THE GOLD STANDARD.

NOTE BY THE CHANCELLOR OF THE EXCHEQUER.

MY colleagues may be interested in the following recent comments by the Chairmen of the Joint Stock Banks on last year's return to the Gold Standard. I add an article in the "Times Annual Financial and Commercial Review" by Professor Gustav Cassel, of Upsala, whose opinion as an independent economist of world-wide reputation is particularly striking.

Treasury Chambers, February 10, 1926.

1. Sir F. Schuster at the Annual Meeting of the National Provincial Bank, January 28, 1926.

GOLD AND CURRENCY.

OUR return to the gold standard took place sooner than many expected, but at the right moment, and the results have shown that it was not a rash step, and that we were prepared and equipped for it. This is not a banking question alone. It is not in the interests of the banks that we have advocated and supported it. It is in the interests of the whole trade of the country and of the community. In fact, it is essential to trade.

After a very brief period of unavoidable slight dislocation our prices have been restored to world level: we can compete on equal terms, we can secure raw materials and food at the lowest prices. An element of uncertainty has been removed for our traders and for those who wish to trade with us.

At a meeting in the City of London I need not dwell on the importance of the restoration of our position as a leading financial centre. The pound sterling has once more regained its position as a standard of value all over the world, and I doubt not that our position as a financial centre must ultimately tend to lower, and not, as has been stated, to raise rates for money in our markets, whilst the action of the Bank rate supplies a useful check against over-trading and over-lending.

Until the end of last century, when the South African war broke out, we were the cheapest money market in the world. This is now certainly the case as regards Europe, and from enquiries I have made I find that even in the United States the average rates last year at which accommodation was granted by bankers to trade were not materially lower than those prevailing in this country, while for long-dated loans, debentures, and bond issues the rates which great industrial undertakings had to pay were actually somewhat higher than in this market. Thus the contention that the reintroduction of the gold standard has done injury to our trade through money being dearer than in competing countries falls to the ground.

MAINTENANCE OF GOLD STANDARD.

Shall we be able to maintain the gold standard without unduly raising interest rates? Judging from all past experience there does not seem to me any doubt. After quite considerable withdrawals and the customary expansion of currency at the end of the year, the gold in the Bank of England amounted to £1,144,500,000, while £7 millions of silver were held in the currency reserve. Bank of England and currency notes in the hands of the public were £408 millions, giving a proportion of about 37½ per cent. Since that time all the exchanges have moved in our favour.

Gold production, which during the war had been reduced, is increasing again, and that of the Transvaal is actually 53 per cent. higher than it was in 1915, the year of the maximum production of the world. The British Empire produces 70 per cent. of the world's output. Supplies from South Africa have been retarded by the fact that they themselves have established a Mint and a gold currency for their country. That once secured the outflow will begin again and production seems likely to increase.
For a time there may be a demand from those countries who wish to stabilise their depreciated currencies. Some of them will do so on a gold standard rather than on a gold currency.

**Conditions in United States**

Conditions in the United States indicate a period of unprecedented prosperity, higher prices, and the probability of larger imports of merchandise, and an outflow rather than an increase in their holding of gold. The East, it is true, has made large demands partly caused by the high price of rubber and better conditions in India; yet on the whole the probabilities seem to be that the influx here is likely to exceed any requirements for gold shipments. Ultimately, however, everything must depend on the direction of our trade.

2. Dr. Leaf at the Annual Meeting of the Westminster Bank, January 28, 1926.

The year which has passed since our last meeting has been one of considerable interest from the banker's point of view. It has seen the return of our financial system to the gold standard, and it has seen the removal of the embargo upon the issue of foreign loans in London. Of the return to the gold standard I have expressed my views elsewhere, and I do not propose to say more now than that it does not seem to have produced any of the disastrous effects prophesied by the opponents of it. The deflationary effect has been very slight, if any; so far as I can calculate it has not produced a fall in values of more than 3 per cent., if so much. This is a mere trifle compared with the effect of the harvests of important commodities, such as wheat and cotton. In particular, it has been followed, not by the great increase of unemployment which was predicted, but by a steady and marked decrease. It has undoubtedly steadied trade, and has given confidence in all cases where the forward course of the exchanges forms an important element in the placing of trade contracts.

