

RECOVERY

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THE SECOND EFFORT

BY

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TO
VISCOUNT CECIL OF CHELWOOD

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PREFACE

THIRTEEN years after the war we seem to be back in the chaos that immediately followed it. The road to real recovery is more tortuous and more arduous than we had thought; but it is not beyond finding and following.

This book is an attempt at a general map of the difficult country over which we have now to find our way, showing the obstructions by which it is encumbered, and, so far as possible, the practicable routes through it. Sectional maps, with a scientific wealth and precision of detail to which this cannot pretend, are plentiful. But they do not indicate the general direction of our goal; and, made by specialists, they often need specialists to read them. We shall try to see the regions, there described separately and in detail, as a whole and in their due relation to each other, with the routes clearer for the omission of all features of the landscape which lie off the path of the traveller.

And we must know our main direction or we can never choose our path in any particular region. A general conception of policy must dominate every specialised solution. Less than ever can we now isolate our problems. Man's activities in every sphere react upon one another more rapidly, more directly, and more intimately than in any previous age. A shortage or misuse of gold, the rash extension or the sudden arrest of credit, will change the fortunes of the remotest factory or farm. But money and credit, and the whole framework of finance within which economic activity proceeds, are themselves profoundly

affected by whatever happens in other spheres of human effort and ambition; by social demands or legislation; by political aspirations and dangers. And to all these interactions both rapidity and wide range are added by what is the cardinal feature of our period: the improvement in the mechanism for the transmission of news.

We shall therefore take in turn the special problems of Money and Gold, Credit and Finance, Reparation and War Debts, Commercial Policies and Tariffs, Industrial Organisation, Governmental Regulation and Control, and Political Security; we shall try to see what has been achieved, and what defects have developed, in each of these spheres; what are their mutual relations and reactions; what part each plays in the troubles of this time; and, so far as may be, along what lines we may in each case seek some remedy or reform.

Any picture of our immediate distress will be partial and misleading if it is not comprehensive. The eye must range over both hemispheres, and over many varying fields of effort and ambition – social and political no less than economic and financial. Nor must it look at the surface only. We shall find neither explanation nor cure for the present depression and financial crisis if we look only at the causes which immediately precipitated them. We must look to older and more obscure weaknesses and defects, of which recent events have only been the symptoms and expression. For this reason, while unemployment is the most visible and the most distressing feature of the scene before us, we shall dwell little on it here. For it reflects only the sum total of economic disturbances arising from many causes, each of which needs separate consideration and a different remedy. The action designed directly to deal with the unemployed, as a measure of social justice and of social necessity,

may sometimes relieve, sometimes aggravate, the evils from which unemployment comes; but it does not reach the real root of the trouble.

Nor can this analysis attempt to probe beneath our economic processes to the profound changes in desires and aspirations unknown to the purely 'economic man' which underlie them. The demand for increased socialisation comes less from a desire for greater material comfort than a preference for working in the service of the community rather than that of the profit-making shareholder; the nationalism which finds its expression partly in tariffs is not itself mainly of an economic origin; the insistence upon peasant proprietorship which has transformed the conditions of agriculture in a large part of Europe reflects primarily the peasant's desire to feel himself his own master. So far as these human aspirations find an expression in the economic structure, they will be within our scope; but the underlying psychology of the modern world is outside our theme.

Analysis again will not alone suffice. It is not a static world with which we are dealing, but one which changes rapidly before our eyes. The time element is essential. We shall need, therefore, as we enter each successive sphere, to follow the main march of events at least during the thirteen years which have elapsed since the Armistice.

A slight book which yet aims at being in this sense comprehensive, analytic, and narrative, must obviously have very definite limits. It can sketch only in the broadest outline. It must have its own perspective and angle of vision. That of the present one is determined by the special experience of the writer. He has been an official for a quarter of a century, and, for the latter half of that time, an international official. As such he has participated in, or has been in intimate contact with, most of the

attempts to deal with the world's economic and financial problems by international action, whether through the Supreme Economic Council, the Reparation Commission, the 'pleasure-resort' Conferences from Spa to Genoa, or the League of Nations. Such an experience has its advantages and its limitations. The writer has not the academic qualifications of an economist and has had no direct experience in business enterprise; but he has been brought into close and continuous contact with those who have both, and he has had the task of helping to relate their specific contributions to those which official action can offer. The proposals which he makes are these which seem, in the light of his own particular experience, to be practical and useful, and he has attempted to weave them into a coherent policy. The limitations of work in a particular groove are obvious, the bias of personal and national outlook not wholly avoidable; these he has tried to correct—but they will doubtless need further discounting by his readers. Such as it is, this sketch of a possible foundation upon which others may build is presented for what it may be worth.

