

PSF: LONDON ECONOMIC CONFERENCE

Subject File

X

PSF: London Economic Conference
1933

Box

156

PSF: London Economic Conference

MET

This telegram must be closely paraphrased before being communicated to anyone. (b)

London

Dated July 5, 1933

Rec'd 8:15 a. m.

Secretary of State,
Washington.

203, July 5, 9 a. m.

CONFIDENTIAL FROM MOLEY TO PHILLIPS AND THE PRESIDENT,
NO DEPARTMENT DISTRIBUTION.

The following is draft statement of which I told you. I am explaining its origin in a separate telegram.

The President has made it
"In my communication to you of July 2nd ~~I~~ ^{we} endeavored to make it clear that ~~I~~ ^{we} saw no utility, at the present time, in temporary stabilizations among the currencies of countries whose needs and policies are not necessarily the same. Such stabilizations would be artificial and unreal and might hamper individual countries in realizing policies essential to their domestic problems. ^{He} urged the ~~Conference to move~~ ^{delegation to seek} to consideration of its fundamental task of facilitating policies by the different nations directed, not to temporary expedients, but to mitigating and, if possible, remedying the harassing evils of the present economic situation. In the hope that ^{the U.S.} ~~I~~ may be of ~~some~~ help to the Conference, to whose success and friendly cooperation ^{the U.S.} ~~I~~ continue to attach the greatest importance,

it

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2-#203 from London, July 5, 9 a. m.

it may be useful that ^{we} ~~I~~ should develop this thought somewhat more fully.

In saying that the value of the dollar has not fallen so far as I should like to see it fall, I naturally intended that the expression of its value should be in terms of American commodities, which alone matters to us in remedying our maladjustments. The revaluation of the dollar in terms of American commodities is an end from which the Government and the people of the United States cannot be diverted. ^{we} ~~I~~ wish to make this perfectly clear: we are interested in American commodity prices. What is to be the value of the dollar in terms of foreign currencies is not and cannot be our immediate ~~or our ultimate~~ concern. The exchange value of the dollar will ^{ultimately} depend upon the success of other nations in raising the prices of their own commodities in terms of their national monies, and cannot be determined in advance of our knowledge of such facts.

I seek no competitive exchange depreciation going beyond actual and anticipated price movements. I have no intention of encouraging American domestic prices to rise beyond the level required by the American debt structure and American costs. And I have every intention and ample resources to prevent an inordinate and uneconomic rise
of

MET

3-#203 from London, July 5, 9 a.m.

~~prices~~. There is nothing in ^{our} ~~my~~ policy inimical to the interests of any other country, ^{but we are confident} ~~that no other country would~~ ~~Government must not be embarrassed~~ in the attainment of economic ends required for ^{our own} ~~the~~ economic health, ~~of~~ ~~community~~.

If other countries ~~should~~ desire a rise of prices ~~varies from or in a different degree~~, according to the special circumstances of each, I suggest that it is the task of the Conference to consider ways and means of putting into circulation the additional purchasing power by which alone their object can be attained. I see no necessity for uniformity. But no progress can be made until the different needs of the different countries have been elucidated and determined. If there are countries where prices and costs are already in equilibrium, ^{we} do not regard ^{it as} the task of the Conference, as it certainly is not the purpose of the American Government, to persuade or compel them to pursue policies contrary to their own conception of their own interests.

But if it should emerge from the discussion that there is a group of countries whose requirements are broadly the same as those of the United States and if those countries were to make it clear that they will consist of (*) take appropriate measures for an effective movement in this direction, I should welcome informal arrangements

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4-#203 from London, July 5, 9 a.m.

arrangements between the central of these countries and the Federal Reserve system of the United States for the avoidance of meaningless and harmful exchange; though such arrangements should be, in my judgment, of a day to day character (*) embarrassing commitments on either side (*) there is also inaptitude(?) the policies appropriate to the period after the existing maladjustments in the ascertain(?) (?) ~~have been remedied~~. It is not sufficient to escape from the present evils. It is our duty to consider together how to avoid their recurrence in future. It is too early task is to restore prices to a level at which industry and, above all, (?) (?) function profitably and efficiently. The second task is to preserve the stability of this adjustment once achieved. The part which gold and silver should play as reserve monies after a ~~certain~~ adjustment has been secured would seem ~~successfully~~ subject suitable for consideration by the Conference.

