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ECONOMIC COMMITTEE

(Forty-sixth Session — Report to the Council)

REMARKS

ON THE

PRESENT PHASE OF

INTERNATIONAL ECONOMIC RELATIONS

(SEPTEMBER 1937)

**The Carrying-out of the Programme of the
Tripartite Declaration**

of September 26th, 1936

Annex: ECONOMIC APPEASEMENT

Memorandum presented to the Committee by Mr. F.-L. McDougall, C.M.G.

FORTY-SIXTH SESSION OF THE ECONOMIC COMMITTEE

(Geneva, September 6th-10th, 1937)

The following members of the Committee were present:

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M. V. V. BADULESCO,
M. F. DOLEZAL,
M. P. ELBEL,
Mr. H. F. GRADY,
M. H. M. HIRSCHFELD,
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Mr. F. L. MCDUGALL,
M. B. ROSENBLUM,
M. R. RYTI,
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M. Y. SHUDO,
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Corresponding members:

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THE CARRYING-OUT OF THE PROGRAMME OF THE TRIPARTITE DECLARATION OF SEPTEMBER 26TH, 1936.

I. INTRODUCTION.

It is not without some hesitation that the Economic Committee has undertaken to prepare the present report. An effort for the normalisation of economic relations might well seem futile at a time when the existence of grave disputes fills all minds with uneasiness.

Nevertheless, the Committee has thought it its duty to continue its earlier studies, because, in existing circumstances, it seemed to it more than ever necessary to make an effort which might help to bring about economic improvement and thus contribute to safeguard peace.

It does not fall to the Committee to judge the possibilities of action in this direction. That is the function of Governments. The Committee's task is limited to laying before them the material upon which they will have to base their decision.

* * *

In its report issued at the beginning of September 1936 on the present phase of international economic relations, the Economic Committee emphasised the fact that the first objective must be to restore a situation in which, irrespective of frontiers, the purchaser can buy what he wants, the debtor can pay what he owes, the tourist go where he wishes, without encountering obstacles due to Government intervention, such as quotas and currency control. To achieve this result, the Committee pointed out that it was necessary to establish a better balance between the internal prices of countries on the gold standard and those of countries with depreciated currency; it was essential, at the same time, that a mitigation of the system of direct and indirect import restrictions should be brought about.

About a fortnight later an important step was taken in this direction. When the value of the French franc was readjusted, the Governments of the United States of America, France and the United Kingdom published a Declaration formulating the essential features of a joint policy designed to achieve the object which had been defined by the Economic Committee in its report.

The Declaration affirmed in the first place the common desire of the Governments concerned to safeguard peace, to foster those conditions which would best contribute to the restoration of order in international economic relations and to pursue a policy which would tend to promote prosperity in the world and to improve the standard of living. At the same time, the three Governments stated that one constant object of their policy was to maintain the greatest possible equilibrium in the system of international exchanges.

and to act in consultation for this purpose, they expressed their intention of using their available resources, so as to avoid as far as possible any disturbance of the basis of international exchanges resulting from the proposed readjustment. Lastly, being convinced that the success of the policy thus defined was linked up with the development of international trade, they declared that they attached the greatest importance to action being taken without delay to relax progressively the present system of quotas and exchange control, with a view to their abolition.

Almost immediately the Governments of Belgium, the Netherlands and Switzerland signified their official agreement. After them a series of other States—Italy, Czechoslovakia, Greece, Latvia and Turkey—took action, in different degrees, to adjust their currencies in conformity with the policy thus inaugurated.

The Assembly of the League of Nations, which was in session at the time, noted with satisfaction this step in the direction of collective action. It recognised that the Declaration of September 26th, 1936, harmonised with the recommendations made by the Economic Committee. It affirmed the general desire of the States Members of the League of Nations to pursue the realisation of the objects thus specified and invited all States, whether Members of the League or not, to co-operate fully to that end. The countries which had just realigned their currency had, at the same time, taken certain measures, though of a limited character, to liberate international trade either by reducing Customs duties or by abolishing quotas. The Second Committee of the Assembly, in its report, asked them not be content with those initial measures. It urgently recommended them "to enter into negotiations at the earliest possible moment with a view to overhauling their whole commercial policy, and, in particular, to abandon all measures which permit private interests to develop under cover of excessive protection, to the detriment of the real interests of the masses, who expect from science an improvement in their standard of living".

Nearly a year has elapsed since the Assembly of the League addressed this pressing appeal to Governments. It must be admitted to-day that circumstances have not made it possible to realise the hopes expressed.

The Tripartite Declaration of September 26th, 1936, was an important step, as it was the first time that three great Powers declared their intention of pursuing a joint policy for the restoration of price equilibrium and the abolition of certain obstacles to trade. But the Declaration was also looked upon as the starting-point for more comprehensive action. It is in this respect that it has failed to fulfil the hopes raised when it was made. For this, there were a number of reasons, two of which appear to be of special importance and may be mentioned at once.

First, the readjustment of its currency by the French Government in September 1936 has not immediately produced all the results that were expected. The fact that it has been found necessary, not only to proceed to a further adjustment of the currency, but also to withdraw some of the commercial facilities agreed to in September 1936 has altered some of the elements of the problem, and, in particular, has caused some reaction in the attitude of other countries. Since that time, however, a whole series of measures has been taken for the purpose of restoring confidence, and the international co-operation in the monetary sphere, established by the Tripartite Declaration, has been maintained.

There is a second reason: the Tripartite Declaration has not been acceded to by Germany or Italy, whose policy, notwithstanding the dévaluation of the lira, has remained unchanged in its essential features.

The Powers signatories to the Declaration of September 26th 1936 have, however, shown their desire to give effect to the decisions which they had adopted, and, in particular, to continue the efforts, which they had recognised to be necessary, to bring about a general reduction of quota systems and other obstacles to international trade. At the

request of the British and French Governments, M. van Zeeland has undertaken an enquiry into the possibility of securing such a reduction.

The Economic Committee has considered to what extent present economic conditions permit of giving effect to the recommendation adopted by the last Assembly of the League and in what way action should be directed.

II. ARE PRESENT ECONOMIC CONDITIONS SUCH AS TO PERMIT THE FULFILMENT OF THE CONTEMPLATED PROGRAMME ?

An examination of the situation reveals a number of favourable factors, to which are opposed a number of unfavourable factors.

(a) FAVOURABLE FACTORS.

The revival of economic activity was confined at the outset to a small number of countries. It is gradually extending to other countries and, at the same time, is becoming more pronounced in countries where it had previously been felt.

At the World Economic and Monetary Conference in 1933, it was felt necessary to wait for prices to rise, for costs and prices to reach equilibrium, and for currencies to be stabilised, before any progress could be made in the reduction of trade barriers. For some time past, a considerable improvement has taken place in these respects. Recovery has shown itself in the increase of production which, for the world as a whole, has substantially exceeded the level of 1929. This rise coincides with continuous reduction of stocks. For certain commodities, demand has been so great that the output has been insufficient to cope with it. The result has been a general rise in world prices—which, in the case of certain agricultural products, has been partly due to bad harvests—and the effects have been specially felt in countries which export agricultural produce or which produce raw materials.¹ In some countries, the movement has continued to a point where it has aroused fear of a boom. The significance of this recovery is, however, contested in certain quarters, and some doubts are expressed whether it will last, or whether a new period of depression will supervene.

