CABINET.


Note by the Secretary.

The attached second report of the Committee on International Economic Policy of the Economic Advisory Council is circulated for the information of the Cabinet by direction of the Prime Minister.

(Signed) M.P.A. HANKEY.

Secretary to the Cabinet.

2, Whitehall Gardens, S.W.1.

April 12th, 1933.
TO BE KEPT UNDER LOCK AND KEY.

It is requested that special care may be taken to ensure the secrecy of this document.

ECONOMIC ADVISORY COUNCIL

COMMITTEE ON INTERNATIONAL ECONOMIC POLICY.

SECOND REPORT.

2, Whitehall Gardens, S.W. 1,
April 6, 1933.
COMMITTEE ON INTERNATIONAL ECONOMIC POLICY.

COMPOSITION AND TERMS OF REFERENCE.

ON the 29th July, 1932, the Prime Minister appointed an informal Committee to consider the programme of subjects to be discussed at the forthcoming World Economic and Financial Conference, and to advise him personally as to the points to which British policy should be specially directed.

2. The Committee is constituted as follows:—

Sir Charles Addis, K.C.M.G., Chairman.
Viscount Astor.
Lord Essendon.
Mr. J. M. Keynes, C.B.
Sir Walter Layton, C.H., C.B.E.
Sir Arthur Salter, K.C.B.
Sir Josiah Stamp, G.B.E.

Mr. H. D. Henderson, Joint Secretary,
Economic Advisory Council

Mr. Francis Hemming, C.B.E., Joint
Secretary, Economic Advisory
Council
SECOND REPORT.

INTRODUCTORY.

IN our first report (Council paper E.A.C. (H.) 153), we surveyed the major problems likely to arise at the World Monetary and Economic Conference, and indicated our views as to the policy which His Majesty's Government should pursue. Since this report was completed in October, two meetings of the Preparatory Commission of Experts have been held at Geneva, and a draft annotated agenda, representing the report of the Commission, has been prepared. We have studied this report, and we have been enabled by the Chancellor of the Exchequer to see the report prepared by the British representatives (Sir Frederick Leith-Ross and Sir Frederick Phillips) on the meetings of the Commission. We are also indebted to the Chancellor of the Exchequer for permitting us to see a memorandum containing the observations of the Treasury on certain proposals put forward in our first report.

2. We do not propose to cover again the range of topics which we dealt with in our previous report. Upon two questions, however, upon which we then laid special emphasis we desire to add some supplementary observations, in the light of subsequent developments and the comments made on our proposals. We also attach to our report a brief supplementary note on certain aspects of shipping policy.
THE MOST-FAVOURED-NATION CLAUSE.

3. We foreshadowed in our first report that certain countries would be likely to press for a modification of the most-favoured-nation clause, so as to facilitate the conclusion of regional tariff arrangements; and we urged that it would be unwise for His Majesty's Government to adopt an obstructive attitude upon this matter. We expressed the belief that it is probably only by the method of multilateral concession based on the principle of reciprocity that effective progress can be made towards a reduction of tariff barriers; and we argued that progress along these lines is likely to be impeded by the operation of the most-favoured-nation clause in its present form. We were also influenced by the fear that "the practical alternative to a reinterpretation of the most-favoured-nation clause will be, first, an increasing evasion of it, and ultimately its general abrogation," leading to "a chaotic period of complicated discriminatory systems and tariff retaliations." We suggested accordingly that the British Government should indicate its readiness to consider the question of reinterpreting the most-favoured-nation clause, so as to facilitate collective low-tariff agreements, provided that these did not assume an exclusive character.

4. The question of the most-favoured-nation clause received considerable attention at the proceedings of the Preparatory Commission. The report declares that "in normal conditions, the unconditional and unrestricted most-favoured-nation clause should form the basis of commercial relations between nations." and proceeds to "recommend that the conference should reach an agreement at any rate as to the scope of the most-favoured-nation clause, if not as to its precise form." It states that "a suggestion which has been strongly pressed in various quarters is that States should admit an exception to the most-favoured-nation clause whereby advantages derived from plurilateral agreements should be limited to the contracting States and to such States as may voluntarily grant equivalent advantages." It urges that this proposal "should certainly be most carefully studied," and, after setting out impartially its advantages and its disadvantages or dangers, it enumerates the following as indispensable conditions:

"In any case, these exceptions must be subject to the conditions that agreements of this kind be open to the adhesion of all interested States and that their aim should be in harmony with the general interest. Amongst the conditions that might be considered for this purpose, mention may be made of a proviso that these agreements shall have been concluded under the auspices of the League of Nations or of organisations dependent on the League. Further, these agreements must not involve new hindrances to international trade vis-a-vis countries having most-favoured-nation rights. Finally, 'collective agreements' can only be regarded as such when they comply with certain conditions, to be determined, as to the number of the participating States."

