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INTERNATIONAL DEBTS AND THEIR INFLUENCE ON AGRICULTURAL PRICES

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ALL are agreed that the most obvious symptom of the economic depression is the fall in prices. Differentiated, this fall in the price level shows that wholesale prices have fallen more than retail; that primary products have fallen more than manufactures; that agricultural prices have fallen more than other raw materials. The fact, however, that agricultural prices have shared in a general price movement which covers the whole field of commodities and services is at least prima facie evidence that they have been influenced by a general monetary deflation, or (in other words) by a general appreciation in the value of money. It is desirable, therefore, at the outset to be clear as to what is meant by an appreciation in the value of money and what are its implications. I certainly do not mean that the change has arisen exclusively from phenomena occurring within the monetary sphere, for example, from the mal-distribution of gold, or the credit policy of central banks, although these factors may have played an important part in the deflation. The fact that an appreciation of money has occurred is merely an inference from the course of prices; how it has come about is a matter for economic analysis.

In order to make the position clear I will quote the following passages from the Report of the Committee on Finance and Industry in the United Kingdom, published in 1931.

'Those who assert that the fall in prices is primarily due to monetary causes may mean by this that the fall is due to a failure of the monetary machine throughout the world to adjust itself to general economic perturbations. Those who deny the same proposition, may mean that the changes and disturbances which are ultimately responsible for the fall in prices are non-monetary in origin and character, but there is nothing necessarily inconsistent between these two statements, and both of them may be true. . . . Obviously, the general price level must be governed by the volume of purchasing power directed to the buying of current output relative to the volume of this output.

'Our view is, therefore, that the price level is the outcome of interaction between monetary and non-monetary factors, and that the recent world-wide fall in prices is best described as a monetary phenomenon which has occurred as a result of the monetary system failing to solve successfully a problem of unprecedented difficulty and complexity, set up by a conjunction of highly intractable non-monetary phenomena. Whether the international monetary system *could* have solved this problem is a matter on which we should hesitate to express a dogmatic opinion.'

Now the conditions prior to the slump of 1929 possessed certain features in relation to the monetary and financial condition of the world which made for instability and which tended to remain obscured from the public mind so long as nothing occurred to give a serious shock to public confidence, and some mention of these is necessary to an understanding of the deflationary process which was subsequently set in motion.

One was the relative over valuation of sterling and under valuation of the franc in terms of foreign currencies, so that the United Kingdom was under the necessity of constantly combating the tendency for gold to flow out of the country, and thus her monetary policy assumed a deflationary character many years before the slump. The under valuation of the French franc produced a continuous surplus of exports, and France tended to acquire very large short term funds in London and New York which gradually returned home in the form of gold, thus helping to bring about the great distortion of the world's stock of gold, and ultimately led to the break-down of gold as an international monetary standard.

Another factor was the American industrial boom of the previous years coupled with her new position as the world's chief creditor nation. The continuation of her industrial expansion and the continuation of her foreign lending alike required that other countries should be able to pay by sales of goods to America for the goods she exported on the one hand, and the interest on the loans she had made on the other. The American tariff policy, however, was an obstacle to the settlement of the international accounts in this way, and the balance of payments of European debtor countries was maintained chiefly by the transference of still further amounts of American capital to Europe on loan account.

As the boom developed, a further complication occurred. A counter transference of capital from Europe to America began, attracted by the rise in stock prices in Wall Street, and this in turn started a flow of gold to the United States, which ultimately led to action by most of the European Central banks to protect their gold reserve. Thus a still further distortion of the world's monetary stock of gold took place and a deflationary price movement was set in motion.

In addition to these, there was the international debt position, the principal subject of this paper, which undoubtedly played an enormous part in the depression, not only in deepening its severity, but in opposing formidable obstacles to the recuperative forces which might otherwise have led the world much sooner upon the road to recovery.

In the final analysis, financial payments between nations can only be made in goods and services. There is a fundamental connexion, therefore, between the *scale* on which international payments have to be made and the volume of international trade through which these obligations can be discharged.

In this connexion I might quote a passage from the *International Review of Agriculture* for January 1933, containing a review of the course of the agricultural depression in 1931–2 by M. George Pavlovski, head of the Economics Bureau of the International Institute of Agriculture, Rome.