It is true that the recovery has had its chief effect upon internal trade and that, in many export industries, serious unemployment persists. Actually, the trade situation is not quite so favourable as that of world production. Its quantum at the beginning of 1937 was still from 7% to 8% below the level of 1929, a fact which is the more significant when it is remembered that, up to 1914, trade increased practically without interruption. Nevertheless, there are signs of a recovery in this field, despite the factors which impede it. But while certain countries have already attained a satisfactory position, others still experience serious difficulties. The progress that has been made has certainly been facilitated by the monetary alignment which became effective in September 1936, and

¹ The world index of industrial production was 22% above 1929 at the end of 1936 and must have risen substantially since. Stocks of primary commodities have been reduced to their 1929 level, after having been 50% higher during the depression. There have been substantial rises in the prices of many primary commodities—for example, wheat in the United Kingdom is about 11s. against 5s. per cwt. in 1931; wool is above its 1929 price, after having been less than half that price in 1931; pig-iron is over £4 per ton against £2 9s. in 1931, and rubber is more than three times higher. Wholesale-price indices at the middle of July were 41% in the United Kingdom, 35% in the United States of America, 20% in France and 34% in Italy above 1931. The United Kingdom freight index is about 40% higher than in 1929.

the better price equilibrium which was thereby achieved by many countries, particularly the Netherlands and Switzerland. Even in Germany, where fears had been entertained that the devaluation of the currency of several of her principal customers might have an adverse effect on her exports, it has been found, on the contrary, that the increased purchasing power of these countries has resulted in expansion of her export trade.¹ The growth of foreign trade coincided with an increase in the adverse commercial balance of France, the United Kingdom, the Netherlands, Switzerland, and even the United States.²

¹ Exports of Germany during the period of September 1936 to June 1937, compared with the figures for the corresponding period for 1935/36 (value in Reichsmarks, 000,000's omitted):

Month	1935		1936	
	1935	1936	1936	1937
September	373.0	411.6	392.7	431.5
October	399.7	421.8	415.6	457.2
November	381.8	415.1	373.5	405.8
December	378.9	462.1	378.9	462.1
January	365.4	491.8	365.4	491.8
February	372.1	455.8	372.1	455.8
March	370.2	480.9	370.2	480.9
April				
May				
June				

² Trade balances of France, the United Kingdom and of the United States, Netherlands and Switzerland, during the period September 1936 to June 1937, compared with the figures for the corresponding period for 1935/36 (value in national currencies, 000,000's omitted):

Month	France (Frances)		United Kingdom (£)		United States (Dollars)	
	1935	1936	1935	1936	1935	1936
September	-305.4	-672.4	-22.9	-31.1	+27.4	-0.5
October	-380.0	-787.2	-28.8	-34.3	+28.4	+48.7
November	-333.4	-987.4	-27.5	-35.9	+104.4	+23.6
December	-677.5	-1,376.3	-34.1	-37.0	+41.2	-13.6
January	-810.9	-1,546.1	-31.2	-31.4	+9.3	-10.1
February	-822.5	-1,986.0	-21.5	-26.2	-10.2	-30.6
March	-711.6	-1,389.4	-25.6	-32.5	-1.9	-43.7
April	-927.7	-1,323.5	-27.3	-32.6	-10.2	-16.9
May	-796.7	-1,292.3	-27.1	-33.0	+8.0	+4.4*
June	-676.0	-1,710.0	-30.5	-36.6	-12.9	-10.6

Month	Netherlands (Gulden)		Switzerland (Frances)	
	1935	1936	1935	1936
September	-16.6	-10.0	-33.5	-20.7
October	-24.6	-16.6	-40.7	-43.4
November	-25.4	-23.2	-33.9	-49.7
December	-20.9	-34.5	-48.6	-76.4
January	-28.9	-32.8	-33.8	-61.3
February	-23.8	-26.2	-21.1	-71.4
March	-24.3	-30.8	-19.2	-63.1
April	-23.6	-41.1	-22.7	-67.5
May	-23.2	-38.0	-19.6	-44.8
June	-23.9	-45.2	-27.2	-47.7

Active balance = + (surplus of exports).
 Passive balance = - (surplus of imports).

* Provisional figures (General Trade).

This adverse balance has different features in the various countries. In the United States, it is due in large measure to the rise of internal economic activity and to the influence of the liberal commercial policy inaugurated by Mr. Cordell Hull. In this connection, it should be regarded as a favourable factor that recent legislative measures have renewed, for a further number of years, the powers which authorise the President to pursue this policy. In the United Kingdom, the rise in prices of raw materials and of the principal foodstuffs has certainly exercised considerable influence. In the case of France, of course, as also in Switzerland and the Netherlands, it is necessary to take into account the alteration in the value of the currency; and, if the statistics were converted into dollar values, the apparent increase in the adverse balance would certainly appear much less important.

Contrary to a widely held opinion, this development should be regarded, not as a danger to the national economy, but as a favourable factor. The countries in question are important creditor countries. As long as this does not involve a serious and continuing adverse balance, taking all items visible and invisible into account, an increase of their imports is necessary in order that debtor countries may be in a position to meet their obligations. On this will depend the re-establishment of a proper balance of accounts in these latter countries—a reform in which all other countries are directly or indirectly interested. It is true that, up to the present, the increasingly adverse commercial balance of creditor countries has not had its full effect. Nevertheless, it is certain that, if this tendency persists, it will help to improve the position of countries which are financially weak, without damaging the interests of creditor countries. It should therefore be considered as an important condition of general improvement.

Moreover, world economic conditions have been assisted by the action taken in a number of countries to stimulate internal production and purchasing power; and this tendency has been reinforced by the monetary alignments of September 1936, which enabled certain countries to abandon the policy of deflation they had previously been forced to pursue. There has, in fact, been a general tendency for consumption to increase. This constitutes another favourable factor in the general situation, especially since further progress in this direction may be looked for as a normal development. In many countries, efforts are being concentrated on improving the welfare of the population; it has also often been observed that a rise in consumption follows, with a certain time lag, the general recovery.

(b) UNFAVOURABLE FACTORS.

An examination of the present situation also brings to light the persistence of a certain number of unfavourable factors.

While, as stated above, those countries participating in the Tripartite Agreement who realigned their currencies also took certain steps to reduce their tariffs and to enlarge or suppress quotas, the extent of these measures was very limited in scope, their duration was sometimes uncertain, and no effective breach was made in the system of quotas as a whole. Quotas therefore continue to exercise their restrictive effects on international trade, stereotyping the volume of transactions and preventing new or improved methods of production from obtaining an increasing share of the market. Thus it comes about that, while the original purpose of the system in certain countries was to prevent an influx of goods at a time when the disparity of prices made normal tariff defences inadequate, it has been maintained, although the readjustment of the currency and the general rise in world prices has tended to remedy, in large measure, the original price disparity.

Different reasons have been urged in justification for the maintenance of quotas; the necessity of ensuring equilibrium in the balance of payments as a measure of defence

against the effect of exchange control in another country and as a defence against dumping and export bounties. Quotas are also employed as measures of defence against competition from countries whose cost of production is extremely low. It is argued that these defence measures assist all countries whose products are sold at normal prices, and thus contribute to the maintenance of a high standard of life in more advanced countries. It is also urged that this defence, in the absence of such measures, could only be secured by a considerable increase of tariffs. Furthermore, it should be pointed out that the retention of quotas is also due in part to the emergence of vested interests among producers who, having enjoyed the benefits of a new and more rigid system of protection, raise every objection to its relaxation.

The restrictions imposed on external trade in the form of foreign-exchange control, sometimes accompanied by quotas, have thus in the main retained their importance. True, most countries have now readjusted their currency. But if the number of those which have not done so is small, it yet includes Germany, whose influence on the economic activity of most European countries is of outstanding importance. Other States which have devalued have, like the first-named group, maintained the new parity of their currency by means of a complicated system of restrictions and control.

The difficulties which certain countries have experienced in obtaining the necessary supply of foreign exchange have driven the more important of them increasingly in the direction of a policy of self-sufficiency. This in turn tends to increase their aloofness from the international economic community; their currency has ceased to be an instrument in international trade; their home prices remain at such levels that, when not compensated by a rise in world prices, most of them have been obliged, in order to maintain their exports, to resort to bounties or to apply reduced rates of exchange which differ widely from the nominal parity. These measures are tantamount in fact to a partial currency readjustment. Time will show whether this situation, which of course differs from country to country, will not sooner or later have to be formally regularised.

The difficulties which these countries experience in making foreign payments, owing to the falling-off of their exports, have often led them to encourage the setting-up of new industries without sufficient regard to their economic value.

This policy is sometimes justified by the desire to find employment for an increasing population, but its principal cause is to be found in considerations of national defence; from this standpoint, therefore, it is related to the armament policy, which has had such widespread influence on the economic situation. The present industrial activity, not only in the iron and steel industries, but in the production even of consumption goods, is partly due to the enormous expenditures which are being incurred by almost every country on armaments, and this is one of the reasons which leads some economists to question the duration of the present trade improvement. For armaments constitute a heavy mortgage on the future without any countervailing increase in economic resources. In countries whose currency is non-negotiable, they also reduce the amount of foreign exchange available for supplies of foodstuffs and of raw materials for ordinary purposes of manufacture and accordingly strengthen autarchic tendencies; whereas, in countries whose currency is negotiable, their effect is to add to the burden of taxation and to increase the costs of manufacture. In all countries, they tend to divert the attention of industrial producers from the external market. Everywhere, their inevitable effect, in the long run, is to depress national welfare or frustrate any tendency towards the raising of the standard of living.