The report then proceeds to discuss in a similar spirit the question of temporary exceptions to facilitate such special agreements as those designed to give a preference to the cereal exports of the Danubian countries.

5. The definition of the conditions with which collective agreements must comply, if they are to be admitted as exceptions to the most-favoured-nation clause, is in our judgment excellent; and the arguments in favour of and against collective agreements are fairly marshalled in the report. It is evident, however, that there are at present great differences of opinion between different countries both as to the desirability of collective agreements, and, still more, as to the expediency of facilitating them by a relaxation of most-favoured-nation rights. These differences may be expected to reassert themselves at the conference itself, and it is clear that it will not be an easy matter to do what the Preparatory Commission urge and "find a solution for the whole of this question which will reconcile the interests of all."

6. Great, however, as are the difficulties presented by this question, its wise handling will prove, we believe, of crucial importance for the future of international commercial relations. The precise line which it will be best for the British Government to take must necessarily be affected by the movement of
opinion and the development of policy in other countries; and for this and other reasons there has been much to be said for maintaining up to the present a non-committal attitude, such as we gather was adopted by the British representatives at the Preparatory Commission. At the conference, however, it will probably prove essential for the British Government to assume a more definite position; and much may depend upon whether we throw our influence in the scales on the one side or the other. We regard it, therefore, as vital that our attitude upon the questions of the most-favoured-nation clause and collective agreements should be carefully thought out in the meantime.

7. We adhere to our opinion that this attitude should be one of sympathy to the idea of an exception to the most-favoured-nation clause in favour of collective low-tariff agreements. We are not unmindful of the important part which the most-favoured-nation clause plays in our existing commercial treaties, and of the valuable safeguards which it provides against a chaotic regime of discriminatory tariffs. On the contrary, we regard it as a vital objective of world statesmanship to preserve the essentials of the clause. But we believe that a stage has been reached at which these essentials can only be preserved by modifying their application. For this reason criticism which takes the form of dwelling on the advantages of the most-favoured-nation clause or on the dangers which would follow its abrogation, seems to us to miss the mark. We argued at some length in our previous report that it was unlikely that European States would continue to acquiesce indefinitely in an interpretation of the most-favoured-nation clause which permits the British Empire to develop a comprehensive system of Imperial Preference while precluding other countries from entering into regional agreements. We think it desirable, however, to convey more precisely than we attempted to do in our previous report how great is the danger of international tariff anarchy if the existing tendencies develop unchecked.

8. The Preparatory Commission enumerated the following four methods by which reductions of tariffs might be effected:

(a) a general agreement of the conference;
(b) a collective agreement of a group of governments;
(c) bilateral negotiations;
(d) autonomous action on the part of governments individually.

While nothing could be more welcome than an agreement of the conference providing for the simultaneous reduction of tariff barriers throughout the world, it can hardly be expected that any concrete agreement of this character can be reached, in view of the diverse economic conditions and tariff systems of different countries. Indeed, if any attempt were made to define a general standard for tariffs that would be universally accepted, it would be so far from securing the degree of freedom of trade that is needed that it might easily become a hindrance rather than a help. The most, therefore, that can reasonably be hoped for under heading (a) is the assertion of general aims and principles which will leave the practical work of tariff reduction to be achieved by one of the three other methods. In some degree it is possible that effect might be given to general conference resolutions by action along the lines of method (d), i.e., by autonomous action on the part of individual governments. The most obvious possibility under this heading is opened up by the change of government in the United States, as the result of which an administration favourable in principle to tariff reduction is now in power. Apart, however, from the special case of the United States, the prospects of reducing tariffs by autonomous action are not encouraging. Governments have not hesitated to take autonomous action with regard to tariffs in recent years, but it has been, with scarcely an exception, in the direction of higher tariffs. General conference resolutions might exercise a restraining influence upon this tendency, but it is difficult to suppose that they would suffice by themselves, and without any application of the principle of reciprocity, to reverse it.

9. We are left thus with methods (b) and (c), collective agreements and bilateral negotiations. These methods are alike in the respect that they both embody the principle of reciprocity; this makes both of them potentially more effective instruments for promoting a widespread reduction of tariffs than the autonomous action of individual Governments can be under the world conditions of the present day. These two methods are alike again in that the existing
most-favoured-nation clause presents itself as an obstacle in both cases, and the attempt to apply either method extensively is thus likely to lead to a revolt against the clause in its present form. But the pursuit of the method of bilateral negotiations would constitute in our judgment a far more serious threat to the essentials of the most-favoured-nation clause than would the pursuit of collective agreements.