The return to gold has made possible the removal of the embargo on foreign loans; for the course of exchanges now controls, or is controlled by, the course of the Bank rate. The Bank has to protect its stock of gold, now that export is permitted; too large loans to foreign countries will involve a fall in the exchanges, which must be counteracted by a rise in the Bank rate. This in turn involves higher rates of interest to borrowers in the London market and so automatically checks the issue of loans. It is to this cause, among others no doubt, that the recent rise in our Bank rate to 5 per cent. must be attributed.

3. Mr. Goodenough at the Annual Meeting of Barclay's Bank, January 21, 1926.

**Removal of the Embargo on External Issues.**

At the present time, when conditions are so very different, it has been a matter of doubt with some people as to whether we should be justified in finding any money at all for external investment or for the purpose of meeting the overseas demand for fresh capital. It was felt that if we should do so, and should the Government at the same time decide again to create a free market for gold, a drain on our gold reserves might result, which, in turn, might lead to a weakening of our currency or credit and possibly to high rates for money.

Yet now that these two important decisions have been taken—first, the termination of the restrictions against gold export, and secondly, the removal of the embargo on external loans— it would seem that the absence of any really serious result provides a good ground for encouragement for the future, and at the same time, our savings, though small in the past year, have not been by any means negligible.

It is true that since the gold restrictions were removed there has been a net loss to this country of £12 millions of gold, and that this loss of gold has reduced the total of our holdings of gold in relation to the total note issues of the country (both Treasury and Bank of England notes taken together) from 37·5 per cent. in April last (before the withdrawal of the restrictions) to 36·1 per cent., according to the latest returns. This loss has, however, been due, to some extent, to special circumstances, including the transfer of American balances because of the high rates
for money prevailing in America immediately prior to the raising of the Bank of England rate in December last, and because of the great activity there. There has also been the abnormally heavy adverse visible balance of trade in the early part of the year and the usual seasonal influences, both of which may have had a temporary effect.

**Improvement in Value of our Currency and Credit.**

On the other hand, the value of our currency and credit, as measured in foreign currencies, has improved, the sterling-dollar rate, except for a brief period, having been maintained above gold export point. The effect of the improvement has been to reduce the cost to us of the payments we have to make abroad, whether for the service and repayment of debt, or for imported food-stuffs and raw materials, and, having regard to the season and the surrounding circumstances, we are not, on balance, experiencing any very serious loss of gold.

**Signs of Better Trade.**

There are also signs of improvement in British industry in many directions and the relative level of retail prices prevailing in this country and in America has moved in our favour since the return to gold.

At the same time, the balancing of certain continental budgets and the readjustment of currencies upon a gold basis have resulted or should result in an increase in the purchasing power of the countries concerned, and should produce an improvement in continental trade. If, at the forthcoming International Economic Conference, an agreement should be reached for some reduction of tariffs, it should be of great benefit to impoverished Europe.

The return to the gold standard will assist in the regulation of prices at a level which will enable us to compete with other producing countries, and there should then be no question as to our being able to maintain a net favourable trade balance, or to avoid undue strain upon our gold reserves. With the gradual return of other countries to the gold standard, the problem of maintaining prices of commodities and costs of production at a level which will enable us to compete, should be still further simplified.

It seems to me, therefore, that after taking into consideration all these factors, which reflect the condition of the country at the present time, we may regard the situation as becoming more sound and we may feel that there is good ground for encouragement, especially when we remember that Great Britain is only in the early stages of recovery from the enormous financial strain of the war, of which we, perhaps have borne the largest share. Yet we have resolved to pay our debts in gold, if required, rather than allow our currency to remain at a discount in foreign markets. (Cheers.)

4. Mr. McKenna at the Annual Meeting of the Midland Bank, January 26, 1926.

Our return to the gold standard is the outstanding financial event of the year. Its profound importance to the currency and credit system is acknowledged; yet the final step was taken without noticeable disturbance, and our ability to recover and hold a free gold market has been firmly established. Precautionary arrangements were made in order to meet the possibility of an excessive demand upon our stock of gold, but notwithstanding some loss no occasion has arisen for making use of the facilities obtained in the United States. On what we may term its exchange aspect the operation was entirely successful; and our financial authorities may be congratulated upon their achievement, in which the sympathetic attitude of the American bankers was a material factor.