I wish to express my gratitude to Mr. J. B. Condliffe, Mr. E. Grove, Mr. H. V. Hodson, Mr. N. F. Hall, Sir Walter Layton, Professor G. L. Schwartz, Sir Arnold Wilson, and Professor Alfred Zimmern, for valuable advice as to particular chapters, to Mr. T. P. Conwell-Evans, who read through the whole of the text, and to the Editor of the "Round Table" who has allowed me to reprint some passages from an article I had contributed to that journal.

January 1932

PREFACE TO SEVENTH EDITION

A YEAR and a half has now elapsed since the World Depression entered into its second phase; since the Financial Crisis supervened in the summer of 1931 upon the Economic Slump which had begun in the autumn of 1929.

Recovery was begun in October 1931, in the early months of this second phase; its text was complete, apart from a few amendments in proof, by the end of the following January, and it was published in April. Events have moved quickly since then and, now that a new edition in a more popular form is being prepared, it may be convenient to attempt a brief conspectus of them, so far as they relate to the contents of the book.

Neither the experience of this last year, nor the discussions in the reviews, suggest any substantial change in diagnosis or remedy. Nor is the situation yet radically different. The main troubles remain; the attempts to deal with them have (with little exception) not reached a definite issue in either success or failure.

The main conception of the book, that we should reform our system radically rather than contemplate its replacement by one which leaves no room for political liberty or private enterprise, has been criticised from two opposing points of view. A few — a very few — critics have urged that we should, and can, retrace our steps and recreate the conditions under which the individualist system will function automatically as in large measure it did in the last century. Others have, perhaps more

plausibly, argued that our existing system does not possess the constructive energy for self-reform, and that it is doomed to a collapse which will clear the way for something fundamentally different. I still believe that a planned society is indispensable; that planning is compatible with the essence of freedom; and that our policy should be one of deliberate and drastic reform, not a mere drifting to disaster of which the final outcome is beyond human calculation. Even if I believed the chances to be against success, I think that this generation of those born to the rich heritage of western civilisation would be betraying their trust if they did not make the attempt, and did not draw from the prospect of possible collapse an inspiration to action rather than counsels of despair. But I believe that, in a depression which is psychological as well as material, the real constructive forces in the world have been underestimated and that they need only to be evoked to make our task practicable.

A picture of the world at this moment is in main outline the same as one drawn a year ago. The original depression is dominated by the financial crisis. The actual or feared inability to meet obligations, or to secure payment of what is owed by others, has led individuals, corporations and public authorities to restrict their purchases. Whatever be the method adopted the result has been to depress prices, reduce incomes, immobilise production, increase unemployment and to lower indefinitely the level at which secure solvency seems practicable. The process affects both internal and external trade. It has operated, however, with redoubled force upon external trade, where individual action has been supplemented by national measures. Most national policy during the period has been inspired by a desire to redress or assure the national balance of trade. Both

debtor and creditor countries have attempted to secure a 'positive' balance, that is to sell more than they buy, or, more exactly, since they are better able to restrict purchases than extend sales, to buy less than they sell. Debtor countries have said, with obvious reason, that if they are to meet their obligations in respect of past loans they must export more than they import. But creditor countries in their turn have been impressed with the demonstration, afforded in the English experience of 1931, of the strains to which financial centres are subject and have desired the additional strength given by a positive balance. As all imports must obviously be equal to all exports, the above goal of policy, collectively considered, is clearly incapable of attainment. Whether the conscious objective of policy is that of securing a positive balance of trade, or perhaps more usually and immediately, that of keeping a currency on the gold standard or saving it from further depreciation, it expresses itself in measures which restrict imports and therefore other exports; the circle is rapidly completed — and is continually contracting.