10. We are, indeed, at present in a phase of bilateral negotiations with regard to tariffs; Great Britain is taking a foremost part in them, and even at this early stage the experience of these negotiations serves to confirm the statements in the preceding paragraph. The debate on the World Economic Conference, which took place in the House of Commons on the 15th March, 1933, was significant in this connection. A motion was proposed urging the British Government, among other matters, “to take the initiative in the formation of a group of free-trade or low-tariff countries, and to make agreements for such modifications in the most-favoured-nation clauses of existing treaties as may be necessary.” To this motion an amendment was moved, urging the British Government to be ready “so to modify existing treaties as to give tariff advantages to those countries which are ready to reciprocate in the promotion of free trade and to raise tariffs against those countries which do not desire to reciprocate.” Thus the most-favoured-nation clause was subjected to criticism, both from the advocates of low tariff agreements and from those concerned primarily to improve the bargaining position of Great Britain in the existing commercial negotiations. In the course of the debate, the President of the Board of Trade, referring to the trade negotiations now in progress, used the following words:

“Moreover, in negotiating, both sides must make concessions. I want to make it clear that if any nation sits back in the hope that we will enter into successful negotiations with another power and that they will be able to achieve most-favoured-nation treatment without consideration coming from them, they will come to a deadlock. If they gain any advantages from us, they must be reciprocal in their action. They must be ready to make concessions similar to ours and to those of other countries. Unless they do that, we cannot agree to most-favoured-nation treatment being retained as a permanent element in the conditions which control their traffic and ours. If it is used against us in any instance we will drop it at once, and we will be ready to enter into individual relationships without regard to most-favoured-nation treatment in such cases as I have in mind. I hope those who now are doing so after discussing it with us, will bear in mind, therefore, the fact that while this system plays such a large part in the commercial life of this country, we are not so firmly wedded to it that we can allow it to be used to our disadvantage.”

This passage, hypothetical though it was, marks, none the less, a noteworthy change in the attitude of the British Government towards the most-favoured-nation clause. It illustrates, moreover, the difficulty which we believe to be fundamental, of reconciling the clause with any extensive pursuit of the method of bilateral negotiations.

11. The main purpose of bilateral negotiations is to obtain specially favourable treatment from the other party. The main purpose of the most-favoured-nation clause is to prohibit special favours. It is true that, under present conditions, the existence of abnormal trade impediments, such as exchange restrictions, quota schemes, &c., provides considerable scope outside the sphere of tariffs, for mutually advantageous bargains between two countries, without running up against the veto of the most-favoured-nation clause. It is further true that the possibilities of reducing tariff rates upon goods which are largely imported from the other country, and sub-dividing tariff classifications so as to discriminate between its specialities and those of rival producers, affords some scope for such bargains within the tariff sphere. But these are the exceptions which prove the rule, in the proper meaning of the phrase. Notoriously, to the extent to which the flow of international trade is determined by exchange restrictions and quota schemes, most-favoured-nation treatment is rendered nugatory; and already the international commercial air resounds with complaints of adverse discrimination in the administration of these restrictions. In this
connection, we may quote a further passage from the speech of the President of the Board of Trade:

"I would like to point out in passing that, although most-favoured-nation treatment plays a part in those treaties, there are some cases, such as France, where most-favoured-nation treatment is not likely to be continued to us. The quota system, as it has been worked in France, may become really a form of discrimination. It has been my duty to draw the attention of the French representative to the way that discrimination in other matters is operating to our detriment, and we may have to take the matter further. We cannot allow it to rest where it is. There has been discrimination with regard to the surtax in France. We are not receiving the most-favoured-nation treatment there. France is giving Belgium advantages which are not held by the citizens of this country. Again, we have not only to draw the attention of the French to this fact, but we have to make it clear that it is a condition to which we cannot permanently be parties, and the time must arrive when action is necessary with regard to their exclusion of us from the benefits which they give to others."

Similarly, the practice of conferring favours by means of tariff classification has always been regarded as an objectionable one, amounting to an evasion of the most-favoured-nation clause.