(END SECTIONS ONE AND TWO)

(*)

(?)

This message is badly garbled and corrected groups will be inserted later.

~~He~~ would link with this the problems of exchanges and of commercial and tariff policies, with a view to the avoidance of unbalanced debtor and creditor positions between nations which have been so fruitful a cause of the present evils.

~~It would be unwise to hope that much progress can be made in diminishing the excessive hindrance to profitable international exchange during the period before prices have been adjusted when each country is endeavoring, by any means at its disposal, to protect what seems a perilous domestic situation. But it is not recommended to consider (*) lines (*) code which should attain the mutual advantages literal legitimate international trading, when the special causes which X injudicious and mutually have led to wide spread action of an/injurious character have passed away.~~

I conceive therefore that the great problems which justified the assembling of that nature nations are as present (*) and as deserving of exploration as was the case a few weeks ago; and I find it difficult to (*) that the view which it (*) my obvious treaty negotiations to take, on the minor issue of temporary stabilization, which was not before the Conference and has not figured on its agenda can in any way diminish the advisability of such discussions."

BINGHAM

CORRECTED COPY

MFT

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new file

London

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Rec'd 8:15 a.m.

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Washington.

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CONFIDENTIAL FROM MOLEY TO PHILLIPS AND THE PRESIDENT, NO DEPARTMENT DISTRIBUTION.

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"In my communication to you of July 2nd I endeavored to make it clear that I saw no utility, at the present time, in temporary stabilizations among the currencies of countries whose needs and policies are not necessarily the same. Such stabilizations would be artificial and unreal and might hamper individual countries in realizing policies essential to their domestic problems. I urged the Conference to move to consideration of its fundamental task of facilitating policies by the different nations directed, not to temporary expedients, but to mitigating and, if possible, remedying the harassing evils of the present economic situation. In the hope that I may be of some help to the Conference, to whose success and friendly cooperation I continue to attach the greatest importance, it may be useful
that I

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that I should develop this thought somewhat more fully.

In saying that the value of the dollar has not fallen so far as I should like to see it fall, I naturally intended that the expression of its value should be in terms of American commodities, which alone matters to us in remedying our maladjustments. The revaluation of the dollar in terms of American commodities is an end from which the Government and the people of the United States cannot be diverted. I wish to make this perfectly clear: we are interested in American commodity prices. What is to be the value of the dollar in terms of foreign currencies is not and cannot be our immediate or our ultimate concern. The exchange value of the dollar will depend upon the success of other nations in raising the prices of their own commodities in terms of their national monies, and cannot be determined in advance of our knowledge of such facts.

I seek no competitive exchange depreciation going beyond actual and anticipated price movements. I have no intention of encouraging American domestic prices to rise beyond the level required by the American debt structure and American costs. And I have every intention and ample resources to prevent an inordinate and uneconomic rise of

prices. There is nothing in my policy inimical to the interests of any other country, but the American Government must not be embarrassed in the attainment of economic ends absolutely required for the economic health of our country.

If other countries represented in London desire a rise of prices in the same or in a different degree, according to the special circumstances of each, I suggest that it is the task of the Conference to consider ways and means of putting into circulation the additional purchasing power by which alone their object can be attained. I see no necessity for uniformity. But no progress can be made until the different needs of the different countries have been elucidated and determined. If there are countries where prices and costs are already in equilibrium, I do not regard it as the task of the Conference, as it certainly is not the purpose of the American Government, to persuade or compel them to pursue policies contrary to their own conception of their own interests.

But if it should emerge from the discussion that there is a group of countries whose requirements are broadly the same as those of the United States and if those countries were to make it clear that they were prepared to take appropriate measures for an effective movement in this direction, I
should

should welcome informal arrangements between the central banks of these countries and the Federal Reserve system of the United States for the avoidance of meaningless and harmful exchange fluctuation; though such arrangements should be, in my judgment, of a day to day character and without embarrassing commitments on either side.

