COMMITTEE ON THE MONETARY AND ECONOMIC CONFERENCE.

REPORT ON THE POLICY OF THE UNITED KINGDOM DELEGATION AT THE CONFERENCE.

1. On May 24th (Cabinet 36 (33) Conclusion 7) the Prime Minister informed the Cabinet that the Committee were engaged in formulating their conclusions in regard to the Government's policy on the various headings of the draft Agenda of the Monetary and Economic Conference, and that when ready these conclusions would be submitted to the Cabinet for approval in the form of Resolutions or Declarations.

2. We attach, for convenience of reference (Appendix 'A') the draft rearranged Agenda in the form now approved.

3. We set out in Appendix 'B', draft Resolutions covering the headings of the draft Agenda in the form adopted by us at a Meeting held on May 26th. Owing to his absence in Scotland, the Prime Minister was unable to attend that Meeting. The draft Resolutions, in the form agreed by the Committee, have however been forwarded to him and it is hoped to receive his views before the Meeting of the Cabinet on Wednesday next, May 31st.

4. Subject thereto we recommend the Cabinet :

   To approve the Resolutions in the form of the draft set out in Appendix 'B' to this Report, as the basis of the policy to be pursued by the United Kingdom Delegation at the Monetary and Economic Conference in regard to the Monetary and Commercial Headings named on the draft Agenda.

Signed on behalf of the Committee

NEVILLE CHAMBERLAIN,

Whitehall Gardens, S.W.1.

May 26th, 1933.
APPENDIX A.

COMMITTEE ON THE MONETARY AND ECONOMIC CONFERENCE.

PROPOSED REARRANGEMENT OF THE DRAFT AGENDA.

1. Money and Prices.
   (a) Action to raise price levels:
   (b) Relative value of principal currencies:
   (c) Central Banking co-operation:
   (d) Reform of international monetary standard:
   (e) Silver.

2. International Lending and Exchange Restrictions.
   (a) Abrogation of exchange controls:
   (b) Problems of external commercial indebtedness (both long and short term):
   (c) Resumption of international lending.

3. Trade Restrictions and Tariff Policy.
   (a) Tariff policy (including M.F.N.):
   (b) Prohibitions and Quotas:
   (c) Balance of trade problems: clearing agreements etc.

4. Price Levels: Co-ordination of Production and Marketing*
   (a) Wheat and other foodstuffs:
   (b) Raw materials:
   (c) Industrial Cartels.

5. Government subsidies.
   (a) Export subsidies:
   (b) Transport (particularly Shipping).

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27th May, 1933.

* The wording of this heading which was reserved by the Cabinet on May 17th (Cabinet 35(33) Conclusion 5(b)) was settled by the Cabinet Committee at the Meeting on May 26th, to read as above.
MONETARY QUESTIONS.

1. MONEY AND PRICES.

(a) ACTION TO RAISE PRICE LEVELS.

1. It is essential to bring about a recovery in the world level of commodity prices, sufficient to yield an economic return to the producers of primary commodities and to restore equilibrium between costs and prices in production generally.

2. Action to raise price levels cannot be effective without action in the monetary sphere, though action in many other spheres is also necessary - political (war debts), financial (abrogation of exchange controls and resumption of international lending), and economic (co-ordination of production and marketing, removal of trade barriers and tariff reductions).

3. The fundamental monetary condition of the recovery of prices is cheap and plentiful money. This, together with the revival of business confidence, must form the indispensable background of trade recovery.

4. The Central Banks of the principal countries should undertake to co-operate with a view to securing this condition and should announce their intention of pursuing vigorously a policy of cheap and plentiful money.
5. The Central Banks should further undertake co-ordinated action, e.g., by open market operations, to ensure that the credit made available is actively employed.

6. The extent to which employment can also be stimulated by Governmental capital expenditure depends upon the circumstances of each country, the self-supporting quality of the scheme, and the extent to which the objects aimed at have already been pursued. While therefore the Governments of the principal countries should consider how far by concerted action on parallel lines they can stimulate employment by encouraging capital expenditure, each Government must determine the size and nature of any further programme it can wisely promote and the method by which it should be financed.