'In the pre-war economic system, international borrowing was one of the most important instruments of economic progress, and the international liabilities incurred were, in their bulk, secured on the increase of productive capacity they enabled the borrowing countries to achieve. The borrowing countries were in the position of concerns issuing debentures with a view to increase their turnover and their profits, out of which part was earmarked for the interest and repayment of the loans thus contracted. Relatively to the national wealth and income, as well as to the Budgets of the States and of the municipalities contracting such loans, their amounts and the annual payments were moderate, even in the most heavily indebted countries. These payments, in the case of all international liabilities, public as well as private, were, as a rule, made by exporting goods either to the creditor country direct, or to other countries, the existence of a freely functioning world market permitting such settlements to be made with the greatest convenience to the parties concerned.'

During the post-war period, however, a fundamental change took place in this regard, and this principle of international stability was largely disregarded. As the Banking Committee, which met in Basle in August 1931, stated in their report, 'in recent years the World has been endeavouring to pursue two contradictory policies, in permitting the development of an international financial system which involves the annual payment of large sums of debts to creditor countries while at the same time putting obstacles in the way of the free movement of goods'.

The financial liabilities of debtor countries were during these years increased on an unprecedented scale, while some countries which before the war had been creditors now became debtors and vice versa. In the creation of the enormous structure of debts it is certain that little thought was given to the question of whether the debtor countries were likely to develop an export trade balance sufficient to meet the service charges on the debts, nor did the creditor countries pay much attention to the need for facilitating the payment of such debts by admitting the goods of debtor countries. The United States, the principal creditor nation, not only failed to make easy the payment in goods and services, but by the Hawley-Smoot tariff in 1930 raised a formidable obstacle against such payment.

This resulted amongst other things during the early stages in an exaggerated use of gold in the settlement of international accounts, and a still greater concentration of gold in creditor countries. Nevertheless I am inclined to doubt whether, had the United States pursued the opposite policy, lowered her tariffs and encouraged the imports of the goods of debtor countries, the position of the principal debtor countries would have been a healthy one—Germany would still have been a heavy borrower on foreign markets, and at any rate for the time being the difference between the credit balance on trading account and her external payments in respect of her foreign debts would have been made up by means of such borrowings. It was this that was to store up trouble for the future and ultimately to precipitate a financial crisis.

Germany has naturally been the centre of the picture in discussion of the international debt problem on account of the far-reaching effect of her heavy financial burden in the post-war years. It would, however, be both unnecessary and presumptuous for me to speak in detail on this part of the subject, since Dr. Schacht in his speech has done so, much more fully and authoritatively than I could possibly do. I shall, therefore, pass on to consider the position of other debtor countries, whose position by reason of the fixed interest payments due from them to creditor countries, became extremely difficult during the spread of the depression after 1929.

During the five years preceding the crisis world trade was growing rapidly, but it was growing in a curious and lop-sided way. The value of exports from the principal European exporting countries increased by about 18 per cent. Exports, on the other hand, from agricultural countries (excluding Russia) increased much less, being less than 1 per cent. higher in 1929 than in 1925, and only 4·4 per cent. higher than in the low year 1926. Imports of these agricultural countries were, however, expanding much faster than exports, having risen between 1926 and 1929 by no less than 11·7 per cent. With rapidly rising imports and slowly rising exports, the favourable trade balance of agricultural countries was, in consequence, diminishing and actually became a slightly unfavourable balance in the year 1929.

Now this had serious consequences, particularly in regard to the main group of agricultural debtor countries, namely Canada, Australia, New Zealand, South Africa, Argentina, and India, for we shall see that while their credit balance on trading account was diminishing, their debit balance in respect of interest and dividends was increasing. These countries were therefore exposed to a double tendency resulting year by year in an expanding debit balance on their total balance of payments. To show how this actually worked, I will quote the figures. The credit balance on trading account for these six countries (including exports of gold from the Union of South Africa) fell from about £154 million in 1924–5 to about £53 million in 1929–30. Balance of interest and dividends, on the other hand, rose from about £141 million in 1924 to £155 million in 1929. During the early years of this period the balance of payments was on the whole favourable, the balance on trading account being sufficient to meet their financial obligations.

After 1926, however, this position was radically changed as a result of the double tendency to which I have just referred, and the difference between the credit balance on trading account and the debit balance in respect of loans was made up by fresh borrowings abroad. Of a total amount of over two milliard pounds of new foreign securities issued during the five years 1924–8, nearly 60 per cent. went to agricultural countries mostly outside Europe.