There is also to be considered the policies appropriate to the period after the existing maladjustments in the price structure have been remedied. It is not sufficient to escape from the present evils. It is our duty to consider together how to avoid their recurrence in future. The first task is to restore prices to a level at which industry and, above all, agriculture can function profitably and efficiently. The second task is to preserve the stability of this adjustment once achieved. The part which gold and silver should play as reserve monies after a certain adjustment has been secured would seem a further subject suitable for consideration by the Conference. I would link with this the problems of exchanges and of commercial and tariff policies, with a view to the avoidance of unbalanced debtor and creditor positions between nations which have been so fruitful a cause of the present evils.

It would be unwise to hope that much progress can be made in diminishing the excessive hindrance to profitable international exchange during the period before prices have been adjusted when each country is endeavoring, by any means at its disposal, to protect what seems a perilous domestic situation. But it is not too soon to consider the general lines of a code which should attain the mutual advantages of legitimate international trading, when the special causes which have led to widespread action of an injudicious and mutually injurious character have passed away.

I conceive, therefore, that the great problems which justified the assembling of the nations are as present today and as deserving of exploration as was the case a few weeks ago; and I find it difficult to conceive that the view which it has been my obvious duty to take, on the minor issue of temporary stabilization, which was not before the Conference and has not figured on its agenda can in any way diminish the advisability of such discussions".

BINGHAM

HPD WWC

PS: London Econ. Club

DELEGATION OF THE UNITED STATES OF AMERICA

Claridge's,

Bx 156

London, July 8, 1933

Personal.

Dear Mr. President:

You will have heard from Ray and Warren the news about the Conference itself and I shall not burden you with my opinions about it. There are, however, a few outside matters that have happened to come to my attention, about which I think you might like to be informed. And I am sure that you will be interested in knowing how adroitly Hull managed the very difficult situation of last Tuesday and Thursday. The Secretary was really magnificent.

On Tuesday morning, July 4, MacDonald had agreed with the gold countries that the Conference should be adjourned, leaving some sort of an undefined committee or committees behind and that you should be blamed for the abandonment of the Conference. MacDonald had promised to put through this dissolution at the Bureau meeting scheduled for six o'clock. When we got wind of the project, Hull sent me out to persuade MacDonald to adjourn the Bureau meeting until the following day. I argued with the Prime Minister for an hour, but could not budge him and the only way of saving the situation was for Hull to intervene at the outset of the Bureau meeting.

As usual, I went with Hull to the Bureau meeting and had the satisfaction of seeing him do a beautiful piece

The President,

The White House.

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of work. The French, and indeed all the gold standard countries, came in roaring for blood. MacDonald opened the meeting with a speech that pinned responsibility for the breakdown of the Conference on your message and then read the proposals for adjournment of the Conference.

Hull got up at once and asked MacDonald a series of questions in regard to the actual situation and future work of the Conference. MacDonald, being unable to answer any of the questions which Hull had asked him, hemmed and hawed and even giggled a little in his embarrassment, and sat down after showing clearly that he was completely confused--which was just what Hull had intended.

The Secretary rose again and with great dignity pointed out that to take responsibility for the adjournment of a conference which had been called to relieve the sufferings of the world was unjustifiable, unless the actual situation and future plans were entirely clear. He said that, of course, the other representatives in the Bureau were much less well-informed than the Prime Minister himself, the President of the Conference, and since the Prime Minister's mind seemed entirely unclear it must be realized that the minds of all the other Delegates were even more unclear and it was essential that time should be taken for consideration of the whole matter. He concluded by suggesting that the Bureau should adjourn without further debate until the following day.

The Secretary's speech made a deep impression on everyone present. Bonnet became bright purple with rage and Jung was scarlet, and it was clear that the Secretary had carried the majority of the Bureau with him. Chamberlain and Bennett supported the Secretary strongly and

in spite of the speeches of Bonnet and Jung, the meeting of the Bureau was adjourned until Thursday.