(b) RELATIVE VALUE OF PRINCIPAL CURRENCIES.

7. The United Kingdom Delegation recognise the great importance to traders of stability of exchange rates. The complete solution of this problem, to which a rise in the general level of prices would greatly contribute, must await the restoration of conditions for the satisfactory working of an international standard. In the meanwhile, and pending the consideration of those matters by the Conference, every effort should be made to secure reasonable stability between the currencies of the principal countries. To this end, each of these countries should undertake to use its resources in order to counteract variations in the value of its currency caused by temporary movements of capital and not representing fundamental economic factors.

(c) CENTRAL BANKING CO-OPERATION.

8. It is desirable to devise means of improving the co-operation between the Central Banks of the principal countries, with a view both to the development at a time of low prices like the present of a policy of cheap and abundant money and open market operations, and the prevention, so far as it can be achieved by the regulation of credit, of wide fluctuations in the purchasing-power of gold in the future.

-2-
9. The United Kingdom Delegation recognise that the ultimate aim of monetary policy should be the restoration of a satisfactory international standard. A gold standard seems most likely to be generally acceptable.

The time and the exchange parity at which a return to gold could safely be made must, as the Annotated Agenda prepared by the Preparatory Commission pointed out, fall to be determined by the proper authorities in each country separately. The policy of His Majesty's Government in the United Kingdom remains that indicated in the report adopted at the Imperial Economic Conference at Ottawa - namely that a return to the gold standard should be regarded as dependent upon (inter alia) a rise in commodity prices to a level more in keeping with the level of costs.

10. Before an international gold standard is re-established, international agreements should be reached between the more important countries to ensure (a) that such re-establishment will not operate to depress prices and (b) that wide fluctuations in the purchasing power of gold in the future, in so far as they result from monetary causes, will be so far as possible prevented. For this purpose permanent co-operation between Central Banks is needed.

11. Gold should be withdrawn from internal circulation and used only for settlement of international balances.

12. As recommended in the Annotated Agenda, the legal minimum proportions of gold (or gold and foreign exchange) which Central Banks are required to hold in their reserves should be lowered.
13. Other methods of economising gold (e.g. by prevention of hoarding, by substitution of subsidiary coin for bank-notes of small denominations and by more general use of cheques etc.) should be studied.

2. INTERNATIONAL LENDING AND EXCHANGE RESTRICTIONS.

1. The United Kingdom Delegation regard the abolition of Exchange restrictions as one of the main tasks before the World Economic Conference.

2. A rise in wholesale prices of foodstuffs and raw materials and the increase of world trade would contribute powerfully to reducing the exchange difficulties which have resulted in the imposition of exchange controls and would assist in the process of "unfreezing" short-term credits and trade debts and in the transfers required for the service of other external indebtedness. But certain of the financially weaker States are not likely to regard it as feasible to abandon exchange restrictions unless they can be safeguarded against the danger that this would at the outset result in an excessive weakening of their Central Bank Reserves.

3. The revival of world trade depends largely on the resumption of normal international lending and every effort should be made to restore the stability and confidence required to render this possible. The normal flow of capital cannot, however, be expected until the present difficulties have been surmounted.

4. Meanwhile, the United Kingdom Delegation regard it as desirable that the Conference should examine some means whereby the weaker countries could under appropriate conditions receive financial assistance from the creditor countries with an available surplus of gold reserves, in order to enable exchange restrictions to be abolished.
COMMERCIAL QUESTIONS.

3. TRADE RESTRICTIONS AND TARIFF POLICY.

(a) Tariff policy (including M.F.N.).

(i) Tariff etc. Truce.