**Trade on a Rising Exchange.**

On the other hand, we must recognise that the transition to gold seriously impaired our export trade. Financial measures were adopted which raised the exchange value...
of sterling but had no immediate and proportionate effect in lowering our internal prices. Our situation indeed was the reverse of that which exists in countries with depreciating currencies. In France, for example, prices are low for foreign buyers because of the heavy fall in the franc, and French traders consequently enjoy a premium on exports. In our case, on the other hand, foreigners found the price of sterling too high, measured in terms of their own currency, to permit of their buying British goods, and British exporters were therefore at a serious disadvantage in world markets. For evidence of this effect on our foreign trade we have only to look at the official returns, which for several months showed an unusually large unfavourable balance. But this impediment to our export trade is fast disappearing. Since last spring the price level in England relative to other countries has fallen considerably, and the over-valuation of the £ sterling has ceased to be an important factor in our foreign trade.

The Country's Financial Achievement.

After an outburst of speculation based upon monetary inflation prices can be forced down again by a severe restriction of credit to the level, or even below the level, at which they stood before the speculative outburst began. Heavy trade losses and inevitable unemployment will ensue, but these are the temporary though inevitable accompaniments of a healthy reaction. When the effort to deflate is suspended trade will soon begin to revive. If the deflation be long continued, however, its effect will show itself particularly in a lower scale of production. A further decline of the price level will then be arrested by the higher cost of manufacture, and the exceptional degree of unemployment will persist. This has been our experience during the last five years, when our monetary policy was governed by the declared determination to return to the gold standard at the earliest practicable moment. Immediate trade requirements and the exigencies of the dollar exchange were in direct conflict. It was impossible without an expansion of credit to carry a volume of trade sufficient to absorb the unemployed and provide for the natural growth of the population unless prices could be reduced; but the effort to bring down prices to the requisite level continuously failed of its purpose. It was frustrated by the natural opposition to a reduction in wages, and by the high cost of production on a diminished output; it resulted in long-continued trade depression and excessive unemployment. That our endeavour after five years of effort has at length been crowned with success is a matter for sincere congratulation, but candour compels us to admit that the rise in the American price level has been the most powerful factor in our achievement. It is idle now to discuss whether the object in view was worth the price we have had to pay for it. Let us be content that the goal has been reached; and let us rest in the hope, for which there is good foundation, that we may reap the reward in the future. (Cheers.)

5. The "Economist" of the 30th January comments on Mr. McKenna's speech as follows:

We venture to suggest that Mr. McKenna took too narrow a view of the situation in attributing the ups and downs of trade and unemployment in recent years almost exclusively to monetary policy. He bases this view on the argument that, whereas since the war the figures of unemployment have shown marked variations, the influences commonly alleged as responsible for trade depression, such as obsolete plant or defects of administration or personnel, the diminishing of the world's demand for the goods we export, high labour costs, the burden of taxation, political instability in Europe, have been continuously operative since the war, and that the fluctuations can only be explained by monetary policy. This argument is weak, however, in several respects. In the first place, Mr. McKenna rather exaggerates the recent fluctuations of the unemployment figures by comparing the low point of the summer of 1924 with the high figure of winter months. Again, he omits to mention the big but temporary influence exerted on British trade and employment by the occupation of the Ruhr, or to mention other causes of temporary disturbance. In estimating the importance of monetary policy, moreover, it is essential to point out that the trend of unemployment which he mentions has to a very large extent varied with the general depression and recovery of world trade, in which countries have been involved equally
with ourselves which have followed quite an opposite monetary policy. Moreover, it is not true to say that there have been radical changes in monetary policy from time to time which could account for the movement of unemployment. On the contrary, the restoration of the gold standard has been consistently pursued. We should be the last to suggest that monetary policy has no influence on trade, but we think that Mr. McKenna tends to get his picture out of focus by attributing to it practically sole influence.

We think also that his survey is inadequate in omitting to point out the positive advantages of the return to the gold standard, and, though he accepts it as a great achievement, the omissions in his speech imply an extremely critical attitude towards this policy. This is not the place in which to repeat once again the great advantages which accrue to Great Britain through the stability of the exchanges of the world, but we may point out that Mr. McKenna makes no mention whatever of the effects of other people's monetary policy, which has been far more detrimental to British trade in the last five years than our own could possibly have been, or of the fact that the returning stability of world exchanges is gradually giving us an increasing power of competition. Moreover, Mr. McKenna's grudging acceptance of the gold standard is calculated to strengthen the feeling among the less well-informed sections of this country that the operation has been one manœuvred by the bankers in their own interests, and that it has been contrary to the interests of British industry. The fact is, of course, that if bankers were primarily concerned with their own profits, they would do much better on a fluctuating than on a stable exchange. Every fair-minded man will admit that the policy has been put through, not in the interest of any class, but with a view to strengthening Great Britain's economic position in the world, and that it has every prospect of doing so.