At the Thursday meeting of the Bureau, the Secretary again got to his feet at the first moment and made a really fine simple address on the need for continuing the Conference. We had, of course, received your telegrams, saying you wanted the Conference to go on, and had lined up all the nations we could for continuance. Ishii followed Hull in support of our position and Bennett, Chamberlain and the Swedish Minister of Finance and a Chinese representative all made strong speeches supporting Hull. The gold countries and Spain were solid in opposition. Bonnet finally threatened flatly to leave the Conference at once and MacDonald appointed a committee of six to attempt to reconcile the difficulty: Hull, Chamberlain and Bennett on our side; Bonnet, Jung and Colijn, the Dutch Prime Minister, on the other. I went with Hull and we had an extremely stiff three-hour fight before we obtained the agreement to continue, with which you are already familiar. The Secretary's sincerity and distinction of character have at last begun to impress everyone impressionable. Bonnet is, of course, beyond reach. He is as cooperative as a rattlesnake.

That brings me to the question of our relations with France. Rist told me last night, under conditions which make me believe he was speaking sincerely, that the French have not the slightest intention of paying a penny on their debt to us. We should, I think, be extremely skeptical about any predictions to the contrary which may come from de Laboulaye or anyone else.

It seems to me that the time has almost come for us to make it clear to the French that we feel that they have rejected with contempt our effort to collaborate with them in foreign affairs, and that we should back such a statement by appropriate actions.

I have talked over the entire question with Herriot. He passed through London a week or so ago and telephoned me in advance and asked me to spend the two hours that he was in town with him. I did so. He asked me to let you know that he was continuing and would continue his fight for the payment of the debt no matter what it cost him. He stated frankly that his support of payment had destroyed his influence for the moment. He is down and out politically and extremely depressed. I know definitely that a few days ago he wrote his resignation as President of the Radical Socialist Party and as President of the Committee on Foreign Affairs of the Chamber of Deputies, and was only persuaded to reconsider by great pressure from his most intimate friends. He feels that he will not have the slightest chance to come back until November at the earliest, and it is the opinion of others that he will remain an outcast for longer than that.

Norman Davis and Dulles doubtless told you of Daladier's private promise about reducing France's airplanes and tanks. I remain extremely skeptical in regard to the French accepting any disarmament agreement whatsoever. The general opinion here is that war in Europe is inevitable; that if it comes soon France and Poland will win; that if it comes after Germany has rearmed, Germany will win. In the face of this general belief, I do not believe that the French will do any disarming worthy of the name, and I think that we should consider seriously

whether or not we should withdraw our offer to consult in case of a threat of war.

The whole French attitude towards us at the moment is one of contempt and I think it would be healthy to let them know that our personal affection for them will not prevent us from refusing to support them in any way if they continue to behave as they are now behaving.

Herriot suggested very strongly that you should order our Embassy in Paris to try to bring home to the people of France the facts in regard to the French debt to us, notably the fact that what we are asking France to pay is the debt contracted after the armistice. This might be advisable and Pell, the press attaché of the Paris Embassy, is said to be a thoroughly able fellow; but the matter is one of great delicacy and if you should pass along Herriot's suggestion to the Paris Embassy it should be handled with the utmost discretion.

The British position remains as usual unclear. Bennett wants MacDonald to tie the British Empire to the United States and to work with us and Latin America and China to the exclusion of Europe. There is a body of opinion in England that would favor such a policy but MacDonald seems utterly opposed to it and Simon would be violently opposed. MacDonald seems to have lost the last remnants of his prestige by his equivocal actions at this conference. Bennett turned to me at the Bureau meeting yesterday and whispered, "He is the damndest, squirming eel in the world."

Simon has built up for himself a superbly unpleasant reputation, and everyone is repeating a remark which Lloyd George is said to have made recently: "The trouble with

Simon is that when they circumcized him, they threw away the wrong piece."