The new borrowings undoubtedly widened the market in these countries for industrial products and were an important factor in the rise in international trade, as shown in the greater volume of imports by agricultural countries and of exports by industrial countries. But a situation in which countries could only balance their international accounts by fresh borrowings, if continued, was bound to become dangerous, and the fact that in 1928–9, a year of abundant harvests, the exports of agricultural debtor countries was only sufficient to meet about half their interest on external debts, suggests that it had already become dangerous.

Whatever may have been the initial cause of the world-wide fall in prices (and there is certain clear evidence that it had begun in the early part of 1929), the great stock market crash in the autumn and the psychological repercussion which followed gave it a tremendous additional impetus. The precarious foundation upon which the international financial situation rested soon revealed itself, confidence was shattered, and a vicious circle of deflation set in motion.

In Europe, Germany, and with her Austria and Hungary, became the centre of the crisis, for as soon as the flow of capital from outside ceased, she was faced with the necessity of meeting her current liabilities from the proceeds of her exports. By reducing wages and prices severely, and by drastic reductions in imports, she succeeded in paying her way in 1930, but with the continued fall in commodity prices the strain ultimately became too great and led to the financial crisis of 1931.

In regard to the overseas debtor countries, the position was not dissimilar, though certain influences attached to these which were not present in the case of the European debtor countries. The fall in prices of primary products, which had actually been in progress for several years, suddenly received an alarming acceleration, while in 1929 most of these countries had harvested poor crops, so that during 1929–30 they suffered a reduction both in the value and volume of exports, a double tendency which profoundly affected their balance of payments. To take the example of the Argentine, Australia, and Canada, the balance on trading account was converted from a favourable balance of $187 million in 1927–8 to an unfavourable balance of no less than $484 million in 1929–30. Nor was this all. It coincided with strained conditions in the world's capital markets following the collapse of the stock market boom in the autumn of 1929, thus adding to the difficulties of maintaining the flow of foreign capital. Professor Timoschenko attaches great importance to the coincidence of these factors in contributing to the world depression, because it meant that agricultural countries were not only faced with difficulties in obtaining new loans on account of the capital stringency in industrial countries, but they were in need of increasing their foreign borrowings on account of the poor crop (and therefore reduced volume of exports) in 1929–30, in order to balance their international payments. In the six countries, Canada, Australia, Argentina, India, South Africa, and New Zealand, not only had the trade balance dropped from a credit to a debit balance of $482 million in 1929–30, but to this must be added the net fixed interest payments due from these countries of $772 million.

This double burden led to crisis; an outflow of gold occurred from several of these countries and both the Argentine peso and the Australian pound had fallen to a substantial discount by the middle of 1930. Debtor countries practically the world over, in view of this convergence of adverse factors, were forced to take such action as they could to improve their balance of payments, and in most cases this action took the form of drastic restrictions of imports coupled, as is well known, in many cases with control of exchange. In the case of agricultural countries, however, even the drastic reduction of imports in 1930 failed to bring about a sufficient improvement in the trade balance, and in the meantime the confidence of investors abroad had been severely shaken, the flow of new capital (the one remaining means of balancing their international payments) was in consequence sharply restricted and ultimately ceased altogether.

The counterpart of the customs restrictions imposed by agricultural countries upon imports of industrial products was the restrictions imposed by industrial debtor countries upon agricultural products. But restriction breeds restriction. The inelasticity of supply of agricultural products as a whole meant that notwithstanding the rapidly contracting import demand, supplies continued to be thrust upon the world's markets, with the result that prices continued to fall; in time the fall in prices forced country after country to revert to protective measures in the interests of their own farmers and peasants. The United Kingdom, the great free-trade market for the world's exportable surplus of primary products, finally succumbed to the pressure and adopted a protectionist policy at the end of 1931.

It would be impossible in this paper to follow out the sequence of defensive measures adopted by the various governments to protect their domestic, financial, and monetary positions; it is sufficient to note that trade restrictions imposed for financial reasons were in this way added to those already in force for the purposes of industrial and agricultural protection. The great network of impediments thus created led to a severe contraction in the volume of international trade and therefore of production, and therefore of national incomes, and therefore of demand for goods, and therefore gave a powerful acceleration to the forces of deflation already at work.

To quote the English economist, Mr. R. G. Hawtrey:

> 'The shortage of demand that arises at a time of depression may be described simply as a shrinkage of consumers' income and outlay. Incomes are derived from production; they are paid out of the proceeds of sale of the goods and services produced. The shrinkage of the consumers' income is itself the result of the shrinkage of these proceeds of sale. The shortage of incomes results from the shortage of demand, and the shortage of demand results from the shortage of incomes. That is the vicious circle of deflation.'