12. In expressing, therefore, our belief that the active pursuit of the method of bilateral negotiations is likely to entail "first, an increasing evasion" of the most-favoured-nation clause, "and ultimately its general abrogation," we are not conjuring up a vision of a remote and speculative danger, we are calling attention to a tendency which is already at work, and, indeed, in the course of a development so rapid that it is manifestly undermining the traditional maxims of British commercial policy. It is still less than a year and a half since the commercial policy of Great Britain was essentially one of Free Trade; and, as a Free Trade country, we were accustomed to regard the most-favoured-nation clause as an invaluable safeguard of British interests in a world which maintained high tariffs and was disposed to tariff bargains. We are now actively engaged in using the power to exclude imports from the British markets as a lever to extract favourable terms for British exports, dealing with our customers one by one; and the importance of the British market to many other countries is so great that we are becoming conscious that we have at our disposal a bargaining weapon which is potentially far stronger than any which other countries have enjoyed in the past. The change has been so recent that we have not as yet fully adjusted ourselves to its implications; we have not as yet sought to denounce the most-favoured-nation clause; nor have we decidedly abandoned our attitude of extolling it as a valuable safeguard of British commercial interests. But, as the above extracts sufficiently reveal, there is a noticeable waning in the wholeheartedness of our attitude; and the present phase is manifestly a transitional one. Increasingly we shall find, along the road of bilateral negotiations, that the most-favoured-nation clause limits our power to exploit the full potentialities of the bargaining-instrument of the British market. Increasingly we shall find that the clause prevents us from retaliating effectively against adverse discrimination in the administration of quota schemes and exchange controls. The disposition to free ourselves from these limitations will grow correspondingly. In other countries, similar reasons for discontent with the most-favoured-nation clause will accumulate.

13. It seems to us important to consider whither we are heading, while we are still in the transitional phase, and while the most-favoured-nation clause is still intact. Some of the disadvantages which would arise if the most-favoured-nation clause were to disappear from the world's commercial treaties, and the trade relations of different countries were to be governed by a complex series of bilateral bargains, were excellently stated by the President of the Board of Trade in the speech from which we have already made quotations:

"One advantage of the most-favoured-nation clause is that it ensures a general absence of discrimination, and that in itself is a great advantage for our business men here. Furthermore, if we had not the most-favoured-nation clause in our commercial treaties, it would be necessary for us to deal with
every item in our tariffs, with probably a different series of rates applicable
to particular countries, and the duties which would have to be considered by
our business men, our contractors, our salesmen and those who are drawing
up estimates would be enormous almost beyond imagination. Every item of
every country, all varying and none of them on any one settled principle and
covering such a variety of conditions, make it almost impossible for the
ordinary business man to know where he is. The advantage of the most-
favoured-nation clause as it stands at present is that he can look at the tariffs
and see what is the lowest rate, and he knows that he is entitled by
commercial treaties to claim that treatment. He knows that that is an
advantage which ought not to be too readily thrown away."

But there would also be dangers of a far graver kind. Detailed discrimination
would almost certainly provoke detailed retaliation. An era of intensified
economic warfare would be opened up. Complete anarchy would replace the
elements of order and uniformity which have hitherto existed in the international
commercial sphere. These seem to us by no means remote contingencies along the
path of bilateral negotiations; and they are contingencies which should disturb
a foreign-trading country like Great Britain, even though the bargaining
position with which we would enter into this anarchy might be initially strong.

14. It is from a sense of these dangers that we urge that the British
Government should give serious and sympathetic consideration to the method of
collective agreements. We are not blind to the difficulties in the way of such
agreements; and we do not suggest that the problem they present is an easy one.
We are convinced, however, that the method of collective low-tariff agreements
represents the true via media between the probably barren method of autonomous
action on the one hand and the dangerous method of bilateral negotiations on the
other. This method would give reasonable scope to the principle of reciprocity
while providing safeguards against the danger that this principle may lead to a
heightening of tariffs, retaliation and unlimited confusion. It is hardly too much
to say that the essential problem in connexion with tariffs is to effect a reasonable
compromise between the principles of reciprocity and most-favoured-nation
treatment, neither of which can safely be allowed to devour the other. The
method of collective low-tariff agreements would effect such a compromise; and
for this reason we remain of the opinion that it offers the only practicable means
of real progress in the direction of lower tariffs.
AN INTERNATIONAL NOTE-ISSUE.

15. In our first report, we argued that a solution of the international financial problem was an essential prerequisite of the solution of the other problems with which the conference is faced. We pointed out that the abnormal trade impediments which have been imposed in recent years are for the most part the direct and natural outcome of the international financial crisis, and we inferred that though it would doubtless be comparatively easy to secure resolutions deploiring the growth of these trade impediments, it would probably prove impracticable “to make any considerable progress towards their removal so long as the financial conditions which have given rise to them prevail”. We are confirmed in this view by the course of discussion at the Preparatory Commission. The account which is given in the report of the Commission of the causes which have led to the growth of trade restrictions is very similar to that which we gave ourselves, laying stress on such matters as the natural preoccupation of the weaker financial countries with their trade balances and exchange stability, and the anxiety of the stronger financial countries to maintain a measure of stability for their home producers amid the demoralisation of world price conditions. The report of the Commission concludes its account with the following observation:

“The foregoing summary is not intended in any way to justify the restrictions; none the less, it seems desirable to indicate the causes which have led to their adoption, since the most effective way of endeavouring to bring about the removal of these grave obstacles to trade will be to attack their causes.”