Simon continues to be chummy with the Japanese and to obstruct any possible action to restrain them. I have seen a good deal of Soong and he has told me, I think frankly, about his conversations with the French and British Governments and with Litvinov. I told Soong at the outset that we could make no move and could not participate in any move unless the British initiated it. He did his best to get action from the British and the French but failed. I am convinced that any proposition we make to the British in confidence Simon will carry at once to the Japanese as he carried the previous confidential proposals made by Stimson.

Soong and Litvinov agreed to try to get the relations of China and Russia on to a better footing for the purpose of opposing their common enemy. Before Soong had seen Litvinov, he told me that he considered that it would be decidedly valuable in restraining the Japanese if we should recognize Russia. He repeated this after seeing Litvinov and I think there is something in it. His argument was that the Japanese would be convinced that China and Russia would have the moral and perhaps the material support of the United States in case of further conflict.

Soong strikes me as an exceptionally able and straightforward fellow and I hope that when you see him you will make him talk with the utmost frankness. I am sure he hesitates a bit to let go when talking with you, because he considers a certain amount of formal politeness necessary when talking to the President of the United States.

I told him that there was nothing you liked so much as plain unvarnished frankness.

I have seen Litvinov twice. At the outset of the Conference, when we were rounding up votes to elect Cox as Chairman of the Monetary Commission, I spoke to him and got him to pledge us his vote, and also asked him who was his confidential representative in America. He replied that Svirsky was his man, as I cabled you.

I then arranged a meeting between Litvinov and Ray. Ray was able to remain only a few minutes, and I continued the conversation. I asked Litvinov what Russia had to send to us in exchange for our goods. He had nothing to add to the usual list of articles. I had heard that the gold production of the Lena fields had been so increased that it now amounted to \$150,000,000 a year, and I asked Litvinov if this was true. He replied that he did not have the exact figures, but that he was under the impression that the amount was much less. I am not at all sure, however, that we might not get \$50,000,000 in gold a year from Russia in payment for exports and I think we should remember this in any further trade negotiations.

Litvinov said that the English argued with him continuously that it was not fair for Russia to trade with the United States since the United States had not recognized Russia, and, of course, asked whether you were contemplating recognition. I told him that your general attitude was friendly, as he could see from the fact that our representatives at this Conference, even the Secretary of State, were meeting him and talking with him as if he were a human being and not a wild man, and that trade negotiations were in progress in Washington. I told him I had not the

slightest idea when you might consider it desirable to recognize Russia; that it might be soon; that it might be a long time; that he should not count on immediate recognition, but that he should not be surprised if you should recognize Russia. I told him that of course you would require an absolute pledge from the Russian Government to refrain from all propaganda directed against our institutions, governmental or economic. He said that of course Russia would be glad to give such an undertaking provided it was in bilateral form and that we agreed to refrain from propagandizing Russia. He added that Svirsky was in a position to communicate with him privately by cable at any time.

You, of course, can judge and I cannot whether or not it is expedient to recognize Russia at this time. I feel that we ought to have a diplomatic representative not only in China, but also in Russia since the two countries will henceforth be intimately related in their policy towards Japan and if we should have first-rate men in both countries we might to a large extent control their common actions or at least prevent their acting in a way of which we disapprove.

Litvinov, of course, said that if Russia were recognized he hoped I would be sent as Ambassador, to which I replied that I could not think of a worse one for the post and that I should repeat the same remark to you. I have no idea that you would contemplate such a thing, but I should like to argue with you against it if by any chance someone should suggest such an appointment to you.

To me the most striking feature of this Conference thus far is Bennett's desire to cooperate with us and I

think that if you have any plans for reciprocal tariff negotiations with Canada the time is very propitious. Incidentally, Bennett told me the other day how much he liked Warren, and I am sure that he was talking honestly. Bruce of Australia talked to me with violence of the British Government in general and John Simon in particular, and I wonder if via Canada we might not make a hole in the Ottawa Agreements.

I am more than ever convinced that we can do little in Europe and should keep out of European squabbles and that our future lies in the Americas and the Far East.

Apologies for the length of this letter and every good wish.

Yours devotedly,

William C. Bullitt.