We can now turn to the effect of these events on agricultural prices.

Two years ago it was common to attribute the fall in agricultural prices to over-production, and even to-day one not infrequently hears such views expressed, while statesmen have recently been greatly preoccupied with the question of how to bring about a restriction of production on an international scale.

That the fall in prices is primarily the outcome of a fall in demand, would not be a very rash inference to draw from the fact that at the beginning of 1933 there was estimated to exist in the world a population, including dependents, of over 100 million people, equal to the combined population of Great Britain and Germany, who were unemployed and therefore unable to purchase their food and clothing with the products of their own labour. Let us now look at the figures.

According to the League of Nations Review of world production, the index for crude foodstuffs (based on average 1925–9 = 100) rose from 98 in 1925 to 103 in 1929 and was estimated at 103 in 1932. For all agricultural products (which includes tobacco, vegetable oils, textiles, and rubber) the index rose from 98 in 1925 to 104 in 1929 and fell to 102 in 1932. Now in considering what would have been the 'normal' demand but for the depression, we must have regard to the normal state of growth of population and the normal rise in the average standard of living in terms of foodstuffs.

In a paper read before the Academy of Political Science in April 1931 Carl Snyder makes the following remarks:

'This seems to be the first era in the World's history to achieve for a very broad extent of the population, a genuine adequacy, a fact whose important bearings were first pointed out by Simon Patten, one of the ablest economists America has produced. But this exists only for a limited part of the World's population, hardly a third of it. Therefore, there seems little reason to suppose that for a long time to come the rate of increase in food production (about $2\frac{1}{4}$ per cent. per annum) will materially change. Gradually through this increase the World's entire population, which probably gains at less than 1 per cent. per annum, will acquire enough food for what the Western World considers adequate subsistence. Widespread starvation, once a universal characteristic, intermittently, for all the peoples of the earth, and still so for more than half of them, will slowly disappear.'

This seems to me a true and too often forgotten view of the essentially expanding character of the world's food production. If this rate of expansion had actually occurred since 1925, the index of foodstuffs in 1932 would have stood at 114 instead of 103. Even if there had been no rise in the standard of living it would have stood approximately at 105. Making allowance for the necessarily approximate character of the indices, the inference they suggest is that there is already some shortage in world production of foodstuffs, on the basis of what would be demanded if the world's urban population were normally employed, mitigated, of course, in the case of certain commodities by the accumulation of stocks.

There are, of course, certain reservations to be made to this general view of the situation, but I do not think that it alters the main conclusion which I wish to draw, namely that the low level of agricultural prices is the outcome of a decline in demand (itself the result of the deflationary forces to which I have alluded), and that these deflationary forces have received tremendous acceleration as a result of the situation of debtor countries, and the restriction on trade which have resulted from attempts to maintain the balance of payments of these countries. This last, I suggest, is the outstanding feature of the present world depression in contrast with the depression of the past.

Such, it seems to me, is the inter-connexion between 'International Debts' and agricultural prices. The picture I have drawn represents what is essentially a deflationary vicious circle—in reality more detailed and more complex than I have had time to describe. If this diagnosis is correct, then the true remedy, it seems to me, is not one of specific treatment of the symptoms one by one as they have developed, but one designed and expressly aimed at breaking through the vicious circle of deflation—at least for the time being—the reverse trend, with the ultimate objective of stabilization after some recovery of prices has occurred. This is the difficult, complex, perplexing, but all-embracing economic problem which still confronts the world.

DISCUSSION ON INTERNATIONAL MONETARY AND CREDIT PROBLEMS

S. Schmidt, *University of Cracow, Poland.*

Referring to Dr. Warren's paper I should like to ask a question:

Our country, Poland, is practically the only one of the East European peasant countries that is still sticking to gold. I do not need to tell you the sufferings of our agricultural population. They are far greater than in Germany; that is the reason why at the time Great Britain went off gold I shared the opinion that Poland should also depart from gold. But, for political reasons rather than for economic reasons, this was not done. In the meantime the situation changed entirely, still greater restrictions came into force and higher and higher tariffs on manufactured goods were introduced in our country. Thus I wonder, whether under entirely changed conditions and closed markets it will still be a remedy for agriculture in our country to follow the course which has been taken in the United States. I am afraid it would not, and I presume that the prices of manufactured goods would be the first to rise. So I should like to ask Professor Warren what he would recommend for our country.