16. We argued further that in order to break through the existing international financial deadlock, it was essential to secure an increase in the supply of international purchasing power at the disposal of the weaker financial countries. We expressed scepticism as to the possibility of meeting this need by international loans from the creditor countries; and we turned therefore to the possibility of meeting it by action within the monetary sphere. We examined and supported the proposal which had already been put forward by the Committee on Economic Information that the Bank for International Settlements should be authorised to issue international certificates, to be accepted by Governments as the equivalent of gold, as the basis of a scheme for advances from the Bank of International Settlements to Governments. We pointed out that this idea was capable of being applied in a great variety of ways. The Committee on Economic Information had suggested that advances might be made at a nominal rate of interest to all Governments agreeing to participate in the scheme up to a large aggregate sum of, say, £1,000 millions gold, this sum being distributed among them in accordance with some agreed criterion of economic importance. We suggested as an alternative plan which might possibly stand a greater chance of acceptance that the advances might be limited to loans to the Governments of financially embarrassed countries, and might carry a gildedged rate of interest. Both these plans included provisions for the gradual recall of the advances and cancellation of the notes in the event of a rise in world prices, together with other technical features which we need not recapitulate.

17. We are grateful to the Chancellor of the Exchequer for the privilege of studying the observations of the Treasury upon these proposals. We understand that the Treasury have no criticisms to offer from the economic or technical standpoints, but agree that there would be much to be said for a scheme on the above lines if other important countries could be persuaded to accept it. In the opinion of the Treasury, however, there would be no real chance of the acceptance either of the larger scheme suggested by the Committee on Economic Information, or of the more limited scheme which we had suggested as an alternative; and that the latter scheme would be even less likely to win acceptance than the former. In these circumstances, moreover, the Treasury would regard it as unwise for the British Government to put forward any such proposal on the ground that distrust of sterling might be aroused if we were to appear as champions of what
would be described as novel and organised inflation. The Treasury agreed, however, that it might be an advantage if the Preparatory Commission could be induced, preferably at the instance of a continental representative, to spend some time in the exploration of proposals of this character.

18. Finally, the Treasury, as we understand their position, do not question the need for action in the monetary sphere to remedy the international financial position, and are disposed to suggest, as representing a more promising approach than that of an international note-issue, some scheme by which countries possessing surplus gold reserves would in effect deposit part of their excess reserves with the Bank for International Settlements, thus providing a basis upon which the Bank for International Settlements might make advances to financially distressed countries.

19. We have recognised from the first that so unfamiliar an idea as that of international gold note-issue was not likely to commend itself immediately to the other Governments represented at the World Conference. But while we do not think we underrate the difficulties which stand in the way of its acceptance, we are both to believe that a proposal which is sound in its economic and technical aspects (and no criticism has yet been made of it in those aspects), and which is well-adapted to meet the fundamental needs of the economic situation (and no criticism has been made of the diagnosis on which we base this claim), must be dismissed as utterly impracticable merely because it conflicts with certain instinctive prejudices and lends itself easily to misunderstanding and superficial ridicule. There are, moreover, two reasons why the proposal may prove less unacceptable than it would seem at first sight, the one concerned with the character of the proposal itself, the other with the developments of the world situation.

20. In the first place, the suggestion of an international note-issue is by no means so eccentric or bizarre, so cut off from the wisdom and experience of the past, as may be supposed. It represents the application to the international sphere of the classic prescription evolved by trial and error, and approved by abundant experience, for treating an internal financial crisis. It was not uncommon in England in the last century for one or two sensational business failures to precipitate a general financial panic, in which creditors demanded from their debtors repayments which were beyond their power and in which the public began to "run" upon the banks for cash. By long and painful experience we learnt the method of dealing with a situation of this type. The Bank of England must be freed from the normal limitations upon its right to issue notes; and, so fortified, it must lend readily to all applicants who had good security to offer. In other words, an internal financial crisis must be met by Central Bank advances made possible by an emergency increase of the currency. This remedy is being applied at the present moment by the authorities of the United States as the means of dealing with the present banking crisis in that country.

21. The necessity for applying this remedy to an acute financial crisis arises from the essential characteristics of the modern credit system. The supply of legal-tender currency in a modern community amounts normally to only a small fraction of the money claims which the public hold in the form of bank deposits or other supposedly liquid forms. If accordingly, for whatever reason, creditors generally press their debtors for cash payment, an augmentation of the currency, until such times as normal confidence is restored, is essential, if widespread default with far-reaching and disastrous repercussions is to be avoided. Nor is there anything inflationary in the augmentation of the currency under such conditions. The additional currency serves merely to counteract the decline in effective purchasing-power resulting from the loss of confidence and the reluctance to give credit.