FROM: National Broadcasting Company
Nat'l. Press Building, Wash. D. C.
July 9, 1933

15F
London Econ Cont

FOR RELEASE FOR PUBLICATION AT 9:00 P. M. EST SUNDAY JULY 9, 1933

Interview of Colonel Lewis McHenry Howe, Secretary to President Roosevelt, by Walter Trumbull, well known newspaper correspondent, as broadcast over a National Broadcasting Company network, Sunday night, July 9, 1933.

The broadcast was sponsored by the RCA Victor Company, Inc., and the RCA Radiotron & Cunningham Radio Tube Companies.

MR. TRUMBULL: Welcome back, Mr. Howe. You left us last week to join the President at Campobello and make the run down with him on the cruiser Indianapolis. Did you have a pleasant trip?

MR. HOWE: It was a very wonderful trip, Mr. Trumbull, but I cannot truthfully say a particularly restful one. The wireless is a wonderful invention, but there are times that I wished we were back in the days when news from London came by sailing ships. Just as everybody was quiet and peaceful and happy, word would come from the wireless operator that a 600 word message was on its way from the London Conference. Then there would be no loafing after that.

MR. TRUMBULL: Did anything break loose aside from the cablegrams — or did the Indianapolis prove herself seaworthy?

MR. HOWE: That's a fine question to ask about a Navy cruiser, Mr. Trumbull! The ship was as steady as a church, and while we had what the sailors call an "Old Sea", which made the two destroyers, one on either side, dip their noses in the water at every wave, we slipped along at anywhere from 25 to 30 knots an hour without a roll or a pitch, hour after hour.

MR. TRUMBULL: I don't suppose you had any occasion to use the Cruiser's guns, Mr. Howe?

MR. HOWE: As a matter of fact, we did a little firing on Saturday night, and probably gave the passengers of an unknown steamer something to talk about all the rest of their lives. They passed a few miles away from us, and I presume we attracted no more attention than an ordinary cargo boat, but they had barely gotten beyond range when, "Bang!" went out anti-aircraft guns in a little firing practice. I wonder what the passengers thought — probably that we had declared war with Liberia or something.

MR. TRUMBULL: Did you have any entertainment on board — aside from shooting out cablegrams and guns?

MR. HOWE: Yes, we had an entertainment given by the crew — songs and dances and five boxing bouts. I have seen many worse performances on the vaudeville stage where you paid real money. That was Saturday. Sunday morning the President went to church —

MR. TRUMBULL: May I venture to ask whether you went with him?

MR. HOWE: I suppose I must tell the truth, because someone will tell on me if I don't. I was a little lazy that morning, but my porthole looked out on the deck, and I really attended services through the porthole. I guess nobody will believe it, but really, I did.

MR. TRUMBULL: That's rather an original way to attend Church, Mr. Howe! Did you establish any other precedents on this trip?

MR. HOWE: Well, so far as I can find out, this precedent-breaking President of ours broke another one when we arrived at Annapolis, by having what was to all intents and purposes, a cabinet meeting aboard a battleship. It was very rough

in the harbor and the boat that brought them over gave the impression of being about to roll over every wave. Incidentally, Secretary Ickes, who spoke on this hour last week, raised a question at which all of official Washington and most of the Navy are still chuckling. The escort for the Cabinet party carefully explained to them on the way over the order of precedence in which they were to go aboard the ship. Secretary Ickes was far from first on the list as his department is one of the younger children of the cabinet family. Just as the escort finished, the boat gave an unusually terrifying roll and Secretary Ickes, in a plaintive voice, queried, "Tell me, Admiral, in case we all go overboard, are we rescued in the same order?"

MR. TRUMBULL: Well, Mr. Howe, what were the circumstances surrounding the writing of that famous message which almost adjourned the London Conference? I understand the President wrote it in longhand.

MR. HOWE: That's right. He almost always writes important messages in longhand first. That famous document was written in the Admiral's cabin on the Indianapolis. The cablegrams that came in every hour or so convinced the President more and more that it was time for him to put the position of our country beyond question.