E. M. H. LLOYD, *London.*

I should like to start by congratulating Dr. Warren on having first interested this International Conference of Agricultural Economists in monetary problems. At the Cornell University Conference in 1930 it was agreed that agricultural economists could not afford to be indifferent to monetary conditions. There were some dissenting voices even then, but they have not been raised at this Third International Conference. At Cornell University the view that the world crisis was primarily due to over-production of agricultural products was defended, but that theory has not been defended during this Conference. So we can say we have made progress. Also we have not heard it suggested that restriction in production all round is any remedy for world-wide depression. Dr. Schumacher in his admirable and lucid paper has expressed a view, which has received very general assent, namely, that purely national policies can afford no solution to the monetary crisis. The break-down of the gold standard is an international problem and must find an international solution.

I should like in a few words to refer to the Conference held at Genoa over ten years ago and to the resolutions there passed by thirty-two Governments on the question of international management of the gold standard. At that Conference there were a number of European economists, including Professor Cassel of Sweden, Mr. Keynes and Mr. Hawtrey of Great Britain, who took counsel with representatives of Governments and considered the dangers likely to attend the restoration of the gold standard after the War. It seemed to them that either there would be a tendency for countries to economize in gold by adopting the gold exchange system, and thereby to depreciate gold unduly—this was in fact the danger which appeared more real at the time—or, alternatively, if all countries insisted on having large gold reserves, there might be excessive competition for reserves, resulting in a scramble for gold and an undue appreciation in the commodity value of gold. The Conference therefore adopted a resolution to the effect that it lay within the power of the Central Banks to influence the commodity value of gold, and that it was desirable that, by co-operation and concerted action, the Central Banks should take steps to prevent undue fluctuations in the purchasing power of gold. The problem which was then envisaged has become far more acute than was realized at the time owing to the vast increase of indebtedness, including political debts, to which Dr. Schacht referred this afternoon. On the other hand, the proposals for co-operation and concerted action between the Central Banks of the world have proved far more difficult to realize than appeared probable at that time.

We may take it, then, that part of the crisis may be attributed (as Mr. Enfield has quoted from the Report of the Macmillan Committee) to the failure of the monetary system to adapt itself to deal with non-monetary disturbances.

Let us simplify this issue of the value of the gold, which after all represents the level of gold prices. The value of gold, like everything else, depends on supply and demand, but the supply of and demand for gold are unique. Both are predominantly under the control of the Central Banks. The supply of gold consists of over £2,000,000,000 of gold stocks. The annual production of gold is relatively unimportant, being less than one-twentieth part of the stocks. These stocks are virtually confined to the vaults of the Central Banks. On the other hand, under post-War conditions when gold coin is no longer in circulation, the demand for gold emanates primarily from the Central Banks. They have, therefore, almost a monopoly of the supply, and subject to the limitations imposed by legal restrictions and the pressure of outside events, they control the machinery through which demand is exercised. Is there then no hope that concerted action on cartel lines may prove possible between ten or twelve or even six of the largest Central Banks of the world? By acting together they should be able to do a great deal to prevent undue changes in the value of gold; but that possibility has, not yet at least, been realized.

The policy, which every country has adopted, has been the policy of deflation. As we have now cause to realize only too bitterly, and have heard from every speaker to-day, the policy of deflation in accordance with classical theory has proved to be socially and politically impossible. The alternative policy of devaluation has been adopted in a sense by the United Kingdom, by the United States, by many of the British Dominions, by Czechoslovakia, and by Austria. In the case of the United Kingdom the depreciation of sterling in terms of gold was not accompanied by any rise of sterling prices, as was feared at the time. The United Kingdom went off gold with a 6 per cent. Bank rate, and measures were taken to prevent any expansion in credit which might lead to a rise in sterling prices. The result was a further fall of prices in those countries which still remained on the gold standard. Devaluation, therefore, at any rate as practised in the United Kingdom is no solution of the world crisis. In Australia, one of the few countries where experiments have been carried out under the guidance of economists, a measure of deflation was carried through combined with subsequent expansion of credit and depreciation of the Australian pound. From the point of view of Poland I would suggest to Dr. Schmidt that it would repay him to study the experience of Australia and the writings of Professor Copland. The crisis there has certainly been mitigated by the policy of devaluation.