22. Now it is of the essence of our international difficulties that we have a crisis in the sphere of international financial relations analogous to an internal banking crisis. In the last two years we have seen international "runs" upon
A country suddenly called upon to meet an external run finds itself in essentially the same difficulty as a bank confronted with a run by its depositors. Its long-term position may be sound and solvent; but it does not follow that it has immediately at its command gold or foreign exchange sufficient to meet all the external demands that may be made upon it. It may be driven accordingly to some such expedient as a "standstill" agreement which is analogous to a banking moratorium or to a depreciation of its currency which is equivalent from the international standpoint to a composition of so much in the pound. Meanwhile all countries become anxious to safeguard or improve the "liquidity" of their international position; they are less willing either to buy or to lend, expressing this unwillingness by means of quota schemes, exchange restrictions and embargoes on foreign lending; and the lack of international financial confidence thus contributes with a formidable power to the progressive curtailment of the volume of international trade.

23. If an internal financial crisis was allowed to proceed unchecked, it would exercise similarly devastating effects upon the volume of internal trade activity. Within a country, however, effective organs of government exist, which, sooner or later, slip in to take remedial action. The absence of effective organs of government in the international sphere admittedly makes the task of international action far more difficult. But the principle upon which such action should be based is the same. For a crisis of confidence in the sphere of international financial relations, a special increase in the supply of internationally accepted money, which will make debtors more able to pay their external creditors, and creditors less anxious to obtain immediate payment from their external debtors, is the fundamentally appropriate remedy. There is nothing inflationary in such a proposal, any more than in an increase of currency to deal with an internal banking crisis, though we should certainly hope that it would facilitate a recovery of prices sufficient to redress the extreme disequilibrium which has recently grown up between prices on the one hand and costs and debts on the other.

24. Our second reason for urging that the inacceptability of our proposal should not be taken for granted is the new plasticity of public opinion in all countries under deepening misfortune. As we observed in our previous report:

"In the absence of a constructive policy, the international financial problem is likely to remain with us for a long period to come, and the sense of the vital necessity of solving it may be expected to grow rather than to diminish. In these circumstances it would be short-sighted to refrain from putting forward proposals now, merely because time may be required to win for them general acceptance."

Since we wrote these words, the situation has already developed in a way that offers a distinctly better prospect for the acceptance of bold proposals than existed a few months ago. There has been a rapid growth of the sense that the present situation is one of desperate gravity, and that a prolonged continuance of the present deflationary trend throughout the world will threaten the whole structure of credit and contract and perhaps of social order. There is an increasing disbelief that so formidable a situation will either right itself or be corrected by narrowly conventional policies supplemented by expedients improvised to meet the latest symptoms of deterioration. Moreover, the recognition that our troubles are truly world troubles and call for concerted international

* The following extract from a speech by Mr. Hoover at the Lincoln Day Dinner of the National Republican Club in New York on the 13th February, 1933, is of interest in this connection:

"To add to the confusion, another phenomenon of the gold situation has increased disturbance and wrought havoc. That is the effect of waves of fear and apprehension. We have a parallel in nations to an unreasoning panic run on a bank. The fears and apprehensions directed in turn to the stability of first one nation and then another have caused the withdrawal of foreign balances from a particular nation, followed by flights of capital, through purchases of exchange by its own citizens seeking refuge and security for their property. These movements are followed by large flows of gold to meet exchange demands, thus underlining the domestic currency and credit system of the victim nation and leading to an unnatural piling up of gold in some nation temporarily considered safe."
action has made rapid strides. We do not suggest that these changes of opinion
have yet gone far enough to overcome all the prejudices and resistances which the
proposal of an international note-issue would arouse. But we suggest that it
would imply a lack of foresight, a lack of imaginative perception of the transi­tional
nature of opinion in times of rapid change, to treat the probable attitude
of Continental bankers at the moment as a sufficient reason for dismissing an
inherently sound project as impracticable.

25. The drift of events and of opinion has an even stronger bearing upon
the intention that His Majesty's Government should refrain from putting
forward publicly such a proposal as that for an international note-issue, for fear
that this would arouse distrust of the pound in Continental eyes. The Treasury
comments in which this argument was used were written some months ago. What­ever
force it may have then seemed reasonable to attach to it, we do not think
that it now retains any substantial validity. Largely owing to the misfortunes
of other countries, the financial prestige of Great Britain, with her balanced
budget and her strong banking system, is again very high; and it would take more
than the public advocacy of a project for international action at the World
Conference to disturb it. We are, indeed, once more in the unquestioned position
of a financially strong country; and it would not be consistent with the respon­sibilities
of that position, if we were to refrain from giving the world a lead and
proposing what we believed to be right, merely from a fear that our motives might
be misunderstood.