6. Mr. J. Beaumont Pease at the Annual Meeting of Lloyd's Bank, February 5,1926.

THE RETURN TO GOLD.

The year 1925 has marked a very distinct step forward on the march to more prosperous and normal times. The removal of the embargo on gold was one of the most momentous events of the year. This has been referred to at all the recent bank meetings and in very similar terms. I do not propose to add to what already has been said on this subject, except to associate myself with the expressions of congratulation which have been made on all sides that the forebodings entertained in some quarters of the dangers attending such a momentous step have not been realised. Though undoubtedly it had a temporarily depressing effect upon our export trade, the most difficult period seems to have been successfully passed without an unduly high bank rate, and we are reaping the benefit of enhanced credit, a steadier exchange and lower prices. The working man pays less for his necessaries, the country less for its raw material, and our currency, in the words of the Chancellor of the Exchequer, has been "shackled to realities." It is not for selfish reasons that bankers have advocated the taking of this step. It is frequently said that the interests of those dealing in trade are in conflict on these and allied questions with those dealing in finance, and in the interesting notes of Lord Milner, published after his death, I see a similar statement made. He says: "Just as the productive industry welcomes rising prices, the moneyed interest must always be in favour of falling prices, because they render its own wares—money—more valuable." To my mind this is an entire misapprehension, and it cannot be too frequently insisted that conflict of interest between banks and trade is quite imaginary. If trade is good and industrialists prosper, banks prosper with them, and if it is bad they suffer together. The argument that, as lenders of money, banks desire to see deflation for their own selfish ends is, on examination, false. The argument would appear to be as follows: As lenders of money it pays bankers to make loans in a depreciated currency in order that they may be repaid hereafter when deflation has made the currency more valuable. But the argument is based on a misconception of facts. Although it is undoubtedly true that one of the chief functions of banks is to lend money, they are really much more interested as borrowers, the amount they borrow on deposit and current accounts being roughly twice the sum they lend on overdraft. If, therefore, they merely sought their own

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selfish ends, a process of inflation would suit them best and they would be able to repay to their depositors in depreciated currency the sums which they had received from them when they were of a much greater value.

Other nations are following our example of returning to gold, with similar beneficial results. Currencies are being stabilised, budgets balanced, debts settled. International relations have been improved and a much greater sense of security obtained by the Pact of Locarno. Artificial restrictions are being slowly removed. At home we have abolished the embargo on foreign loans, and international trade would be greatly assisted if many further restrictions, which greatly hamper trade between various continental countries, were removed. Conditions in Europe have certainly made some progress, and I think we are all beginning to realise more clearly the truth that it is to our interests that our neighbours should be rich and prosperous. What good can it do us, who desire all the outlets possible for our trade, if our neighbours are too poor to buy from us.


CREDIT AND CURRENCY RESTORATION.

ENGLAND'S RETURN TO GOLD.

A CONFERENCE ON ECONOMIC DISARMAMENT.

(By Professor Gustav Cassel, University of Stockholm.)

The most conspicuous feature of the economic records of the past year is Great Britain's return to the gold standard. Of course there were objections to this step, but it had to be taken. No other solution would ever have been regarded by the public as definitive. It was said against the measure—and no doubt with a certain plausibility—that the gold standard was no longer the same independent standard of value as it used to be before the war, but little more than a standard governed by the dollar and, therefore, subject to the influences of American monetary policy. To accept such a standard would in reality mean being content with a "managed currency," in which case, it was said, Great Britain might just as well manage her own currency independently.

Theoretically, this argument was perhaps of some weight, but it overlooked very important practical considerations. If every other nation were to take up the same attitude, a unification of the world's currency systems would become impossible, and the uncertainty which for so many years has prevailed with regard to foreign exchanges and made them a field of speculation would have been doomed to continue for ever. The critics who particularly objected to Great Britain's return to the gold standard also overlooked the very important fact that the way to make the gold standard more like the independent gold standard of pre-war times and free it from the dominating American influence was to put the British currency definitely upon a gold basis. If her example is followed by a great number of nations, their joint demand for gold will render the metal much less sensitive to influences from particular countries. Naturally, Great Britain's return to the gold standard was calculated to have by far the greatest effect upon other countries.

No CASE FOR POSTPONEMENT.