What may be called the monetary school in Great Britain, in the United States, and the British Dominions have advocated a policy of controlled inflation. But controlled inflation is extremely difficult to carry out in one country alone. It requires concerted action between two or three large countries.

At the World Economic Conference held just over a year ago, there was great hope that the British Empire and the United States would see eye to eye on the necessity of raising prices by a measure of reflation. It was also hoped that the gold bloc might have been brought to see the desirability of avoiding the necessity for further deflation. But as we all know, it was impossible to get agreement, either between the sterling bloc and the gold bloc or even between the sterling bloc and the United States. Reflation requires an active open market policy. In the United States they have also gone forward with a policy of public works and public expenditure. That finds less favour in England because it was tried in years when the Central Bank was deflating. In Great Britain we are not yet quite sure enough of ourselves to have a deliberate budget deficit.

From the point of view of recent economic theory there is a case for having a budget deficit under certain conditions, though according to the classical theory the State budget should be balanced every year. Is there any reason why? Why not every week, every month, every quarter? Is there any special economic significance in the period of twelve months? The answer is no. What is significant is the period of the trade cycle. It may sound theoretical to suggest that the budget should be balanced over the period of the trade cycle. What is sound in theory is not always practicable; but at least we need not assume that it is always necessary from the standpoint of sound finance to balance the budget every twelve months.

Another policy that has been much discussed is concerted action to economize in gold. Unfortunately the world crisis has led to

Central Banks becoming eager buyers of gold but unwilling sellers. Central Banks have set the example of hoarding gold, and this is being followed by private individuals. The more the world becomes a 'bull' of gold, the more the vicious circle of falling prices will be accentuated.

Looking farther ahead, suggestions have been considered in influential circles for developing the Bank of International Settlements into something of the nature of a Reserve Bank for the world. Unfortunately public opinion is not yet ready for such a step. We realized the mistakes of the reparations policy and began to alter it when it was too late. We are now considering remedies which might have solved the crisis in 1930. To-day the possibility of a Reserve Bank for the world appears visionary. But if what Dr. Schacht is foretelling comes true, we may in a few years regret that we did not act before it was too late.

It is disclosing no secret to refer to an article by Mr. Keynes early last year, in which he advanced an ambitious scheme for remedying the world crisis. The principal Governments of the world were to agree that the Bank of International Settlements should be given authority to issue up to £1,000,000,000 worth of gold certificates, which by international convention would be accepted as legal tender and the equivalent of gold in all the territories of the contracting parties. I mention that as a possible scheme that still merits the attention of economists.

I welcomed Professor Dijt's lecture this afternoon because he was not afraid of new ideas. In the bankruptcy of traditional systems it becomes important to examine all concrete proposals which claim to be sound theoretically, so long as they are not entirely visionary.

I have been thinking of the problem of how the United States is to get rid of its gold. What are they prepared to take? The United States might exchange some of their surplus gold for tin, for rubber, and for silk; if they had no immediate use for them they might at least hold them as stocks. In the long run it might prove a profitable deal to corner the world's tin. But there are limits to what she would be willing to take. I therefore suggest to Dr. Warren that he should remind his country of what he told us this morning. He said that when he was a young man American students came to Germany to learn their science and to England to learn their humanities. Why not resume this admirable arrangement? If America does not want our goods, let her buy our education. £100,000,000 of gold would be enough to buy quite a lot of science from Germany, and even, if she still wants them, some humanities from England.

I submit the following summary in conclusion:

(i) I do not believe that we can look to the restoration of the automatic pre-War gold standard. That would be my only criticism of Professor Schumacher's admirable paper.

(ii) I do not think we can look to the restoration of the traditional Cobdenite free trade.

(iii) In these circumstances planning of some kind must replace *laissez-faire*.

(iv) The planning must continue to be, as it is now, predominantly based upon nationalist policies; but nationalism by itself is not enough.

(v) National policies must so far as possible be reconciled in a higher synthesis of international organization.

We can at least begin to study this vast problem at Conferences such as this.