Each Government justifies its policy to its own nationals on the ground that they may be called upon to defend the existence of their country; armaments, in fact, are an indication of general political insecurity. Thus there has grown up a feeling of apprehension which weighs on Europe and in which any incident may create serious

consequences. It is difficult to carry through any programme of economic progress if there is not a definite improvement in the atmosphere and if certain States introduce into international economic relationships ideological considerations which add to the difficulties of any economic co-operation.

Lastly, the maldistribution of gold affords a striking example of existing disorders. Whereas the increase in the production of gold should normally operate as a favourable factor, a number of countries are experiencing such an influx of the precious metal that they are forced to adopt costly measures in order to safeguard economic stability, while others are short of gold or possess only inadequate reserves. The lack of equilibrium in the world as a whole is due largely to the lack of confidence created in financial circles by the situation existing in important countries.

III. ON WHAT LINES SHOULD INTERNATIONAL ACTION PROCEED ?

It is impossible not to recognise the importance of the various factors which have been enumerated and which continue to impede economic activity. Nevertheless, if a balance be struck between the different elements, the growing improvement will be found to be the dominant factor. In spite of the difficulties which exist to-day, especially in the political sphere, this fact certainly justifies a new effort to increase world trade, an increase for which it supplies the essential basis.

To prepare for such an effort, it is necessary to decide, having regard to the favourable and unfavourable factors in the existing economic situation, on what lines Government action ought to proceed.

The objective was defined in the Tripartite Declaration and in the resolution of the League Assembly in September 1936: without some relaxation of the restrictions on international trade, there can be no equilibrium between prices and currencies and no lasting prosperity.

It seems more than probable that without a broader resumption of international trade, the present economic revival may well be cut short by fresh disturbances: whereas, if such a resumption can be secured, the precarious factors in the present situation may be eliminated. As a result, a more stable and durable improvement of economic activity will be brought about, and there is no reason why general prosperity should not be carried farther than ever before.

The restrictions employed by Governments to counter the effects of the depression have proved to some extent inadequate and ineffective. They have often, indeed, tended to create evils which they were intended to guard against. Thus, they have generally proved powerless for ensuring monetary stability, and instead of providing the countries which make use of them with larger quantities of free exchange, they have led to a diminution in the supplies available, because the measures of control have the effect of diminishing trade and stimulating the flight of capital. In any case, it would be a mistake to regard these restrictions as a result of arbitrary and inconsequent decisions. In many cases, if account be taken of the conditions of the time, they represent reactions which can easily be understood. Accordingly, to secure their disappearance, it is not enough to condemn them. The aim must be to remove the cause which led to their adoption.

It will be convenient, from this point of view, to examine in turn both the quota system and the system of exchange control.

IV. ABOLITION OF QUOTAS.

The quota system, which aims at the quantitative restriction of imports, was brought about mainly by the collapse of prices, the spread between internal costs of production and world prices, the loss of external markets and the disequilibrium in the balance of accounts.

Menaced by the ruin of agriculture, by the growing problem of industrial unemployment and by the social, financial and monetary troubles which beset them, Governments had recourse to measures of expediency which they hailed as measures of salvation.

It cannot be denied that the situation with which they then had to cope has to a large extent changed to-day. It has improved in keeping with the general economic recovery.

On the one hand, the prices of most basic products have risen appreciably, in some cases doubling or even trebling as compared with the lowest point reached during the depression. The recovery of the exchanges, together with the establishment of improved price equilibrium consequent on currency readjustments, and the increase in production have again produced a profit margin and, by restoring business activity, have brought about a gradual decline in unemployment.

On the other hand, while prices of raw materials and semi-manufactured goods for which there is a world market have tended to adjust themselves in all countries, the effect of increased restrictions has been to accentuate the disparity in prices in the case of consumption goods, particularly foodstuffs. The countries which have a relatively liberal system are able to obtain supplies at prices which, in some cases, are 50% below those prevailing in other countries.¹ The slump in prices, due to the fact that the world market has shrunk and that wholly abnormal supplies are thrown upon the only free markets, naturally stimulates consumption in these countries, but, at the same time, seriously affects the local producers, who, in turn, clamour for the adoption of restrictions.² Meanwhile, the unremunerative level of prices ruling in those markets is used in the restricting countries as an argument in favour of the maintenance of restrictions, and the fact that high prices resulting from restriction has discouraged consumption is adduced as a reason for refusing to accept additional imports.

If the restricting countries relaxed their measures of restriction, the whole situation would become more stable. There would be some reduction of prices in these countries, but this might lead, at least in regard to certain foodstuffs, to an increase of consumption; while, on the other hand, in countries which pursue a more liberal policy, prices would tend to rise to a more remunerative level.

In these circumstances, a revision of the measures taken to counteract the depression is imperative, and it may be affirmed *a priori* that many quotas have now lost their justification.

How is the abolition of these measures to be brought about? Two solutions are possible: either autonomous action or contractual measures.

¹ See Table of relative retail prices of certain foods on page 212 of Final Report of the Mixed Committee of the League of Nations on the Relation of Nutrition to Health, Agriculture and Economic Policy, document A.13.1937.(II.A).

² Account should, however, be taken of the increased prices for many commodities, especially wheat.

(a) AUTONOMOUS ACTION.

Generally speaking, this method can only be undertaken when it can be justified by reference to purely national interests.

This may be the case, after a currency adjustment, in order to avoid an excessive rise in prices. In this way, the abrogation or extension of various quotas since the devaluation of the currency in France, Italy, the Netherlands and Switzerland is accounted for.

Cases may also occur where, apart from currency adjustment, quotations of important staple products show a marked rise. The increase in the price of wheat at the beginning of 1937 led in several countries to the abandonment or reduction of protection of wheat which came into force during the depression.

Cases have also arisen where, as a result of a marked increase in demand, the production of a commodity of national economic importance such as coal or steel is found to be inadequate—as has occurred in several countries—leading in some cases to a temporary reduction of activity on the part of consuming industries.

Autonomous action has, however, so far remained exceptional. The desire to eliminate foreign competition or the fear of new disturbances are responsible for the opposition of industrial interests; and only overwhelming arguments based on the national welfare can prevail over such opposition. It should also be borne in mind that many States also make use of the quota system as an instrument of commercial policy.

(b) CONTRACTUAL METHOD.

The contractual method is the one which, in present circumstances, appears most likely to give appreciable results. It would appear to be a necessary supplement to autonomous action. By "contractual method" is meant an undertaking to abolish or extend particular quotas in exchange for an equivalent concession.

The contractual method may be *bilateral*. It has been responsible since the depression for a number of quota agreements between countries which employ quotas, as well as for arrangements in regard to quotas between two countries of which one only has a quota system.

In the former case, the concession given and its equivalent may be similar. In the latter case, the counterpart for the quota concessions may be of a different character—*e.g.*, it may take the form of reductions or consolidations of Customs duties or other advantages.

The contractual method may also be *multilateral*, as was the case with the Arrangement between the signatories of the Oslo Convention for the development of their mutual trade relations, concluded at The Hague on May 28th, 1937. The economic aspects of this Arrangement were described in the Economic Committee's last report. Its interest consists in the fact that it brings together countries with different commercial policies, some of whom give protection by Customs duties only, while the others have a quota system, and one has foreign-exchange control. The Arrangement links up the abolition of quotas by the States having a quota system with guarantees of stable tariff rates by the other contracting parties.

The tariff undertakings embodied in bilateral and multilateral agreements are extended to most States, as a result of the most-favoured-nation clause which most treaties contain. It must be noted, however, that according to current practice, the application of most-favoured-nation treatment to quotas is much less general. States which by contractual

arrangement mitigate or abrogate import restrictions should extend the scope of such action by giving the benefit of it to all countries which do not practise such restrictions and which on their side contribute by similar measures or in other ways to the expansion of international trade.