26. The drift of events has also, in our opinion, removed the feasibility of
the type of plan preferred by the Treasury, for a pooling of surplus gold reserves
with the Bank for International Settlements, as a basis for advances to financially
distressed countries. For with the growth of both internal and international
financial distrust, it is improbable that any country would agree that it could
prudently afford to immobilise any part of its gold reserves. In the United States
the combination of an internal with an external gold drain in the recent banking
crisis quickly swallowed up most of the large surplus gold reserves of the Federal
Reserve system; and though internal gold hoarding has now been effectively pro­hibited,
the renewal of a flight from the dollar remains an ever-present possibility.
In France a serious gold-hoarding movement might begin in the event of any un­
toward development. Switzerland, whose surplus gold reserves mainly represent
the deposit of foreign balances, might at any time have to face a withdrawal of
those balances. Indeed, we are now entering on a phase of the world crisis in
which the distinction between financially strong and financially weak countries is
becoming blurred. The position of every country to-day is, in some degree, pre­
carious; and this, we fear, renders fundamentally impracticable any plan which
rests on the principle of the stronger countries coming to the assistance of the
weaker, whether by a pooling of surplus gold reserves, or by organised inter­
national loans.

27. The same consideration suggests that of the two alternative variants of
the international note-issue project set out in our previous Report, the larger
scheme, originally put forward by the Committee on Economic Information, may
perhaps be the better adapted to the psychological as well as to the economic
requirements of the present situation. It might be better, that is to say, to propose
that Bank for International Settlements advances should be made available at a
nominal rate of interest to every Government which complied with the conditions
of the scheme, rather than limited to especially distressed countries. A scheme
framed upon these lines would exert a far stronger recuperative influence, as we
recognised in our previous report. We suggested the more limited scheme merely
as an alternative which might offer a greater prospect of acceptance. We think,
however, that there is force in the Treasury comment that the limitations would
remove much of the potential attractiveness of the idea to countries like France
and the United States. We conclude, therefore, that the bolder scheme is the one
which should be put forward at the Conference, at all events in the first instance.
The main outlines of this scheme are recapitulated as an appendix to this report.

28. We urge, therefore, that in the interval before the World Conference
meets His Majesty's Government should consider very seriously the question of
proposing to the Conference a large scheme for an international note-issue as a
major constructive remedy for the world's economic troubles. We recognise that
there is likely to be a reluctance to adopt such a course owing to the technical and difficult nature of monetary questions. There is an obvious advantage in putting in the forefront of a policy, designed to impress world opinion and to win world support, propositions of a nature which can be widely and readily understood in all their implications, reserving more technical proposals, whatever their intrinsic importance, for unostentatious discussion in expert sub-committees. We doubt, however, whether the present problem lends itself to such treatment. If proposals of a monetary type are to be kept in the background, we are unable to see in what quarter ideas can be found calculated to strike the world's imagination and to stimulate hope.

29. We are confirmed in this view by our study of the Draft Annotated Agenda submitted by the Preparatory Commission of Experts. The experts are, we think, to be congratulated on their success both in finding formulas to reconcile divergent standpoints over so many problems and in presenting so objective and so well-balanced a survey of the various issues. None the less, the main impression that a study of the document conveys is one of the extreme difficulty that is likely to be encountered in each several sphere in securing agreement of a concrete and effective character. The danger is manifest that the Conference may lose its way in the dreary discussion of inherently fruitless formulas.

30. The only means of averting this danger is the submission of constructive proposals which go to the root of the causes of the world's economic difficulties. This, we claim, the proposal which we advocate does. We repeat that, so far as we are aware, the technical merits of the proposal have not been challenged. In these circumstances, though the proposal itself is technical in character, the question whether it would be wise to bring it forward is not a technical issue, but a broad issue of statesmanship.

(Signed) C. S. ADDIS, Chairman.
ASTOR.
BASIL P. BLACKETT.
ESSENDON.
J. M. KEYNES.
WALTER T. LAYTON.
ARTHUR SALTER.
J. C. STAMP.

(Signed) H. D. HENDERSON Joint Secretaries to
FRANCIS HEMMING the Committee.

2, Whitehall Gardens, S.W. 1,
April 6, 1933.
ANNEX.

Scheme for an international note issue as originally suggested by the Committee on Economic Information.