During almost all this period, therefore, world prices have been falling; existing enterprises have been made unprofitable, new enterprises discouraged; the burden of indebtedness, public and private, has been increased; bankruptcy and default have been wide-spread; unemployment has increased. The impediments to trade, in the form not only of increased tariffs, but of quotas, prohibitions and, above all, exchange restrictions, have multiplied. Panic and hoarding have in some countries added seriously to the financial and currency difficulties. Worst of all, the general political condition, on which the growth of confidence and the resumption of international investment and trade depend, has become more grave.

The position in the East and the armaments crisis have resulted in a more serious threat to the new 'collective system' against war than at any previous period.¹

Nevertheless, there are several respects in which the situation is somewhat better. The natural forces which in time bring a turn to the ordinary trade cycle have been operating. Excess stocks have been running down. The position of some food-producing countries has been improving, partly through some increase in prices, partly in some instances as a result of moderate currency depreciation. The economic position of Germany has distinctly improved. The painful process of liquidation and default, while entailing new difficulty in other directions, has been in some respects clearing the situation. A less pessimistic mood is visible, for example in the United States, where the panic and hoarding which threatened the dollar have given way to a more cheerful outlook, which is reflected in the rise of values in the stock markets. If there were no special features in this depression, and special obstacles to recovery such as are described in this book, we should probably by this time have taken a definite upward turn. But unhappily these obstacles for the most part remain. The whole situation remains still doubtful. The signs of a real revival in trade are scarcely yet visible. Natural forces alone are insufficient: Leadership and bold policy remain essential.

In some cases, indeed, such policy has not been wanting. Three examples of it, in particular, have shown that bold policy is possible.

First, the American monetary policy, designed to counteract deflation and arrest the fall in prices (p. 85) has been continued; and it is showing definite results of

¹ At the same time, however, a very notable advance in political doctrine has been made by Mr. Stimson's classic speech of August 8, 1932 (see p. 276).

benefit not only to America, but to the world as a whole. There were those who said hastily, as prices continued to fall and pessimism spread in the early summer, that this policy had failed. They had not realised that a monetary policy of this kind requires, even in the most favourable circumstances, some months before it can show its results and that, in this instance, the new money made available had to meet three immediate needs before it could begin to effect a positive improvement in prices. It had to counteract the effect, first of domestic hoarding, then that of the outflow of gold through the withdrawal of foreign balances; next the banks required to make themselves more liquid. Only when this phase was passed could the new monetary policy begin to help prices to rise. There can be no doubt that this policy stemmed powerful deflationary forces that would otherwise have made the whole position much more serious, and has been paving the way for what may now be a real improvement.

The immediate future of this policy is of great moment both to America and the world. There have been some indications, it may be hoped fallacious, of a tendency to retrace some of the steps taken, now that its first objects have been realised.

Next, the Lausanne Agreement has brought a real settlement of reparation, on a basis which will mean that no future payments will ever again either upset the financial position of Germany or disturb the exchanges of the world. This is the one instance in which one of the major obstacles to recovery described in the first edition has been removed by deliberate collective action. The passage in which I made proposals for a reparation settlement is the only one which I have thought it necessary to re-write (apart from the occasional amendment of a phrase or a sentence). The actual settlement arrived

at is such as I contemplated in that it does not amount to complete cancellation, but that it provides a moratorium, a reduction of the payments to a mere fraction of what was required by the Young Plan, and special safeguards to prevent even such reduced payments being injurious. The moratorium is shorter; but the annual payments are substantially less; and the safeguards are different in character from those I suggested. On the whole, the solution is definitely better (because the burden is less) than I had thought practicable when writing six months before. It has seemed to me useless to reprint proposals now obsolete; so I have inserted instead a summary of the actual settlement. Formally, the agreement requires ratification which is made conditional upon a war debts settlement. But in practice, if Germany herself ratifies, the settlement may be regarded as definitely relieving her of more than she therein agrees to pay. The Lausanne Agreement is, in my view, an immense achievement, and the principal encouragement which this last year has given to the hope that effective international action to deal with the problems that confront the world will be possible.