The limited results hitherto obtained by the contractual method must be regarded, from the standpoint of their effect on world trade, as altogether inadequate. The abolition of quotas was anticipated on a larger scale on the assumption that the effect would be offset by additional tariff protection. Such a procedure would only be justified if the corresponding tariff increases were kept within moderate limits and means were found of eliminating the ever-increasing demands of private interests for higher and higher protection. The danger would be less if the new rates were made the subject of discussion with the principal countries concerned, before enforcement, and if they were fixed by amicable arrangement. Under such conditions, it would appear reasonable to allow some adjustment of tariffs if, thereby, the abandonment of quotas can be secured; for a moderate tariff will not constitute so rigid an impediment to trade as quotas. Increases, however, cannot be regarded as justified where the duties already in force are so high as not to allow of full advantage being taken by importers of existing quotas.

Further progress could also be made if steps were taken to extend existing commercial agreements.

The obstacles to be overcome in mitigating the quota system are not so great as they were in the past and every effort should be made to secure their suppression. In the case of certain countries, it is industrial quotas which offer the best hope of success. With the expansion of the demand, which has taken place in many countries, it should be practicable to suppress most, if not all, quotas on manufactured goods. The existing tariff barriers, apart from quotas, should be fully adequate to prevent abnormal imports of such goods. On the other hand, if normal imports are not allowed, it will be difficult to keep domestic prices at a competitive level. It is true that industrial activity has expanded more than that of agricultural production; but the increased purchasing power of large bodies of consumers who live by industry cannot fail to have beneficial effect on the position of agriculture. This improvement should facilitate action for the enlargement and ultimate abandonment of agricultural quotas. Only by such measures will it be possible to protect the consumer against exploitation and to prevent the reduction in the standard of living of the people.

When action is taken in this sense by the contractual method, each State should endeavour at the same time to facilitate it by instituting a long-term programme for the progressive improvement of national production as regards quality and cost, so as to make it easier to face foreign competition. In certain countries, considerable progress has already been made in this direction, and there is no doubt that even greater advances are possible in the future, especially in agriculture. A general abandonment of restrictions such as was contemplated in the Convention on Prohibitions concluded in 1927 would then be taken as the ultimate aim and object of such progressive action.

Meanwhile, in so far as quotas are maintained, much could be done if they were enlarged substantially as and when demand on the part of consumers shows signs of increase. Further, much could be done to alleviate the operation of quotas if steps were taken, so far as possible, to prevent discrimination in their administration. If necessary, the basic period to be adopted for fixing quotas ought to be a matter of discussion between the importing and exporting countries. Finally, it is frequently maintained that some safeguard is required against the competition of excessively-low-cost producers and against veritable dumping which would disorganise the market and that, in the absence of quotas, it would be necessary to raise tariffs to prohibitive levels. It may be pointed out that this difficulty could be met if arrangements could be reached between the industries concerned

which would give an assurance against such excessive competition. Quotas applied solely as guarantees for these arrangements are not open to criticism.

V. ABOLITION OF EXCHANGE CONTROL.

As stated above, one of the objections which may be raised to the suppression of quotas is that they are necessary as a defence against the equally rigid and more arbitrary control of trade through foreign exchange restrictions. This objection has some force, and it is therefore desirable that a strenuous effort should be made to secure the abrogation of exchange restrictions.

The motives which have led to the institution of foreign-exchange control are similar to those responsible for quotas; but the currency factor is predominant. Exchange control is regarded as a supreme effort to safeguard the national currency. Incidentally, it has the effect of depriving the latter of one of its essential functions as a medium for foreign payments, and therefore has very serious consequences on the internal situation of the country practising it. It establishes a fictitious equilibrium in the balance of payments, by restricting the demand for foreign exchange to the amount available. It might be justified, as a temporary measure applied pending an early adjustment of the internal or external situation; but unfortunately, once adopted, it tends to accentuate the economic disequilibrium and to make an adjustment more difficult. It cannot in itself offer any remedy for troubles arising from economic disequilibrium.

Moreover, exchange control, if it prevents the repayment of capital, also stops the machinery of credit from functioning. The countries concerned are in many cases debtor countries, whose exports are the principal, and, in many cases, almost the only, active element of the national balance of payments. The equilibrium of the latter was maintained before the depression by credit operations, but exchange control makes such operations impossible.

Certainly, the countries which have adopted this system did not do so willingly; they have themselves experienced the main brunt of the consequent disadvantages. But they continue the system because, up to the present, they have not seen their way to secure the necessary adjustment of their internal economy and their balance of payments. This comment applies more particularly to countries whose exports are sent to States who do not allow them to dispose freely of the resulting foreign exchange.

In fact, these countries tend to place the greater emphasis on external factors—the need for obtaining free exchange for their exports and the need for securing, by agreement with their creditors, some adjustment of their indebtedness. They are also anxious to secure supplementary reserves for the central bank in order to meet a possible strain on its resources during any transitional period and to give confidence. But, in most cases, the internal adjustments are at least as important. Costs and prices must be brought into relation with world prices by action either on the monetary or on the credit situation or on both. A readiness to take action in this field is the first condition for the restoration of freedom to the currency. Some countries have already taken such action.

Austria offers a remarkable example of success in this matter. In her case, the currency was allowed to find its appropriate level and—as was also done in other countries—a policy of budget equilibrium was pursued, so as to strengthen confidence. Certainly, adjustments were made of certain banking debts, but Government credit was maintained and it was possible, therefore, to obtain further assistance from the financial markets. But it was the internal adjustments which made the operation a success. Argentine, in different circumstances, pursued a similar policy, with equally satisfactory results.

The present outlook in nearly all countries is more favourable than it was. The prices of agricultural products and of raw materials have greatly improved. In the case of most agricultural countries, there have been abundant harvests. But the improvement is not considered sufficient by itself to make the abolition of exchange control possible. In many cases, the factors of currency equilibrium are felt to be still too precarious to justify immediate action. A whole series of prior conditions is considered necessary by the countries concerned, such as guarantees of external markets, new debt arrangements and financial aid.

These difficulties deserve to be sympathetically considered; but they should not be allowed to obscure the first essential—viz., the adoption, where necessary, of an appropriate internal policy. Certain countries which have allowed their currencies to find a natural level and have followed a sound policy have been able to overcome their difficulties and to restore their credit. Thus they have again been able to attract capital—a process which is difficult to revive for countries which are seeking a settlement of their indebtedness on the basis of their crisis situation.

As has already been pointed out, countries desiring to abolish exchange control ought to prepare the way by taking the necessary measures in the internal field. If they are willing to take such measures, the possibilities of a concerted international action to assist them should be given full examination.

Pending the complete abolition of exchange control, every effort should be made to decrease the difficulties which it involves for international trade. This might be done, for example, if the proceeds of exports of the countries with non-negotiable currencies were to a greater extent left at the disposal of the banks of issue of these countries.

VI. WHAT CONCRETE FORM SHOULD INTERNATIONAL ACTION TAKE ?

What concrete form should international action assume for the purpose of securing the normalisation of economic relations in the sense defined by the Tripartite Declaration and the resolution of the League Assembly ?

The best form of such action would no doubt be a formal agreement binding the States concerned. But the difficulties in the way of concluding such an agreement must not be underestimated. Whether in regard to provisions for removing quotas or exchange controls, the mitigation of Customs protection or mutual assistance in monetary matters, most Governments would undoubtedly hesitate to assume obligations of too rigid a character. There would inevitably be reservations and safeguards in any undertakings assumed.

Nor is this international action likely to succeed except in a favourable political atmosphere. It would presuppose, if not a detailed settlement of the principal questions pending, at any rate an understanding in principle, and an easing of tension so as to restore confidence, a halt in the armaments race at least to the extent required to allay the apprehensions which cause it.

On the other hand, international economic collaboration certainly does not mean that any country should forgo its own opinions for the benefit of others; but it implies, nevertheless, the adoption of some kind of *modus vivendi* which will to some extent mitigate or conciliate opposing views and lead to the adaptation of theories and policies to meet the needs of international co-operation.

No State goes so far as to deny that such co-operation is necessary and desirable, though it is true that certain States are anxious to reduce to a minimum their dependence on other countries for the supply of staple products. Anxieties of this kind are to be

found in almost every country in greater or lesser degree. Moreover, the economic and political difficulties of the present time have encouraged the growth of autarchic tendencies. Would it be reasonable to expect a country to go on laboriously producing a substitute article, at three or four times the cost of the natural product, if, thanks to improved international economic relations, it could rely upon procuring the article under favourable conditions ?