IN paragraph 48 of their fourth report (Council paper E.A.C. (S.C.) 4), the Committee on Economic Information summarised their scheme as follows:—

"(a) The Bank for International Settlements might make advances, at a very low rate of interest, or possibly free of interest, to the various Governments of the world, up to an aggregate sum of, say, £1,000 millions gold, this sum being distributed among them in accordance with some agreed criterion of economic importance. The advances could be made subject to appropriate conditions, such as the removal of restrictions on exchange dealings.

(b) To enable it to do so, the Bank for International Settlements would be authorised to issue International Certificates, declared to be the equivalent of so many grains of gold, and accepted as such by the various Governments, up to the amount of the advances made.

(c) If and when the gold price level of commodities rose substantially, the advances would be gradually recalled and the issue of certificates reduced correspondingly. It would be the object of the Bank for International Settlements, in determining the proportion of the advances to be recalled at any time, to prevent an undue rise of prices, without precipitating a recurrence of depression by an over-drastic curtailment. If any Government was unable to make immediate repayment of any sum when called upon to do so, the advance of this sum might be extended at a comparatively high rate of interest."

(NOTE.—In our last report we suggested as an additional provision that "a country which was subject to an outward movement of funds should not be entitled to meet this outflow entirely by a release of International Certificates, but should be required to release pari passu a proportional amount of gold.")
SUPPLEMENTARY NOTE ON CERTAIN ASPECTS OF SHIPPING POLICY.

We note with satisfaction that the Preparatory Commission of Experts appreciate the importance of the abolition of Government subsidies to shipping, which, along with other artificial measures, disturb the channels of international trade.

We observe, however, that the Preparatory Commission suggest that "certain possibilities of agreement might be considered with regard to the scrapping of old tonnage, the utilisation of existing tonnage and the laying down of new ships." If the Commission contemplate international schemes for the scrapping of old tonnage, coupled with the building of new tonnage, we are opposed to this suggestion. We hope that no support will be given by the British delegates at the conference to a policy of increasing or maintaining the surplus of tonnage by an artificial stimulus to the building of ships.

According to Lloyd's Register of British and Foreign Shipping, the world's steamship and motor tonnage in June 1932 amounted to 68,368,141 gross tons, as compared with 44,000,000 gross tons in June 1914. Since 1929 world trade has decreased by 50 per cent.; over 13,000,000 gross tons of world shipping, nearly 20 per cent. of the whole, is laid up, while liner tonnage is trading with a large amount of empty space.

Advocates in this country of the policy of granting facilities for the scrapping of old ships, and the building of new ships in their place, base their arguments partly on the mistaken assumption that the British mercantile marine is less modern than that of its competitors. The following table shows the world's tonnage and the percentage of that total under 5 years of age, under 10 years of age, and over 20 years of age, with comparable figures for the tonnage of Great Britain.

<table>
<thead>
<tr>
<th>World Shipping, June 1932.</th>
<th>Percentage of Total Tonnage.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Total gross tonnage = 68,368,141.)</td>
<td></td>
</tr>
<tr>
<td>Gross Tonnage.</td>
<td>Total Tonnage.</td>
</tr>
<tr>
<td>----------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Under 5 years</td>
<td>11,074,117</td>
</tr>
<tr>
<td>Under 10 years</td>
<td>20,572,741</td>
</tr>
<tr>
<td>Twenty years and over</td>
<td>18,484,923</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>British Shipping, June 1932.</th>
<th>Percentage of Total Tonnage.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Total gross tonnage = 19,562,143.)</td>
<td></td>
</tr>
<tr>
<td>Gross Tonnage.</td>
<td>Total Tonnage.</td>
</tr>
<tr>
<td>----------------</td>
<td>----------------</td>
</tr>
<tr>
<td>Under 5 years</td>
<td>3,941,140</td>
</tr>
<tr>
<td>Under 10 years</td>
<td>8,007,701</td>
</tr>
<tr>
<td>Twenty years and over</td>
<td>3,574,154</td>
</tr>
</tbody>
</table>

From the above it will be seen that our mercantile marine compares favourably with world tonnage generally. Moreover, Great Britain has a larger proportion of tonnage under 10 years of age and a smaller proportion of tonnage over 20 years of age than any other country, though in the case of Germany the difference in our favour is small.

In our opinion no support should be given to any scheme which provides for a combination of the scrapping of existing ships and the building of new tonnage. The force of circumstances will, in itself, bring about the necessary scrapping. It is only lack of demand for, and the low price of scrap, that is at present retarding this process.

Attractive as it would be to provide work for the shipbuilders and engineers of this country, the unnecessary building of ships would only aggravate, and prolong, the present shipping depression.