Thirdly, there is the great Conversion operation in Great Britain, followed by the similar, though smaller and less drastic, operation in France. Nearly £2,000 millions of the British indebtedness has been put, by a single act, on a $3\frac{1}{2}$ per cent. basis. In France about half this amount has been converted to $4\frac{1}{2}$ per cent. In both cases the immediate result is a substantial relief to the Budget. But the chief significance is the lead given towards the general reduction of the rate for long-term loans. If this reduction can be achieved it will be of great benefit, both in encouraging new enterprise and in enabling a substantial part (though of course by no means

all) of existing private indebtedness to be placed on a tolerable basis.

We have thus three important instances of wise leadership and deliberate action, one American, one European, one British, successfully directed towards stemming the mere drift of uncontrolled forces. Each of them encourages us to hope that man can yet be master of his fate and overcome the more numerous and formidable obstacles that still remain.

There is first the question of war debts. A description is given in the second part of the book of the relation which these debts bear to the depression and the prospects of recovery, and it is perhaps better for having been written for that purpose and not with a view to current negotiations. It is therefore printed without change. But as this Preface is written after the interchange of notes, and the payments and defaults, of December 1932, it may be well to add a few comments upon the task that confronts statesmen on both sides of the Atlantic in the forthcoming months.

It is obviously incumbent upon persons of good-will to do all they can to secure an environment for the negotiations, and a reception for whatever may be their result, which is free of all avoidable provocation and passion. This can only be done by a very conscious and definite effort on each side to understand the psychology and point of view of the other.

To war debtors I would suggest that they should try to realise imaginatively the attitude of the great mass of the population of America, whose opinion and desires are reflected in Congress. Let them picture, for example, the American farmer of the Middle West. His farm is mortgaged; the price of the wheat he sells has fallen to about one-third, so that the burden of his mortgage is

tripled. He knows that there is an immense deficit in the national budget; that the number of unemployed is not only unprecedented in the past but scarcely equalled elsewhere. He realises that reduction of war debts does not mean that the bondholder gets less but that he must be paid by the American taxpayer instead of the European taxpayer. In these circumstances his reluctance to transfer the burden is intelligible.

It is intelligible, but it does not follow that it is right, in either his own or the general interest. The loss resulting from the fall in prices, restriction of business and the depression in general is of course on an incomparably greater scale than any war debt payments. Would, then, a drastic reduction in the debts be a decisive factor in recovery?

The American reader will find the greater part of such answer as I can give in the book which follows. He will see there how the restrictions upon world trade have reduced the capacity to make payments from one country to another; how the fall in prices has increased the difficulty; how the strain has helped to dislocate the world's monetary system. But he may at this moment find his best approach to understanding the relation between inter-governmental debts and the depression, and the present psychology of the debtor countries, if he considers carefully what the European creditors of reparation did at Lausanne and why they did it. He need not admit any legal or moral connection between reparations and war debts; what matters is their economic and financial aspects and consequences and these are obviously identical. In both cases the obligations are unlike ordinary investments in having no earning asset behind them: in both, the real burden has been more than doubled by the fall in prices, and further increased by the fall in the

volume of trade; in both, the liability to pay had thrown a heavy strain on the world's monetary system and the exchanges and remained as an impediment to recovery.

The European creditors of reparation made a settlement which first gave Germany a further complete respite of three years beyond the Hoover moratorium year; and then fixed the remaining obligation at a total capital sum, nominally of 3,000 million gold marks. This obligation was to be met by the issue of bonds under conditions which would prevent the annual burden upon Germany ever exceeding 180 million gold marks, and further safeguards were added to prevent any danger to Germany's credit. The Young Plan, only three years old, had fixed the annual payments about ten times as high; and when the respite and safeguards are allowed for, the nominal capital obligation of 3,000 million gold marks would perhaps be excessively assessed at 2,000 millions.