Lastly, no measure of financial aid can be effective if the State applying for it adopts methods, as regards the management of its finances, its armament expenditure or the direction of its policy, which disturb its economic equilibrium, cripple its production with excessive burdens and destroy its credit. For this reason, any contractual engagement between States will be certain to contain reservations which would greatly diminish its obligatory effect.

Thus, while the idea of a formal agreement is not excluded, it is at present better to envisage, at least as a preliminary measure, some sort of joint declaration by Governments, on the lines of the Tripartite Declaration of September 1936, by which the Governments should affirm the general objectives which they propose and should define, as far as possible, the methods which they are prepared to adopt.

These objectives include, on the one hand, the preservation of peace and, on the other hand, the development of prosperity throughout the world and the improvement in the standard of living of the peoples. These aims are, in fact, inter-connected and common to all nations; each of them tends to promote the others; and any successful effort by one country will result in benefit to all.

The surest means of attaining these objects is the maintenance of economic equilibrium and the gradual elimination of the principal obstacles to trade.

To facilitate the task of Governments, it is necessary to convince the public opinion of the foregoing truth and to mobilise that opinion in support of the action undertaken. The Governments can further strengthen the support by emphasising the truth that the increase in general welfare is associated with the expansion of international trade.

The increase of real wages, thanks to the growth of profitable production and the maintenance of reasonable retail prices of foodstuffs and other objects of primary necessity, should make it possible to raise the standard of living of the masses by creating increased demand and increased consumption.

The studies already made in connection with the problem of nutrition have brought to light the progress which has still to be made in this matter. The Economic Committee wishes in this connection to draw attention to the recent report of the Mixed Committee on Nutrition. No reader of the report can fail to be impressed by the unwisdom of maintaining high food-prices and limiting imports. Moreover, the Committee has thought that it will be useful for it to print as an annex to its report a memorandum submitted to it by Mr. F. L. McDougall on "Economic Appeasement".

Viewed from this standpoint, the gradual abolition of the principal obstacles to trade is seen to be dictated by the general interest, and this must prevail over private interests and selfish or short-sighted apprehensions.

The Governments prepared to join in such action should define the manner in which they propose to secure the progressive elimination of undue hindrances to international trade. In particular, they should affirm their determination to do away as soon as possible with quotas—with the exception of any whose object is to ensure the application of industrial agreements aiming at the improvement of international economic relations or which are justified by flagrant dumping; to increase substantially quotas which cannot be immediately abolished as the consumption demand increases; to improve the operation of the quota system, so as to avoid so far as possible any discrimination; to achieve greater stability in the matter of tariffs, and, when necessary, to reduce to a reasonable

level duties on goods not subject to quotas. Apart from autonomous measures which would be taken simultaneously, they should signify their intention of undertaking a revision, in the same spirit, of the provisions relating to quotas and tariff guarantees in their commercial agreements, their payment and clearing agreements being revised on similar lines for the purpose of mitigating the restrictive effects of exchange control. The economic programme should be completed by provisions tending to facilitate the freer circulation of raw materials in accordance with the recommendations of the Committee entrusted with the study of this problem:

The countries concerned would also have to consider whether measures could be adopted to carry further the principles of the Tripartite Agreement as regards the relative stability of their currencies, either by autonomous undertakings or by concerted action.

They would also have to examine what means can be devised for extending the system of free currencies and securing the abolition of exchange controls, the possibility of giving assistance to countries which practise such controls but which are anxious to abandon them and are prepared themselves to pursue an appropriate financial policy, and, in that event, the conditions which would have to be fulfilled for such action to be effective.

Finally, it would be necessary for the countries concerned to arrive at some agreement as to the principles of economic and financial management which would have to be maintained by the States which are parties to the Declaration.

Each Government would have to be free to decide its course of action, but if any State decided to follow a policy contrary to international co-operation, it would be necessary to restore to the other parties their full liberty of action in regard to that State.

To accomplish such a programme, it is essential for progress to be made concurrently in the three different directions—economic, financial and political. An effort restricted to one of the three might be held up by the difficulties arising in the other two. If, on the other hand, the attempt is made to reach a general settlement in all three directions at once and without adequate preparation, there would be a risk that the effort would break down under the accumulation of difficulties. The best method would seem to be to carry through all the necessary preliminary work in each sphere separately, and to co-ordinate the results obtained as integral parts of a general programme, while avoiding too close an interdependence between the objectives aimed at in the different fields. Action on other lines would involve the risk of the whole advance being held up as soon as an obstacle appears at a single point. Doubtless, as has been stated above, political appeasement is the necessary condition for any general settlement of the economic problem. Nevertheless, prudence requires that, the general objectives once determined, the methods pursued should be flexible, so that the progress made in each field may be as great as current conditions permit.

ANNEX.

ECONOMIC APPEASEMENT.

Memorandum by Mr. F. L. McDougall, C. M. G.

The economic difficulties of certain nations are one of the causes of the political tension that now distracts the world, and there is a growing belief that economic appeasement may prove the surest road to world peace.

If economic measures are to lessen political tension, then positive action must be taken along lines which will convince the nations that Governments have both the will and the power to bring about great improvements in the welfare of their own people and of those of other nations which are prepared to co-operate with them.

The currency alignment declarations of September 1936 made by the Governments of France, the United States of America and the United Kingdom have gone a considerable way to remove one of the most serious barriers to the revival of world trade, and in these declarations the Governments concerned all referred to the need for improvement in the standard of living.

INTRODUCTION.

The standard of living.

The main purpose of this memorandum is to suggest further initiatives to bring about improved standards of living and by so doing to promote a revival of world trade. This, in turn, should reduce the present political tensions.

As the months pass, it becomes clearer that there has never been a situation fraught with such danger to Western civilisation as now confronts the nations. A large-scale war, or the return of an economic depression like that of 1929-1932, when the world had forty million unemployed, might result in a general collapse of existing institutions.

Furthermore, the realisation is spreading to-day among the masses in many countries that poverty is not inevitable, but is due to faults in the productive and distributive systems.

In the United States of America and in France, amongst other countries, this realisation has been gathering force, and the elections of 1936 showed that the people are demanding Government action to improve the lot of the less fortunate classes.

The suggested basis of action is, first, that the progress of science and its application to medicine, agriculture, manufacturing, mining and transport, has made possible great improvement in the standard of living for all the peoples of the world and, second, that since Governments have in the last few years assumed much greater control over economic life, through the action which they have taken to encourage or limit production, it is now well within the general trend of State policy for them to direct their energies to devising means for increasing consumption.

Dynamic policies needed.

What is envisaged in this memorandum is something more than an international agreement to promote the revival of trade. A direct attack upon low standards of living conducted both on the national and international plane is advocated as providing Governments with economic and social policies that will be dynamic because they will lead to increases both of consumption and production and thus provide a new approach to the problem of reducing barriers to trade.

Such social policies could bring about an expanding need for the products of international trade in which all countries may find full outlets for their energies and full employment for their peoples.

On the political side, such policies should rally to the countries that pursue them the majority of States and should present an attractive alternative for people and Governments to autarchy and economies based on preparations for war.

Wide appeal necessary.

It is suggested that placing in the forefront an improvement in the standard of living instead of a revival of world trade would appeal to the average man and woman. Economic developments that are necessary for the welfare and peace of the world should certainly be based on the widest possible popular appeal.

An increase in world trade is highly desirable, and perhaps even essential to the peace of the world, but experience has shown that proposals for the sweeping away of trade barriers completely fail to arouse the enthusiasm of the general mass of the people of the United Kingdom, France, the United States of America, or indeed of any other country.

There are two other connected considerations affecting both the problem of consumption and trade barriers that, at the present time, are of considerable urgency. These are (a) the relationship of rearmament to employment and (b) the need to avoid a slump.

Rearmament and employment.

The countries which compose the League of Nations must regard a limitation of armaments as one of their major objectives. It is, however, important to realise that it may not only be political difficulties which stand between the League and success in this field. In nearly every country, unemployment has been substantially decreased by armament orders. If, however, through the development of increased domestic and export demand for ordinary peace-time requirements, industries could be assured of an expanding market, one major difficulty in disarmament policy would have been overcome. It is intolerable to maintain that the heavy industries of the world can only be fully employed if they are making engines of destruction.