It is extremely doubtful whether much could have been won by waiting for a better opportunity for restoring the gold standard than that which the beginning of 1925 seemed to offer. It is true that the conditions were at that time by no means ideal. At the beginning of the year the English price level was still considerably above the American, the comparative index of the Federal Reserve Board showing a figure of 178 for England and 168 for the United States. In April both figures had been reduced, in England to 171 and in America to 163, leaving a difference of about 5 per cent. in favour of the latter. In order that the new English gold standard should have a solid foundation it was obviously necessary that English prices should be brought down to a level with the American.
When, at the end of April, the British currency was made equivalent to gold, the external value of the British currency was raised above its internal value simply by a decree. Of course such a political command over economic realities is possible only within very narrow limits. In the present case it was only a question of raising the external value of the British currency by a few points, and for that purpose the strong support of a huge gold fund in England and large American credits were available. By the aid of these gold assets it was certainly possible to raise the dollar value of the pound sterling very nearly to the gold parity. Naturally, such an artificially high exchange had the effect of pressing down the prices of imported articles at the same time as, by making exports more difficult, it tended to enforce a reduction of home prices. Generally, of course, the external value of a currency is determined by its internal value according to the purchasing power parity theory. But when vast resources are put at a country's disposal for keeping the external value at a point above the actual internal value the latter gradually tends to correspond to the external value. This, in fact, happened in England after the restoration of the gold standard. Still, it is doubtful whether the new external value given to the pound would have been able to raise the internal value had not British prices been forced lower by a restriction of credit. In fact, the Bank of England raised its discount rate from 4 to 5 per cent, on the 5th March, and this high rate remained in force until the beginning of August. The result was that the British price level fell from 171 in April to 164 in June and 163 in July. This fall of British prices was enough to bring them down to a level with the American, which, for June and July, reported an index figure of 163 and 165 respectively.

Slow Adjustment to Change.

Thus the necessary process of deflation in England after the restoration of the gold standard did not require more than two or three months. No doubt this deflation had its disagreeable consequences. But it was kept within such narrow limits and was carried through in such a short time that the bad effects which can truly be attributed to it cannot have been of very great importance. The opponents of the restoration of the gold standard—whatever the theoretical merits of their arguments may have been—have rendered their country bad service by causing public opinion to hold the gold standard responsible for evils which have nothing to do with the monetary system of the country. In fact, England suffers from serious evils of a general economic character. Particularly is her slow adjustment to new conditions a drawback. As long as, by State aid in different forms, people are protected from the consequences of a deficient economic mobility, or they are kept in the hope that they will be so protected, the economic life of the country will never attain the adaptability which will allow it to adjust itself sufficiently quickly to changing conditions. Great Britain must necessarily suffer severely in times of great economic changes by her slow adjustment. The only true remedy is that the people should be brought to realise the importance of adjusting themselves rapidly to these changes. It is very desirable that the real shortcomings of the economy of the country should not be obscured by alleging its monetary policy to be responsible for them.

Sterling Undervalued.

As prices in England continued to fall during the second half of the year when American prices remained at about the height they had attained in July, it was quite natural that the bank rate should be reduced in August to 4½ per cent, and in October to 4 per cent. In fact, these reductions were hardly sufficient to stop the fall in prices. In November the British price level had fallen to 156, whereas the American index was 166. Still the exchange was against England. Thus a considerable undervaluation of the pound took place. The British currency, in fact, has been undervalued from July, and in November this undervaluation rose to fully 6 per cent. It is not easy to give a satisfactory explanation of this undervaluation. We might refer to the usual autumn demands for dollars and, probably with more reason, to the "boom" which has been developing in several directions in the United States during the last few months. One would assume that the large American loans to Europe would have corrected the undervaluation of the pound, but, as a considerable part of these loans have been kept as a monetary reserve in America, they have not had their full effect on the dollar exchange. Whatever the reason for the
undervaluation of the pound may be, the conclusion is justified that the dollar exchange at the end of 1925 was abnormal and was bound to fall if the price levels in England and America should remain unaltered. In other words, the pound is all right, and there is no need to raise its internal value. It is only the exchange market which requires time to adjust itself to the true purchasing value of the pound. [Since the above was written the dollar value of the pound has increased as foreshadowed by Professor Cassel.]