The object of this settlement is obvious. It was not to transfer the burden to America or put pressure on her. No responsible person believes that, whatever happens in the war debts negotiations, Germany's payments under the Young Plan will or can be revived. Nor was the settlement an act of sheer generosity. It was due to the conviction of the European creditors that the old payments could not be maintained and that their drastic reduction would help to restore confidence and prosperity. And subsequent experience has tended to confirm their opinion. Lausanne was at once followed by a tendency of commodity prices to improve and an increase in Stock Exchange values. But the effect upon the general world situation was of course dependent on other factors. The European reparation creditors could deal satisfactorily with rather less than half the mass of inter-governmental

indebtedness, but not with the remainder. Nevertheless, apart from the precarious effect of Lausanne upon world conditions, it definitely improved Germany's credit and financial position, and it enabled her to meet her commercial obligations – to the advantage of American no less than European creditors. It did more than this. There has been more definite improvement in the German economic situation, and more definite indications of recovery, in the last few months than in any other country. There is every presumption that a similar settlement of the remainder of inter-governmental indebtedness would give a powerful impulse towards recovery, and would render every other problem – for of course there are others – easier of solution.

As to what should be the nature of any new settlement, Lausanne at least affords an interesting analogy. The basic financial considerations are much the same; and Lausanne suggests both the general order of magnitude within which any settlement must be conceived, and also the best method, that of the fixation of a capital sum to be liquidated by the appropriate bond issues.

It cannot be stated too directly that the full execution of the existing agreements, under any conditions of world trade which can be conceived as possible, is physically impracticable. Loan operations to meet current obligations – the method by which Germany paid from the time of the Dawes Plan to the Hoover Moratorium – would, even if practicable, only postpone and aggravate the difficulties. The debtor countries cannot anticipate, either in direct or triangular trade, any such surplus balance as to support the payments. There remains then only gold. The substantial payment made in December was made from the English gold reserve, thereby reducing the chances or at least postponing the

date of any practicable return of sterling to gold, at whatever parity. Had the payment been made in any other way – e.g. by the sale of sterling – the result must have been to depreciate the pound and to drive down gold prices everywhere. But payment in gold, possible for the December payment, obviously affords no alternative. The total gold stocks of the Bank of England are only equal to about four years British payments. Payment in gold would obviously make the retention of gold as the basis of debtors' currencies impossible – and might thus even make it useless to the recipient; and in the meantime the process would obviously both prolong and aggravate indefinitely the whole world crisis.

A new settlement is therefore both urgent and essential. The only alternatives are modification by agreement or default (partial or complete) under *force majeure*. The only choice left to the debtors, in the absence of agreement, is as to the date and extent of default; and if default is to come, further postponement of it, or an attempt to pay on an impracticably high basis, would merely postpone and increase the general difficulties.

When the time is so short and the issues so complex the method of negotiation is clearly of great importance. No settlement of course can be concluded without the approval of Congress. It does not, however, I suggest, follow that the actual negotiations would best be made through a Commission composed wholly or in part by members of Congress. The Young Plan for reparation was approved by the Parliaments of the creditor countries and its modification also requires their approval. But that did not prevent the executives of the countries concerned taking their responsibility and agreeing upon a scheme, subject to ratification. It is unlikely that the Lausanne settlement could have been negotiated if the

negotiators had been, not Prime Ministers, but Parliamentary committees. Similar urgency would suggest a similar procedure as regards the war debts, even though the precedents and customary methods may be somewhat different.

It is clear that there are great advantages in the payments actually made being embodied in agreement, and not determined unilaterally by debtors who are prevented by *force majeure* from observing the existing settlements. I hope indeed that even if an agreed settlement should prove impossible the debtors would not default completely but would tender what they consider practicable – though this would clearly be less if their situation and that of the world lost the advantage which settlement by agreement would bring. Serious, however, as may be the repercussions of default (whether partial or complete), it can scarcely be doubtful that, if agreement is impossible, default in 1933 is better in the interest of the whole world, than an attempt to maintain impossible payments, with the only result, not of avoiding but only postponing, the default, and of incalculably aggravating the whole world depression in the meantime. The Lausanne settlement of reparation was one of the great (and few) constructive acts of government in 1932. It was not an act of altruistic abnegation but of enlightened self-interest. The ensuing year will complete it, and reap its benefits – or will in large measure destroy them.

Then there is the whole sphere of commercial policy. Here the situation has become definitely worse. Tariffs have been increased, and supplemented by exchange restrictions, quotas and prohibitions.