These considerations indicate that policies designed to secure increased consumption and production are *necessary counterparts* to a successful policy for the limitation of armaments.

The avoidance of a slump.

In some countries, internal recovery stimulated by cheap credit and rearmament activity is recognised to be in danger of approaching boom conditions unless appropriate measures are taken to prevent this.

Among the measures advocated are a tightening of credit, a reduction of import duties in those industries where demand is tending to out run supply, and methods to secure a broadening of purchasing power among the poorer half of the population. There is a natural reluctance to adopt measures that will have a seriously dampening effect upon the recovery. For this reason, the lowering of certain import duties is felt by many to be preferable to restriction of credit, since the former would, in a short time, extend the area of recovery, whereas the latter would be merely deflationary.

It has also been pointed out that if, during the upward swing of recovery, steps are taken to improve the remuneration and conditions of labour, the effect should be—by spreading purchasing power in wider circles—to create new demands for food, apparel, housing and manufactures which should lead to a prolongation of industrial and agricultural activity. The recovery is likely to be much more stable and lasting if it is based upon a general reactivation of the normal channels of trade instead of a feverish activity in armament and in certain other domestic industries in each country that may in a few years find their markets exhausted and their enterprises over-capitalised.

Similarly, the appropriate policy, if and when a new depression manifests itself, might include the financing of wage subsidies, unemployment relief, public works, etc.

All such measures, tending to the raising of the standard of living, would make a cheap credit policy effective. Recent experience has shown that it may not be enough to maintain plentiful and cheap credit, since, for long periods, business confidence may be so badly shaken that the credit is not utilised unless the State steps in and makes its credit policy effective.

Therefore, the progressive improvements in standards of living in a time of boom, and at least their maintenance at a reasonable level in a slump, might become important parts of the appropriate measures to level out the fluctuations in economic activity.

Variety of methods needed.

It will be clear that, in a campaign for higher standards of living, full account must be taken of the differing policies, traditions and opportunities of each country. No single proposal will suffice to achieve results commensurate with the objectives in view. A number of measures will be required, some national, others international in scope. In some of these, uniformity of method might be expected in a number of countries, others might only be practicable in one or two.

The suggestions which follow are put forward as proposals worthy of close consideration, but they only cover a part of a wide field. If the dangers of exaggerated nationalism are to be lessened, then the countries which believe in co-operation must show that they are themselves prepared to modify some nationalistic tendencies for the sake of economic appeasement and world peace.

These suggestions are based upon a deliberate association of methods designed to raise the purchasing power of the masses, together with the lessening of present obstacles to international trade.

PROPOSALS FOR INCREASING PURCHASING POWER.

Increased purchasing power for the masses can be achieved directly in various ways, of which the following demand consideration:

- (a) The method of international agreement for the improvement of the remuneration and conditions of labour—*i.e.*, the International Labour Office method.
- (b) Increased social services which, in effect, mean using the revenue-collecting powers of the State to secure a modification of income distribution.
- (c) Cheapening the retail price of food and other requirements.

While schemes for the improvement of the lot of the working-classes may be merely remedial or palliative in character, they may also be converted into dynamic instruments for the maintenance of economic activity.

In the past, Governments and the employing-classes have regarded such measures as necessary burdens upon the economic machine. Hence they have inevitably desired to limit their scope and restrict their application.

Schemes for social security can, however, be turned into assets rather than liabilities. They can become the springs from which will flow a widening stream of trade activities. Increased purchasing power for goods which the economic machine can produce with its existing resources will, in turn, create fuller opportunities for increasing earning power and for further differentiation and improvements in the system of production. This will not be achieved if all that is sought is a redistribution of money incomes which will increase production costs and do nothing to raise real national income. Such schemes will become positive and dynamic if they are closely associated with methods of securing greater productive efficiency.

It is equally necessary for national action to be correlated with a progressive international economic policy. In most countries, the stimulation of demand will lead to increased imports which will necessitate increased exports. If trade barriers and exchange controls remain inflexible, the result might be largely to frustrate national efforts to secure increased economic activity.

The International Labour Office method.

The adherence of the United States of America to the International Labour Organisation, Mr. Roosevelt's electoral victory and his subsequent declarations about improving standards of living, recent action to raise wages and shorten hours in France, and the general attitude of a number of other Governments, all indicate

that difficulties encountered in the past in securing effective international labour conventions may now be more easily overcome.

A real obstacle in the past has been the legitimate doubts as to how certain countries would carry out such conventions. The employer from countries with advanced social legislation felt impelled to oppose many proposals for international labour conventions because he knew that, while his country would be in a position to give complete effect to its undertakings, the relative weakness of the inspectorial and trade-union systems in some other countries would lead to imperfect fulfilment of the conditions agreed upon. He would thus find himself in a less satisfactory competitive position with serious effects, not only on profits, but also on employment.

During the last few years, there has been a marked increase in the strength of the trade unions in a number of countries and, as a result, the way in which labour conventions are observed will be subjected to salutary internal criticism.

It is realised that conventions dealing with hours of employment are far easier to negotiate than concerted action to improve remuneration, but it should not prove impracticable for the International Labour Office to devise methods for comparing real wages in different countries which would provide a basis for simultaneous action to bring about a progressive increase in the remuneration of labour.

Social services.

Whilst the International Labour Office method is essentially international, the improvement of the lot of the poorer classes of the community through social services must be primarily national. Nevertheless, just as the State or the employer cannot contemplate with equanimity marked improvements in wages or in labour conditions unless other nations are taking similar action, so, too, important additions to the social services can be more easily envisaged if similar action is being taken by a number of nations.

The nations of the British Commonwealth and of Scandinavia have already done a good deal to provide social services and thus to improve the lot of the working-classes at the expense of the taxpayer. Mr. Roosevelt's administration is now making great strides in this direction and, subject to budget possibilities, increased social services would be welcome in many European countries.

It is suggested that the International Labour Office might be used to secure progress on a wide front. International agreements on, for instance, provisions for health and unemployment insurance would not necessarily imply that all the nations accepting a convention should make financial provisions of the same order, but rather that all should move forward at a somewhat similar pace.

Retail costs.

So far as industrial goods are concerned, the whole trend of production and distribution in recent years has been towards reduction of both factory and distributive costs so as to increase the market for specific lines of goods.

In most countries, this modern trend has not been applied to food (with the exception of certain groceries). To-day, in a very large number of countries, food consumption is prevented from a very necessary expansion either by high prices brought about through agrarian protection or by the width of the spread between wholesale and retail prices.

Methods for securing increased food consumption in the working-classes include the reduction of distribution costs and possibly arrangements for low prices for "cash and carry" sale.

An even more important factor may be the type of agricultural protection. All countries are determined to maintain a reasonable level of prosperity for their own farmers, but it appears that the national interest of most countries demands that such protection as farmers may need should be given in a form which would not result in increased retail prices. Thus, agricultural policies might be based on the idea of a gradual and orderly expansion of the production of those forms of food of which consumption should be increased in the interest of national health and far greater attention should be paid to the factor of agricultural efficiency. The difference between world export prices and the price which national agriculture appears to require might, in some countries, be made up by means of subsidy. This could have the advantage of giving a premium to the efficient farmer, whereas quota systems, especially when extended on a contract basis to the regulation of supplies from farms,

may assist the inefficient and severely limit the enterprise of the efficient. In countries where the method of subsidy would prove impracticable for budgetary reasons, the employment of tariffs might continue to be necessary, but the effect of such tariffs on national standards of living should be under constant supervision.

Action to secure that retail prices should be as low as possible must be national, but the attention of Governments and the interest of peoples might be stimulated if an international enquiry, conducted perhaps by the Economic Committee of the League of Nations, led to reports receiving wide publicity.

Peasant Europe.

The three preceding proposals all related to methods for increasing the purchasing power of the masses, but mainly of the industrial proletariat. Measures of economic appeasement, especially in Europe, must give equal weight to the well-being of agricultural populations.