1. The United Kingdom Delegation are prepared to agree to the temporary extension of the existing Declaration under which certain of the principal countries have agreed not to adopt any new initiatives which might increase the many varieties of difficulties now arresting international commerce. Similarly they would subscribe to any resolution of the Conference which covered the same ground, subject to provisions which will secure that the Truce is not used as a means of stereotyping the present position so that countries with moderate tariffs would be prevented from increasing them, while countries with high tariffs would not be forced to reduce them.

2. The adherence of the United Kingdom Delegation is conditional on:

(a) Its adoption by the great majority of the more important trading countries.

(b) Recognition that it does not preclude on their part:

(i) the working out according to programme of measures aimed at the co-ordination of the production or distribution of certain agricultural products, for which the United Kingdom constitutes practically the sole world market, and of fish.

(ii) the imposition or increase of certain import duties in accordance with existing obligations or general commitments, such as duties to which they are contingently committed under the Ottawa Agreements and duties in respect of which applications were made to the Import Duties Advisory Committee or which were under review by that Committee prior to 12th May, 1933.

3. The United Kingdom Delegation would also have to reserve the right to apply any reservations made by other
countries, and they consider that the provision for withdrawal from the Tariff Truce adopted by the Organising Committee should be maintained.

(i1) Customs Tariffs.

1. As the exchange of goods is essential to the well-being of all countries, it follows that there must be proper facilities for such exchange and the United Kingdom Delegation are convinced that the full restoration of the World's economic life can only be achieved if existing facilities are increased, that is to say, that there should in all countries be a reduction of excessive customs tariffs.

2. Customs tariffs may be imposed (a) for the purpose of revenue, (b) for the maintenance in every country of the standard of living to which that country has attained and (c) for the encouragement of forms of industry and production which are regarded as essential to the economic life of particular countries.

3. These considerations do not, however, justify the maintenance by excessive tariffs of unessential industries in countries where such industries cannot be efficiently and economically carried on. Subject to any special exceptions which the particular interests of individual countries may require, the protective element in any customs tariff should not exceed that which is required to place the efficient domestic producer in a position to compete with producers abroad.

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

5. The United Kingdom Delegation are however, impressed by the diversity of the conditions prevailing in different countries and by the large number of special considerations which would undoubtedly have to be taken into account in framing a Convention of universal application, and they are not, therefore, themselves disposed to advocate this method of approach.

In their view the reduction of customs tariffs can best be achieved by a series of bilateral negotiations in which it is possible to take detailed account of the particular trade relations of the negotiating countries, and they accordingly urge that the Conference should do all in its power to promote the negotiation of bilateral agreements between countries with a view to the general reduction of excessive customs duties. The negotiations should aim not at arrangements of unduly short term which would leave the future course of trade uncertain, but rather at agreements which would be valid for at least some years to come.

6. The United Kingdom Delegation consider that in accordance with the above aim, commercial treaties should
not be terminated before tariff negotiations are undertaken and then only after every effort has been made to reach agreement by negotiation.

(iii) **Most-favoured-nation treatment.**

7. Reductions of tariffs obtained by bilateral agreements will be given the fullest effect by the application of the most-favoured-nation clause under which concessions granted to one country are shared by all countries entitled to most-favoured-nation treatment.

8. Most-favoured-nation treatment cannot, however, be maintained to countries which enjoy the benefit of such treatment unless they are willing to adopt a reasonable policy in framing their tariffs and in negotiating new agreements.

9. It is the policy of His Majesty's Government in the United Kingdom to secure the widest and most unconditional interpretation in favour of British exports of the most-favoured-nation clause in their commercial Treaties with foreign countries.

10. Accordingly, the United Kingdom Delegation are not disposed to agree to any formula allowing derogations from most-favoured-nation treatment in respect of regional or group agreements (falling short of full Customs Unions) except those based on historical associations such as those already generally recognised.

11. Apart from this the United Kingdom Delegation will be prepared to examine on merits specific proposals for temporary and limited exceptions which are accepted by other countries entitled to most-favoured-nation treatment and which are not prejudicial to British interests but they are not prepared to commit themselves to accepting such proposals in advance.
PROHIBITIONS AND QUOTAS.