DR. SOLMSSEN, *Berlin.*

May I draw your attention again, ladies and gentlemen, to some fundamental points which were put forward in the fine speeches of Professor Warren and Dr. Schacht, and which in my opinion must be the directing principles of any measures that are to lead to better relations. Both Professor Warren and Dr. Schacht have pointed out that the crisis with which we are faced is one arising out of capitalism, and that, if it cannot be surmounted, those destructive forces which in the form of Bolshevism are resisting the evil brought upon the world by overstrained capitalism, will gain the upper hand. The best way to grapple with these accumulated problems is to apply to them commercial accountants' laws, and to seek the measures which are to restore capitalism to health in the nature of capitalism itself. The essential aim of capitalism is creative prosperity. The capitalist system aims at economic gain, and produces something new by uniting natural products or forces and man's work; that is to say, it achieves a higher value than existed previously. The fact that capitalism has come to be the principal channel through which the general economic life of the world flows is mainly to be accounted for by the Promethean inheritance of mankind, which makes joy in creation man's chief delight. If this is the nature of capitalism, the Great War sinned against it. The War brought nothing new and creative into being, but merely destroyed what already existed. This is obvious from the figures alone: the total amount spent on destruction by all the powers taking part in the War came to approximately 1,000 milliard gold marks. The belligerent states borrowed about

580 milliard gold marks of the sum, and left the repayment of this colossal amount to the future. The smaller part of the sum was swallowed up by the collapse of the lesser powers and by the German inflation. About 50 milliards of foreign war debts were cancelled in the course of mutual debt settlements of the allied powers. The rest, together with the remaining internal debt, amounts to 210 milliard gold marks. These war debts, considered from the point of view of capitalism, constitute an unproductive investment. Their annuity burdens world economics without giving any counter-value, and lies like a prior mortgage on everything produced by the states encumbered with these debts. It increases their production costs, and in attempting to reduce these they resort more and more to technical measures which cut out human work and so continually increase unemployment. Further, the rivalry of the nations in reducing production costs strengthens the impulse to protect home products from the competition of cheaper foreign goods; and this impulse is increased too by the necessity of keeping active as far as possible the production capacities developed to a very high degree during the Great War. All these crimes, resulting from the War and war politics, against the axiom of productivity as the basis of the capitalist system inevitably caused a partial breakdown of the system.

For Germany this state of affairs is proving disastrous, for on this country particularly lies the burden of debt left behind by the War, and she is collapsing under the weight. Germany was forced to agree to the transformation of political debts into private debts, and thus was made responsible to all those who have become creditors of the Dawes and Young Loans.

But what is the position when we regard this procedure from a commercial point of view? Both the Dawes and Young Loans are based upon assessments as to the amount of reparations to be paid by Germany, and the ability of Germany to undertake these payments—assessments whose accuracy Germany has never recognized, but rather denied with vehemence. The responsibility for these figures therefore does not lie with Germany, but with those who enforced their acceptance. And so from the bankers' point of view it is not Germany, the debtor-state, which is responsible for the accuracy of the prospectuses of the Dawes and Young Loans, but the representatives of the creditor countries who planned these loans. If this view is accepted, it follows that the settlement of the German debt, which has been proved impracticable, must be dealt with by the conversion of private debts back into state debts; that is to say, that those countries which are receivers of reparations must pledge themselves to their subjects to bear the loss resulting from guaranteeing the prospectus. Such a course would remove many seeds of discontent arising from the fact that all holders of shares in the Dawes and Young Loans account Germany responsible for the impossibility of transferring the service of the loan and for the way in which this still unsettled debt burdens the economic life of the civilized world. It is indeed time that people stopped trying to justify the fantastic sums which were to be produced by Germany as war reparations. It would be to no one's discredit to admit that these figures were wrong, since they have already been altered so frequently and, against the will of their originators, continually reduced owing to force of circumstances. The sooner this matter is regulated, the sooner will that confidence return which is the first condition for the successful functioning of all national and international capitalist economic activity.

A. W. Ashby, *University of Wales.*

In spite of a suggestion that Utopians may be classed with criminals as enemies of Society, I have no hesitation in saying that I am a Utopian, and that I do not regard myself as an enemy of society—when society really includes all the human beings who support it and live under it.

Utopians—or at least people who are not bound by class interests or by social and economic custom—may yet have a contribution to make to the solution of the problems of international debt. After all, any one who had fourteen years ago predicted the wide cancellation or partial cancellation of debt which has already occurred would have been regarded as a wild Utopian.