The situation of a large part of the peasant population of Eastern and South-Eastern Europe is a cause of grave preoccupation to Governments. An examination of available agricultural statistics suggests that the quantity of commodities produced per man engaged in agriculture in Eastern Europe would be found to be only a quarter of the figure for Denmark and only about an eighth of that for New Zealand. Such a scale of productivity represents a level of poverty hardly understandable in Western Europe or in the United States of America. This being the case, it is easy to understand the difficulties of Governments and their desire for policies which will mitigate the present position. In Eastern European countries, the density of the agricultural population is high. The peasants can purchase hardly any manufactured goods, whether domestically produced or imported, since they extract little more than a bare subsistence from the soil. If agricultural and distributive methods could be improved, purchasing power would be created which would stimulate industry and lead to the redistribution of population between industry and agriculture at higher standards of living. These reforms will depend in part on markets for some of the produce of the peasant farm and on easier access by the peasant to capital—*i.e.*, agricultural credits which might be so administered as to secure their utilisation along lines which would harmonise with wide plans for economic appeasement. Here the agricultural co-operative movement might do good service.

The Health Section of the League of Nations is now devoting attention to rural hygiene in Europe and the Mixed Committee on Nutrition has been studying these problems during the current year.

It is suggested that the Western nations should take an active interest in this question with a view to effective plans resulting from the study of the problem.

NUTRITION.

(Although "The Problem of Nutrition" is the subject of study by a special committee of the League, its bearing upon the general subject of economic appeasement must not be overlooked.)

The economic expansion which differentiated the nineteenth century from its predecessors is generally considered to have been due to mechanical inventions. These, of course, played an important part, since purchasing power was increased by the new factories and fresh food supplies were brought from the prairies by the railway and steamship. The application of science to medicine, sanitation and water supply was an equally important factor, since the towns were converted from "destroyers" to "breeders of men".

From 1500 to 1750 the population of England and Wales increased by only some half a million, whilst from 1750 to 1850 the increase was of the order of eleven millions, and in the half-century from 1850 to 1900 the increase was no less than fifteen millions, despite a net emigration during this period of some nine million people.

To-day, for the first time in human history, technological improvements in agriculture, refrigerated storage and transport have made possible for the masses of the people diets adequate both in quantity and quality.

There is wide agreement that such diets would bring about improvements in public health comparable with what was achieved in the nineteenth century, when developments in the science of bacteriology enabled the authorities to control the spread of infectious diseases.

Such improved nutrition would not only lessen the incidence of disease, but also build up healthier and more contented peoples. These reasons are sufficient to justify Governments in embarking upon large-scale nutritional policies.

Here, however, the connection between improved nutrition and economic appeasement must be considered.

Sir Frederick Leith-Ross, in his memorandum on "Agricultural Protectionism in Europe in the Post-War Period"¹ has shown the effects of extreme agrarianism upon world trade in foodstuffs. The contraction or closure of European markets resulted in glutted markets in other countries, such as the United Kingdom, and in measures of quantitative regulation to save the local agricultural industries. The purchasing power of agricultural countries, such as Denmark, Hungary, Poland, Argentina, Australia or New Zealand, was, of course, seriously affected. This, in turn, led to unemployment in the industrial countries. European agrarianism also intensified the agricultural depression in the United States of America.

Would the wide adoption of nutrition policies result in increased trade in agricultural products? The League of Nations enquiry has already shown that it would. Even in the more prosperous countries, the consumption of milk, dairy products, fruit, vegetables and meat is far too low; in the poorer countries of Western civilisation, the proportion of malnourished people probably rises to 70%. In the Far East, a recent report of the Chinese Government to the League sums up the situation with words probably nearly as applicable to India as to China, namely: "Generally speaking, most Chinese are in a state of malnutrition all the time". There is also evidence of immense scope for improvement in the Tropics. There is, of course, no prospect of rapid improvement in nutrition in China, India or Africa, and in many other countries progress will be slow.

If, however, as a result of national action in a certain number of countries, a substantial improvement in nutritional standards could be brought about, the effects would be not only that the national agricultures of these countries would experience increased demand, but it would also be found necessary to bring about a gradual re-orientation of production so as to provide more of the protective and perishable foods. This, in turn, would lead to increased international trade in the great agricultural staples with beneficial effects upon the purchasing power of the agricultural-exporting countries. These considerations make it probable that no single policy is more likely to assist towards economic appeasement than the adoption of nutrition policies by a considerable number of the more advanced countries.

Fortunately, the problem is now well understood, the documentation is large, an important international enquiry is under way, and many nations have, partly as a result of the recommendation of the League Committee, set up National Nutritional Advisory Commissions.

It is suggested that the Government of each country that is concerned in the problem here set out should take an increasing interest in the international aspects of nutrition and simultaneously should press forward with the formulation of its own national policies.

Nutrition and defence.

It may be argued that the pre-occupation of many countries with problems of defence and of the supply of food in the event of war renders impracticable for the time being the suggested re-orientation of agriculture along lines dictated by nutrition policies.

Such an argument would be used by those who believe that defence considerations require that national agriculture should produce as large a proportion as possible of all food requirements. It is obviously desirable for a country to be able in an emergency to be as little dependent upon imports of food as possible. To meet that emergency, a policy to encourage a maximum diversity of agricultural production might be adopted, but to do so would be to neglect the great differences in the keeping qualities of foodstuffs. Wheat, sugar and the animal feeding-stuffs are all readily stored; all deplete the soil and require considerable quantities of fertiliser for their production.

The adoption of a nutritional policy based on a large increase in dairy herds, if combined with arrangements for the storage of such supplies of wheat, sugar, etc., as are not locally produced, would actually prove a most useful adjunct to the war-time needs of many countries. Such adjustments of agricultural production could be carried out without large expenditure and they would be in harmony with the general economic

¹ Published as Annex to the Report of the Economic Committee entitled:
"Consideration on the Present Evolution of Agricultural Protectionism" C.178.M.97.1935.II.B.

interests of many nations. The increased dairy herds would provide large stocks of meat on the hoof available for slaughter in emergency, and indeed, if supplies of feeding-stuffs were short, for slaughter and cold storage. In the same way, the pig industry of the country could readily be turned to war-time account. It should also be remembered that more intensive dairying, pig or poultry keeping during the years of peace add to the fertility of the soil and thus render more practicable the production of cereals in an emergency without reliance upon imported fertilisers. A further factor is the effect of adequate nutrition upon the physical endurance and standard of health of the defence forces, a matter of the utmost importance in the event of war.

TRADE BARRIERS.

Thus far, the suggestions put forward have been concerned with improvements in the welfare of the masses. Action along these lines, if adopted by many nations, would bring about great increases in demand. Parallel with these moves to increase consumption, it would be essential to ensure increased supplies.

This increase might come partly from the development of local production, both of agricultural and industrial goods, and partly from an increase in international trade. The whole policy would be frustrated if purchasing power was curtailed by undue reliance upon high-cost local production. Increased attention to productive efficiency—especially in agriculture—and a concentration upon forms of production most suitable to local conditions would increase the volume of supplies which could be furnished locally at reasonable prices. Where this progress cannot be achieved, the national welfare demands that full use should be made of the cheap supplies to be obtained from abroad. In practice, this should mean that development of internal production would go step by step with an expansion of international trade. Hence a reduction of trade barriers is an essential part of the suggested programme.

Since the World Economic Conference at Geneva in 1927, the failures to bring about a reduction of trade barriers have been too frequent and too complete to allow of the interpretation that the crusades for free trade have failed owing to the influence of vested interests or because of the short-sightedness of the politician. It is much more probable that the defeat of the series of frontal attacks launched on the bastions of economic nationalism have failed because the attackers saw only a part of the truth. They failed to realise that the nations are concerned with things other than material progress and are determined for social and cultural, as well as for political, reasons to secure a balanced economy. The industrial countries, impressed by the stability of rural life, were determined to preserve their agriculture from the cheaper production of the overseas countries. The agricultural nations, convinced that their civilisation required the contributions of the engineer, the chemist and the artisan, were not content to rely wholly upon pastoral or agricultural pursuits. This lack of understanding of the trend of the modern State prevented attempts being made to secure a regime of moderate protection.

Industrial co-operation with the agricultural countries was not encouraged by either the industrialists or the economists of the advanced countries. The result has been that nations have felt forced to have recourse to extreme tariffs and quotas to preserve their national interests.