1. International agreement should be sought to abolish all import prohibitions adopted on grounds of commercial policy without prejudice to the admitted exceptions which are enumerated in the International Convention on Prohibitions and Restrictions on Imports and Exports of 1927.

2. The United Kingdom Delegation consider that a clear distinction should be drawn between import quotas arbitrarily imposed by the importing country as an additional measure of protection for the home producer and production or market quotas imposed in pursuance of international agreements to regulate production or marketing so as to restore and maintain a remunerative level of wholesale prices for producers in all countries.

3. The United Kingdom Delegation are in favour of the progressive abolition of all arbitrary import quotas. In their view, the disastrous slump in the prices of certain primary commodities, and particularly of agricultural products, raises special problems for which the best solution is to be found in international agreements for the better regulation of production and marketing by the countries principally concerned.
1. In order that Governments may pursue a reasonable commercial policy, public opinion has to be educated in regard to the principles with which that policy must conform. This is peculiarly necessary in regard to questions of the balance of trade. There is a widespread belief in many countries that a favourable balance of trade (i.e. a surplus of visible exports over imports) is a sign of prosperity. In fact, such a favourable balance of trade is appropriate only to a debtor country. If a creditor country wishes to obtain payment of its claims on foreign countries it must accept goods and services in settlement of these claims over and above the imports it takes in exchange for its own exports. The revival of trade depends largely on the extent to which creditor countries will be prepared to give practical effect to this principle.

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

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

4. PRICE LEVELS: CO-ORDINATION OF PRODUCTION AND MARKETING.

1. As already stated (see Prohibitions and Quotas,
para. 3) the United Kingdom Delegation are in favour of
dealing with the disastrous fall in prices of primary
commodities by co-ordinated regulation of production and
marketing with a view to maintaining wholesale prices at
a level which will yield an economic return to efficient
producers. They agree with the view expressed in the
Annotated Agenda (page 32) that such agreements should
normally be left to the initiative of the producers con­
cerned but that the intervention of Governments may be
necessary in cases where the producers are not in a
position themselves to regulate the production and
distribution of their products.

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

3. The United Kingdom Delegation share the views stated

in the Annotated Agenda (page 32) that "Undoubtedly, in certain cases, economic agreements have tended, at least temporarily, to maintain and stabilise prices... They have effectively contributed, in the case of certain products and certain countries, to the prevention of conflicts and reprisals and the avoidance of tariff increases".

The United Kingdom Delegation confidently commend this view to the Conference.

NOTE: A Committee of United Kingdom and Dominion Officials is at present collecting data on the whole question of Regulation of supplies. The precise terms in which the policy of the United Kingdom should in due course be formulated will no doubt be settled after the Report of this Committee has been received.

5. GOVERNMENT SUBSIDIES.

1. Export Subsidies. Government subsidies to export trades involve unfair competition and the adoption of this policy by certain Governments tends to force the same unsound expedient on the other Governments of the World. In the long run therefore such subsidies involve a burden on the budgets of the Governments without securing advantage to the export trade of any one nation. One of the aims of the Conference should be to secure general agreement for the abolition of such subsidies.

2. Shipping Subsidies. The same principles apply with particular force to shipping subsidies whether in the form
of subsidies for shipbuilding or on competitive routes for
the operation of ships whether directly or as mail contract
payments not based on normal charges for services rendered.

As pointed out in the Annotated Agenda, in consequence
of this policy, shipping has in many countries become a
burden on the national economy instead of a contribution
to its welfare. The United Kingdom Delegation therefore
consider that a determined effort should be made to secure
the reduction and the eventual abolition of such subsidies
by international agreement.

NOTE. The wording of this paragraph was settled by the Secretary of State for the Colonies
with the Board of Trade after the Meeting of the Committee.

2, Whitehall Gardens, S.W.1.,

26th May, 1933.