It may be suggested that the poverty which appears to have arisen from foreign lending and borrowing, especially borrowing, is less real than appears on the surface. Many countries now in difficulties are physically well equipped for production and transport of goods. Only poor or weak financial arrangements stand in the way of production and distribution of adequate supplies. We establish protective systems to guard us against the effects of borrowing and lending and of exchange variations, and then these systems intensify the general evil conditions. Wild finance, especially political finance, tariff protection, economic dislocation, all hang together. The chief troubles have arisen from financial dislocation, and in that sphere—with tariffs, we have to start cleaning up the mess. But cancellation or reduction of debts, merely to assist further borrowing, will not make much improvement. We have to find some new ways of controlling and using finance, and probably some new ways of conducting international trade.

The agriculturists of creditor countries tend to be peculiar sufferers under the processes of foreign lending. This is because loans up to 1913 were very largely made to raw-material and crude-food producing countries, for the purpose of enabling them to develop their land, transport, &c., for production on these lines.

British loans were specially made to food producing countries—Argentina, Australia, New Zealand, &c. Consequently a large part of interest payments and capital repayments has been and must be made in foodstuffs.

Farmers gain through a stimulus to industrial employment and to consumers' demand while loans are being made.

When interest comes in, or repayments are made, there is no need to export to pay for a portion of the imports of foodstuffs. Unless there is further foreign lending, exports tend to diminish, industrial employment tends to diminish, and the markets for food tend to be restricted. The food producers of the lending and food importing country suffer both from competition of imports and from restricted markets.

It happens that the particular people who receive payments in respect of foreign loans are frequently seeking reinvestment rather than spending their receipts on consumers' goods, and since the War a great part of that reinvestment has not been in productive goods, but has been in the finance market. It was mainly through conditions made by political settlements that reinvestments did not stimulate our industrial production system and therefore did not stimulate food consumption and agriculture. At any rate, in Great Britain and some other European countries which are more or less in the same position, farmers have a big interest in this process of foreign lending and the subsequent rate of interest payment and capital repayment.

In U.S.A. the problem is different in some degree. Loans were made largely to industrial countries. Industrial products have to be accepted for interest and repayment, while the tariffs on manufactured articles make payment somewhat difficult. But farmers suffer there also, because they cannot export produce.

The process of restarting foreign lending which has been suggested as one of the chief ways of lifting the British industrial depression will not in the end give us the result we require. It would, of course, give temporary ease if the process were in effect that of sending loans from industrial countries to the backward countries, in the form of industrial produce. That would again create employment and demand for farm produce. But as soon as repayment starts we must again get into the position of having certain markets of food depressed by the repayment in the form of foodstuffs. This is the position while individuals make the foreign loans. If they were really made by a nation, and the nation as such received interest or capital repayment, the effect would be changed to some extent.

We in Great Britain, having such a big concern in the one side of this problem, have had the suggestion made that we should regulate the imports of at least some of the foodstuffs by a State Import Board, and that suggestion has been made from more than one political quarter. It is not at all unlikely to be followed in the quite near future. I would say that if we move to that position we will also move to another position, that of State supervision or State regulation of capital investments, especially of capital investment in other countries or foreign loans. We might also move to the position of State Export Boards and the rule of foreign exchange, practically speaking, by barter of goods for goods. In those ways we could set up a system of international trade which would be economically satisfactory. We could also pursue planned national development, including that of agriculture, alongside the development of international trade.

G. F. WARREN, *Cornell University, N.Y.*

When there is so much difference of opinion, I think it is important that we agree on those particular facts which arithmetic can demonstrate.

I would like to call attention to a few figures on gold production. From 1847 to 1849 world gold production doubled in two years. From 1849 to 1852 it doubled in 3 years, the next time it took 50 years to double and in fact at the end of 39 years it was not even equal to what it had been 39 years before. From 1890 to 1897 it doubled in 7 years, from 1897 to 1915 it doubled in 18 years, so gold production has the erratic record of doubling in 2, 3, 50, 7, and 18 years. What other commodity could you enumerate, the production of which was so erratic?

World gold stocks doubled from 1848 to 1859 in 11 years, they doubled again in 37 years, doubled next time in 19 years, but the world's physical production of goods proceeded very uniformly while the world's monetary stock of gold doubled in 11, 37, and 19 years.

I should like to ask Dr. Schmidt, can Poland refrain from raising the price of gold? You know what Germany has done, she has raised the price of gold by informal means by selling marks at a discount.

As to Mr. Lloyd's question, it was not the purpose of my paper to go elaborately into the details of why gold rose in value. Mr. Enfield enumerated a few of the reasons. I think that innumerable world circumstances were at the back of the rise in the value of gold and that banks could not do much about it. In other words, they could not make it cheap.