delay. "We feel certain", they said "that the Government's representatives at the London Conference, in taking the responsibility of recommending to the Bankers of the world that they should take concerted measures to maintain the volume of the credits they had already extended to Germany, fully realised that their proposal was not a solution of the problem but a means of gaining time, during which steps for re-establishing the credit of Germany might be taken".

"But time is short. The body of the world's commerce - whose vitality is already low - has suffered a severe shock in one of its chief members. This has resulted in a partial paralysis which can only be cured by restoring the free circulation of money and of goods. We believe that this can be accomplished; but only if the Governments of the world will realise the responsibility that rests upon them and will take prompt measures to re-establish confidence. Their action alone can restore it. We think it essential that before the period of prolongation of credits recommended by the London Conference comes to an end, they should give to the world the assurance that international political relations are established on a basis of mutual confidence, which is the sine qua non of economic recovery, and that the international payments to be made by Germany will not be such as to imperil the maintenance of her financial stability".

- 2 -
4. Subsequent events have fully confirmed the justice and urgency of this recommendation. The severity of the economic crisis, as the French Government recognises, has become greatly intensified, not only in Germany and her neighbours, but throughout the world. The collapse of credit and exchanges is rapidly leading to an economic paralysis throughout Europe. Much more far-reaching remedies are now necessary than might have sufficed a year or even six months ago. Unless confidence can be speedily restored, it is impossible to foretell what disastrous repercussions the present crisis may have on the economic structure of the civilized world.

5. The precise extent of the action to be taken by the Government remains to be settled.

It has been agreed that in the first instance, the situation of Germany should be examined by the Special Advisory Committee provided for by the Young Plan. This Committee is appointed by the Governors of the Central Banks and is not responsible to the Governments or subject to their instructions, and it is for the Committee to determine the procedure which it should follow in its inquiry. But His Majesty's Government are in full accord with the French Government in desiring the Committee to undertake a thorough examination of all the aspects of the German financial situation without any limitation, and to recommend, with the authority that their international reputation as experts in monetary and economic affairs must command, the measures required to restore the stability of the German currency and budget and to permit the revival of normal economic and financial life both in Germany and in the rest of the world, and finally to state what steps are required, in the light of Germany's capacity of/
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payment, to enable this result to be achieved. It will then be for the Governments concerned, bearing in mind the undertakings entered into at the London Conference, to take such decisions in regard to reparations as may make it possible for the credit of Germany to be restored.

6. Germany, of course, remains bound by the Hague Agreement unless and until that agreement is modified by consent. But as the French Government recognise, the economic crisis which has since developed has made the fulfilment of the Young Plan, as it stands, impossible and the question is what adaptations are necessary to meet the present situation. That question will have to be considered by the Governments in the light of the recommendations formulated by the Special Advisory Committee, and His Majesty's Government do not consider that it is right or wise to formulate limitations beforehand. It is always open to a creditor to revise a settlement which has proved unworkable and a wise creditor will do so betimes rather than force his debtor into liquidation. What is a sound business principle in regard to private claims is equally a necessity in regard to international claims as the economic and financial interests of all countries are inextricably connected and the financial and economic collapse of any one nation must inevitably produce the gravest effects throughout the rest of the world.

7. Accordingly, until the Report of the Advisory Committee has been received, it would be premature for the Government to formulate their views in detail. But there are certain broad principles which must, in the opinion of His Majesty's Government, be regarded as fundamental. A settlement is required which will restore the credit of Germany,
and this can only be attained by an arrangement which will ensure that the governmental obligations of Germany will not endanger the economic life of the country and preclude its citizens from duly honouring obligations incurred in the ordinary course of business.

8. The foregoing considerations are in accordance with many of the principles enunciated in the French Government's memorandum. But some of the specific stipulations put forward by the French Government do not seem to be in harmony with these principles. The satisfactory reparation settlement, which it is essential to achieve without delay, cannot be secured by each Creditor Power bringing to the discussion a settled series of demands, before Germany's capacity to pay has been determined in the course of an impartial enquiry into the facts, by the Advisory Committee.

9. There is another aspect of this question to which His Majesty's Government desire to refer. The French Government state that it is the firm determination of France at the forthcoming Conference to insist on retaining her "solses" or surplus of reparation receipts over war debt payments. Is such a proposal calculated to appeal to the Governments to which War Debts are due as a ground for reducing such Debts? Is it not apparent that by the proposed arrangement France would be merely passing on to Germany any concession made to her by others, without sacrificing any of her own surplus receipts?
His Majesty's Government would add that, while the Young Plan allotted to certain Powers a surplus over their net war debt annuities, there is nothing in the Plan which gives such surpluses any priority or preference as regards the distribution of the annuities. In so far therefore as any reparations payments are available, the grant of a priority of any kind for the French "solde" would represent an innovation in favour of France, it would operate to the detriment of this Country and would not be possible for any British Government to contemplate.

10. There is one other point which His Majesty's Government must emphasize. During the past few years, the United Kingdom has contributed in far larger measure than France to the maintenance of German economic life. It has done so partly by putting at the disposal of Germany commercial and banking credits, amounting altogether to close on 280 millions. These credits were not speculative investments attracted by the prospects of a high return. They represent in the main the normal and ordinary means by which international trade is carried on, and in fact are commercial credits of a self-liquidating character constituting the soundest type of banking security. But this country also helped German trade by offering a free market to her goods such as none of the other creditor Governments have given. Largely as a result of this policy, Germany has during the past three years, had a net favourable balance of trade amounting to about 3100 millions, if only the British exports to Germany are taken into account, and of over 250 millions, if re-exports from the United Kingdom as well as British exports, are included. The sterling resources thus placed at the disposal of Germany have undoubtedly contributed in no small measure to the payments which France has received for reparations. But it is not possible for this country by itself to continue indefinitely a policy of fostering international commerce; and His Majesty's Government cannot be expected to maintain a system which provides resources for the payment of reparations to France if the payment of British private claims is not to be absolutely assured.
11. H.M. Government have entered into these detailed explanations in response to the request of the French Government for an exchange of views. But they desire, above all, to emphasize the urgent need of a solution of the whole question of inter-governmental indebtedness which is something more than a makeshift. In their belief it is in the interests of all the nations of the world to arrive at a settlement which will relieve the exchanges from the actual and prospective risks created by the existing mass of unproductive debts. Such a settlement would in their view be the most practicable step that could be taken to release the world from the present economic depression. On the other hand, if such a settlement cannot be attained, that depression will continue and must inevitably be accentuated with consequences of a social and political as well as of a financial and economic character which it would be difficult to exaggerate. The fate of Europe for many years to come may depend on the decisions to be taken by the Governments at the forthcoming Conference; and H.M. Government consider that it is the duty of statesmen in all countries to approach the Conference with the single aim of ensuring a settlement, which will form a basis for restoring confidence and rebuilding prosperity.

12. H.M. Government have stated their views frankly, even though at some points they differ from those of the French Government in the conviction that it is only
by frankness that differing points of view can be understood and agreement reached. It will always be the desire of H.M. Government to co-operate closely with the French Government in dealing with the reparation problem and to endeavour by friendly discussion to reach agreement as to the best method of maintaining the peace and restoring the prosperity of Europe, which is the common aim of both countries.