To-day, a more reasonable spirit prevails and, now that the agreement on currency alignment has removed one of the most formidable difficulties in the way of a reduction of extreme trade barriers, there are new possibilities of progress.

The new initiatives.

This is borne out by the recent endeavours to secure improved international co-operation.

In February 1937, the "Oslo" countries concluded an arrangement aimed at securing the cohesion and enlargement of their low-tariff group. Mr. Cordell Hull has reaffirmed the determination of the United States Administration to attempt to secure international economic co-operation; Mr. Eden, the British Secretary of State for Foreign Affairs, has emphasised the need for "political appeasement and economic co-operation"; and the United Kingdom and French Governments have entrusted an important mission to M. van Zeeland in pursuance of which he has been in consultation with the principal European Governments and has visited Mr. Roosevelt at Washington.

These are all hopeful signs and the alarm caused to-day by the determination in political relations should render the nations more anxious to secure improvements through economic co-operation than was the case when the World Monetary and Economic Conference met in 1933.

It is, however, to be feared that, unless the problem of trade barriers is approached from the angle of the standard of living, the present initiatives will suffer the same fate as the World Economic Conference of 1927 or the proposals for a tariff truce in 1930.

It has already been pointed out that the reduction of trade barriers to secure greater international trade will make little appeal to the general public in any country, yet Governments will need the support of public opinion if they are to find the courage to reduce the obstacles which now prevent or hamper trade.

The angle of approach.

It is an almost impossible task for Governments to adopt more liberal commercial policies during a depression. Considerations of employment and the claims of hard-hit industries become too insistent. To-day internal recovery and the special requirements of rearmament have increased demand, but this movement may prove short-lived. If, however, means can be found for maintaining demand at higher levels, the difficulties of Governments can much more easily be overcome. For this reason, it is important to associate the movement towards freer trade with a vigorous drive to secure increased demand for all forms of both capital and consumption-goods through the raising of the standard of living.

Most Governments would subscribe to the principle that in commercial policy the national interest must take precedence over sectional interests.

Government departments or tariff commissions, however, when charged with the actual task of tariff or quota adjustments, find difficulties in the application of this principle.

The national interest can be conceived in many ways, and any substantial group of producers can usually claim that further support to their industry or branch of agriculture would be in the interests of national strength. It should also be remembered that the points of view of producers are usually more effectively brought before Governments and parliaments than are the interests of the consumer.

If Governments placed the standard of living clearly in the forefront on all questions of commercial policy, they would provide a criterion by which to judge whether the general welfare of the country was taking precedence over the special interests of sections of producers.

The national interest, however interpreted, clearly demands that producers, whether industrial or agricultural, should not be allowed to shelter inefficiency behind a tariff, and this can be judged by whether retail prices or the costs of the export industries are being unduly raised.

The placing of the interests of the whole nation, including the purchasing power of the consumer, before that of any section of producers should thus lead to regimes of moderate or selective protection.

National interests.

The great creditor nations of the world—and in particular the United States of America, the United Kingdom and France—would realise that an "adverse" balance of trade was the proper and natural concomitant of their creditor status. It is to their national interest that their import surpluses should activate trade in other countries. This is not only due to their foreign investments, but also because of the advantages they obtain through their "invisible" exports.

The creditor countries can therefore contribute to the reactivation of world trade by a selective limitation of their domestic protection policies. Such policies would not only secure cheap food and raw materials, but also the advantage of increased export trade and greater security for their capital invested abroad.

The industrial countries of Europe, although determined to maintain the welfare of their peasants, might find that a gradual reorientation of their agricultural policy based on the increased demands for the protective foods (consequent upon the movement to improve living standards) permitted them to accept larger quantities of the great staples of agricultural trade. This, in turn, would lead to increased exports of manufactured goods.

The agricultural countries which have been developing their manufacturing industries, in order to find employment for their people and to avoid the consequences of isolation in the event of war, and also for social reasons, are as determined to continue this process as are the industrial countries to maintain a prosperous agriculture. But here again, if the national interest is put before that of any section, the need for the selective use of tariffs is very apparent.

A movement in this direction could be accelerated if co-operation in specific industries could be arranged between the manufacturers of the industrial Powers and those of the predominantly agricultural countries. Arrangements could be made between the manufacturers in a given industry for a division of the production for the market of the agricultural State on the basis of the simpler forms being produced locally while the highly industrialised country specialised on the more difficult and newer forms of manufacturing.

The net effect of decisions along these lines, if taken by a number of countries, would be to bring about a selective lowering of trade barriers and a marked revival of world trade.

It may be urged that such objectives, although desirable, are politically impossible and that the strength of vested interests is such that Governments will find it impossible to reconsider commercial policy along the lines suggested.

But as the masses come to a fuller realisation of the possibilities of improved standards of living and of the need to subordinate vested to real national interests, the political conditions will be established enabling Governments to act along these lines.

THE TROPICS AND THE FAR EAST.

It is impossible to consider economic appeasement without reference to the Tropics or to the position of such great countries as India or China.

If, as a part of the new approach to methods of international economic co-operation, means were found to bring about even slight improvements in the standards of living of the masses in India and China, the effects upon world trade would be very great.

This subject is, however, beyond the scope of the present memorandum. The responsibility for the economic policy of China and India rests with their own Governments. The United Kingdom, France, Belgium, the Netherlands and Portugal, however, can between them decide the policy to be applied to the greater part of the tropical world.

The colonial problem.

Here no attempt will be made to consider the political questions involved in regard to the colonies, but it is important that the colonial empires should contribute a full share towards world recovery.

The total trade of all the non-self-governing parts of the world is not to-day of major significance,¹ but colonial trade is capable of considerable development and can be regarded as an especially elastic margin to world trade. The colonies also represent areas which, for at least some decades, will rely wholly upon the already industrialised countries for their manufactured requirements.

The economic problems of the non-self-governing parts of the world are, in general, essentially different from those of China or India, where population presses hard upon the means of subsistence. In Africa, the population is not dense and the possibilities of increased production for export are great. To secure this end, much education of the natives would be required and this would doubtless often prove a slow process. When, however, the history of Java, Malaya or the Gold Coast is considered, it is clear that the colonies are capable of making great contributions to the wealth of the world.

Unfortunately, during recent years, many of the colonies have suffered very severely from the contraction of world markets, and increased demand, coupled with freer trade, is an essential pre-requisite of colonial prosperity. For most colonial products, such as metals, animal feeding-stuffs, vegetable oils, etc., world markets are essential and nothing less than a general and permanent revival of world trade will be sufficient to ensure continuing prosperity.

In view of the recent history of depression due to apparent over-production, the development of the resources of the non-self-governing portions of the world is not likely to be systematically undertaken unless freer access to world markets makes the disposal of export surpluses a less difficult task than has been the case in recent years.

¹ The trade of the non-self-governing countries is about 11.7 % of the world total.

If Europe was experiencing a large-scale movement towards increased consumption, the effect would be to create an immense demand for the animal feeding-stuffs, metals, foods, etc., exported by the colonies.

While a permanent increase in world demand for colonial products would certainly be reflected in larger colonial imports, it must be borne in mind that the individual native has little to spend. The development of demand for manufactured goods will, therefore, depend upon their cheapness.

These factors suggest that the application of the general point of view expressed in this memorandum to the colonial commercial policy of the Metropolitan powers would also lead to a lowering of trade barriers.

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The foregoing proposals envisage resolute effort to revitalise the world's trade: nations must come to realise that really enlightened self-interest postulates a willingness to share their economic advantages with others.

If measures along these lines were widely adopted, it would enable the nations co-operating to make a great contribution towards human progress and culture. This should attract other nations towards co-operation and should go far to prevent social discontents.

In order to achieve progress, it will be necessary to provide means for international consultation, enquiry and, ultimately, for conventions. For these purposes, the machinery of the League and of the International Labour Organisation could be fully utilised. The United States already adheres to the International Labour Organisation and she participates in the technical activities of the League such as economic and financial affairs, health and nutrition. Here, indeed, as Lord Balfour so wisely foresaw in the early 1920's, may be found the way to make the League of Nations a more effective instrument for world appeasement and hence for world peace. If the nations learn to turn to the League for information, help and advice on economic and social questions, the prestige that has been lost on the political plane may be regained on a firmer basis.