Before the restoration of the gold standard there was a widespread fear that this step would result in a great loss of gold by England. The fear, however, was not so well founded as it seemed to be. From May to August every month showed a net import, the aggregate net import for the four months being £9.8 million. But from September, when the overvaluation of the dollar began to make itself felt more severely, the balance of gold movements was against England. The Bank of England followed the bold policy recommended by Mr. Chamberlain's currency committee of letting the gold go out. But at last, on the 3rd December, the bank found it advisable to protect its gold reserves by raising its rate to 5 per cent. As is clear from what has been said here, this rate was in no way required by the internal conditions of England, but is to be regarded as a weapon against adverse exchange conditions of an abnormal character. Therefore, the hope seems justifiable that the maintenance of a high bank rate will not be necessary for long. It is particularly noteworthy that the bank has been able to protect the exchange without in any case having recourse to the American credits.

It is often said that the policy of New York, in adhering to a 3\% per cent. rate even in face of increasing autumn demands, was due to a desire not to accentuate the difficulties of London. It is, however, necessary to remember that it would have been a distinct disadvantage for America to get more gold, and that the New York rate has proved sufficiently high to keep the purchasing power of the dollar as constant as could be wished. Thus, from a purely American point of view, there was no reason for raising the bank rate.

Finland's Devaluation.

The restoration of the gold standard in Great Britain was particularly necessary in order that London's position as the monetary centre of the world should be preserved. The need for action was the more urgent as the colonies were eager to go back to gold, and therefore it was desirable that England should take the lead in the restoration of the gold standard within the Empire. As a matter of fact, England has had the satisfaction of witnessing a return to the gold standard by several colonial and foreign Powers. This restoration has been, in some cases, to the pre-war gold parity; but in other cases, where inflation had gone so far that such a restoration would have been impossible, a new gold par has been chosen which corresponds to the actual value of the currency. This course, which for years had been recommended by economists, was first adopted by Austria, Hungary and Germany. The case of Finland also deserves mention. After having gone through very great difficulties, this country stabilised its currency on the lower level to which it had been brought down, and, at the end of 1925, determined upon a new gold parity. The way this problem was handled by Finland was in many respects model, and her example may be usefully followed by other countries. Among Latin countries, Belgium and Italy took, in 1925, the first steps towards stabilising their currencies and connecting them with the gold standard. They have already reaped the benefit of this sound policy in so far as they have been protected from being drawn down in the recent precipitate depreciation of the French franc.

Locarno and International Credit.

The past year witnessed a notable restoration of international credit. The work was begun in the autumn of 1924 with the London agreement and the Dawes loan to Germany. This provided a model for several important arrangements during 1925. Agreements as to the payment of war debts were arrived at between several European States and the American Government, and, in accordance with the Treasury's wishes, American financiers regarded these agreements as a necessary prelude to the arrangement of credits—which were of large amounts—to the countries concerned, particularly for the purpose of currency stabilisation. The more important of these agreements affected Belgium and Italy, and it is earnestly to be hoped that the
American credits put at disposal of these countries will be used, as without doubt they can be, for a definite stabilisation of their currencies.

A factor of first-rate importance in the restoration of credit has been the Treaty of Locarno. At least in the eyes of American financiers, this treaty represents a very material advance towards real peace in Europe. This can be proved in figures. The Dawes loan which was issued in New York at 92 and which at the end of June was quoted at \(96\frac{3}{4}\), had risen, by the middle of November, to 102\(\frac{1}{2}\). This improvement of credit showed itself in the easier conditions obtained by foreign Governments for their loans in America, and also by private European borrowers. Thus the Locarno Treaty has already proved to be a powerful element in the economic reconstruction of Europe.

**The Restoration of Trade.**

If, however, the peace of Locarno is to become a point from which a new development of the commercial intercourse between nations can start, it is obviously necessary that the political peace should be followed by peace in international trade relations. The several nations must seek the basis of a new trade policy in an open acknowledgment of the fact that, in international trade, they have a great common interest. Since the war the tendency has been very much in the opposite direction. Countries have suffered from depression and unemployment and have done everything in their power to protect themselves against foreign competition, with the result that the depression has become still worse, whereupon new protective measures have been resorted to. This *circulus vitiosus* has a striking resemblance to the competition in military armaments which has for so long been the curse of the world. People now begin to see the necessity of military disarmament. But equally urgent is disarmament in international trade policy. Last year, France took the initiative in calling for a great international economic conference under the auspices of the League of Nations. It is not quite clear at present what can come out of this conference. But it is obvious that if it is to produce real and lasting benefits it must be regarded from the first as a *Conference of Economic Disarmament*. Much has been accomplished in the past year in the restoration of currency and credit. It remains for the New Year to do something decisive for the restoration of international trade.