For the most part the new impediments to trade that have been created during the last year have been due mainly to the financial causes already described, that is

their object has been to improve a balance of trade in order to enable obligations to be met in foreign exchange and to protect a currency. The only way to deal with this situation is by monetary and financial policy.

There remain, however, the tariffs and tariff policy of the kind with which we were familiar before the financial crisis. And several of the measures taken or projected represent conceptions of permanent economic policy rather than attempts to deal with a financial emergency. The principal Conference at which tariffs have been discussed, that of Ottawa, does not increase the volume of world trade as a whole, and it introduces or endorses certain regrettable principles. It is an innovation in the history of tariff policies that a country should engage itself to others to impose tariffs which it does not want in the real or supposed interests of its own producers or to retain others it may find injurious. The power of bargaining is restricted by agreements to maintain certain duties for five years. An incidental and qualified, but still regrettable, recognition is given to the miscalled 'scientific' tariff (see page 183). Meantime the attempt to improve the position in the Danubian States (page 191) did not succeed in the spring and, though renewed in a different form at the Stresa Conference of the summer, is still far from any real solution. The most-favoured-nation clause (page 175) remains at the centre of the problem of the world's commercial policy; and the issue has been sharply raised by the proposed Convention between Belgium, Holland and Luxembourg for the progressive reduction of tariffs, either between themselves alone or with the inclusion of any other countries which are prepared to join. It will be a tragedy if this promising initiative is blocked. The most useful contributions which the World Economic Conference could make to the tariff

situation would, in my view, be the reform of the most-favoured-nation clause (page 190), and agreement upon certain principles (the first of which would be the explicit condemnation of the 'scientific' tariff) which should guide countries in their commercial policy. But the indications are not at present favourable.

As regards monetary policy, the chief event has been the continuance of the American action already mentioned. The situation is in general still as it was described in the first edition. The main need is a 'world policy of controlled deflation,' to arrest and reverse the fall in prices, and, thereafter, a policy directed to a reasonable stability of the general price level, whether through currencies linked to gold or not. In one respect, writing now, I should modify what I wrote nine months ago. I then advocated an increase in the general level 'preferably till it reaches the level of 1929.' Since then prices have fallen a great deal, so that the disparity with 1929 is greatly increased; and in the interval many adjustments have been made to a lower level. I should now therefore say 'to a point intermediate between the present level and that of 1929.'

Reference has been made to monetary policy in America. Even if America, however, as may be hoped, continues her policy with a view to achieving positive deflation, her action alone is insufficient. Concerted international action is necessary. The most effective method would probably be that recently advocated in an article published by Mr. Maynard Keynes. The proposal he makes which, as he explains, is not only his own but is supported by a number of other competent persons who have discussed it, is that the Bank of International Settlements (or another organisation created for the purpose) should be authorised to issue a specified number of

certificates which the different countries would agree to accept as the equivalent of gold to the defined amount. These would be distributed to the participants in proportions determined by a formula based on their economic weight in the world, and would be gradually withdrawn in the event of an index number of the chief articles of international trade recovering to an agreed level. This plan would achieve several objects at the same time; it would enable the price level to be raised to the required point and could be so used as to relieve the financial strain which has led to exchange restrictions and secure their removal.

In the sphere of loans and credit the defaults in 1932 upon some (not all) of the unguaranteed League loans are especially disturbing because they constitute a serious impediment to one form of possible reconstruction. It is essential that the real nature of these defaults, and of the responsibility of the League of Nations, should be clearly understood.

What kind of special safeguard did the investor reasonably understand that issue 'under League auspices' implied? Not certainly a guarantee against all risks, or why should the loans have been issued so as to yield about 8 per cent.? Nor, in the nature of the case, could the League safeguard either a small economic unit such as Bulgaria, or Hungary, or any investor in it, against the impact of an unprecedented world depression. What the League did in effect was to assume a moral responsibility for securing every reasonable safeguard against the risks due to *internal* causes. In the case of loans to small, unstable and poor countries, these are usually the serious ones. The scheme may be unsound, or if sound in conception it may not be properly carried out, or the Government may fail to assign the necessary revenues for

the service of the bonds. Against these dangers the League did safeguard the investor. When the world depression began the schemes had been found to be well conceived and carried out. The refugees were established in Greece and in Bulgaria and were making good. The finances in Austria and Hungary had been restored, and the position both of the public finances and the National Banks compared favourably with those of other countries. They had been re-established as normal units in the European system. Moreover the assigned revenues have throughout, apart from the difficulty of 'transfer,' been found more than adequate. The difficulty has been one of securing foreign exchange in return for national currency; and this reflects the essential fact that the defaults are due not to defects in the schemes, or their execution, as to which the League could and did take precautions, but to the impact upon small economic units of world conditions which the League was unable to control. This is not to suggest that the League has no continuing responsibility as regards these loans. On the contrary it is evident that advice which will help each of the countries in question to regain its prosperity as fast as world conditions make this possible is more than ever necessary. The important point is that the defaults are due essentially not to defects in the League's schemes or subsequent action; but to the reaction of external world conditions. These external conditions can only be alleviated by world policy and the operation of natural curative forces throughout the world. But within a setting of generally satisfactory conditions the League's ability to restore a particular country which has fallen below the general standard has been rather demonstrated than disproved.

The difficulty of the world credit position is that it

involves not a single but triple problem. It comprises three tasks which inter-act, and to some extent conflict; first, that of dealing with existing indebtedness, then that of encouraging the investor to invest again abroad, and lastly that of preventing such misdirection of capital as was witnessed in the years preceding the depression. The burden of indebtedness, private as well as public, is now crushing upon enterprise. It is heavier when the obligation is payable in currency other than that in which the debtor earns his income; since the prices of exported commodities have fallen more than internal prices, and external trade has diminished more than internal trade. The combination of lower prices with restriction of trade has made this burden intolerable. In some way it must be lightened. A considerable rise in the level of prices would at least give relief, without making future loans more difficult. This would be one of the great benefits of a policy of reflation. But it is perhaps unlikely that the price level will be raised sufficiently to afford a real solution. In that case the only solutions consist of various forms of scaling down or individual defaults. Both obviously discourage the investor from new loans. On balance I believe it would be worth while for the World Economic Conference to recommend a remission of a defined proportion of interest receivable for certain classes of loans and for a specified period, after which the loans could be re-examined in the light of what proves to be the level of prices. But the problem is a very intricate one and needs fuller treatment than can be given here. It must in any case be regarded as the complement, if not the alternative, to reflation. As regards the two other tasks of encouraging and safeguarding future foreign lending, there is perhaps no occasion to add to what appears in the original text. No other new development,

except the Conversion operation, needs special mention. For the most part, the process of increasing strain and successive default has continued. The conditions for the resumption of foreign lending and investment are still as far from being realised. In the instance in which a new loan to a Government has been arranged, that of Austria, the guarantees of external Governments (page 119) have proved necessary.

This is necessarily only a brief and superficial review of the events of a crowded year. In conclusion, I think it is probable that we are entering upon a phase of partial recovery due to the elimination, mainly by natural forces, of those factors in the depression which are customary in the evolution of a normal trade cycle. The recovery will, however, be partial, unless we can, to a much greater extent than at present, deal by deliberate policy with the major obstacles which characterise this depression as distinct from those of the past. Where this policy has been forthcoming, as in the three great instances cited, it has been successful. Where it has not, the need has in every case become greater.

The World Economic Conference affords the next occasion for a great constructive effort. Side by side with it are the Disarmament Conference; and the special League Assembly for the Far Eastern crisis which will determine the political conditions on which its own success must largely depend. The need for far-sighted, collective, action was never so great as during the coming months. If the difficulties are greater, their very gravity has made it more possible to deal with them. If the dangers are imminent, they are happily also obvious. The past year has in some directions brought encouragement, in others made the need for action more urgent. It has, I think, in all important respects, brought

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confirmation as to the main outline of policy which is required.

The whole system under which our rich heritage of western civilisation has grown up is at stake. Its fate depends, not only upon deliberate and concerted governmental action, but also upon constructive reform by those who organise and direct policy through every main sphere of economic activity. The sands are running out; but it is still not – quite – too late.

A. S.

January 1st, 1933.

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on
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