MR. TRUMBULL: When did he decide on the two things which interested the public most -- that we would not enter into any agreement to stabilize our currency abroad until the dollar had reached a normal level at home, and that the other matters should be taken up and gone forward with, leaving that in abeyance?

MR. HOWE: It is clear to me that you and perhaps most people do not quite understand that that was no new decision, but was merely adhering to a decision made months ago, and was in fact, in line with the policy pointed out by the committee of experts who drew up the program for this conference way back in the last months of President Hoover's administration.

MR. TRUMBULL: What do you mean? Just how did this conference originate?

MR. HOWE: I suppose it has all been forgotten, Walter, that this whole conference started in 1932 by a meeting of a Commission of Experts appointed by the Governments of Germany, Belgium, Great Britain, China, France, India, Italy and Japan, in addition to the United States, to which President Hoover had sent Mr. Edmund E. Day, Director of Social Science, Rockefeller Foundation; Mr. John H. Williams, Professor of Economics at Harvard University, and Mr. Norman Davis, acting as General Counsellor. The idea was to consider the possibilities of a general get-together meeting of all the nations to make common cause in the fight against world-wide depression. This Committee studied over all the different elements which contributed to this depression and prepared a report of some thirty-six pages which has been reprinted by the United States Department of Commerce and has been widely circulated in this country.

MR. TRUMBULL: Did this report have anything to say about the gold standard?

MR. HOWE: Yes. When this Committee came to take up a return to the gold standard as one of the subjects of the meeting, they carefully put in this as their conclusions on the matter, their report reading:
"Each Government must, of course, remain free to decide when and under what conditions it could adopt such a standard, and we do not suggest that this can or should be done without the most careful preparation. There are a great number of economic as well as financial conditions which must be fulfilled before the restoration of an international gold standard can be a practical possibility." And in another place the report said:
"The time when it will be possible for a particular country to return to the gold standard and the exchange parity at which such a return can safely be made will necessarily depend on the conditions in that country as well as those abroad, and these questions can only be determined by the proper authorities in each country separately." This, of course, is almost the identical language employed by both the President in his message and the spokesman of the British Government in Parliament. It was not a new decision, but a firm and positive declaration of our intention to abide by the original program to which we had already tacitly agreed.

MR. TRUMBULL: Do I understand you to say, Mr. Howe, that the President's message actually was in agreement with the recommendation of that original Committee of Experts?

MR. HOWE: That's it, Walter! The point the President raised in his message was really more a reaffirmation of the opinion of this committee, who also took the same ground as the President when they said that no permanent stabilization or removal of exchange restrictions could take place until, as the report says, "The governments concerned took the initial measures necessary to secure the stability of their budgets and their economic system."

MR. TRUMBULL: Now that the Conference has decided to go ahead, Mr. Howe, what is it likely to do?

MR. HOWE: Of course, what will actually be done within the next few weeks at the Conference cannot be forecast, but I think you will find in a general way that the sub-committee will be appointed to consider the topics already agreed upon, and that after a short time the meetings of the full commission will be adjourned for some weeks until these committees are ready to make preliminary reports.

MR. TRUMBULL: Yes, but that doesn't mean much to most of us; what are they going to report on?

MR. HOWE: There are plenty of subjects to consider. The Agenda, which is a nice diplomatic word for program, which was to guide the Conference, provided six main problems with a number of subdivisions to each.

MR. TRUMBULL: What are some of these problems, Mr. Howe?

MR. HOWE: Well, there is the monetary and credit policy — then there is that of bringing the price of goods up to the cost of goods — then the resumption of the movement of capital, including the abolition of foreign exchange restrictions, and the subject of existing international indebtedness. Then the restrictions on international trade which has four subheads under it; the tariff and treaty policy, and finally, the organization of production and trade, which includes problems like the international agreement to curtail wheat production throughout the world. As I said, there are thirty-six pages of this Agenda, and the Committee will have no trouble in finding plenty of work.

MR. TRUMBULL: That's evident — and it sounds to me like pretty involved work at that. But Mr. Howe, there is a question on another subject I want to ask you. Do these codes, agreed upon under the Industrial Recovery Act, apply to utility companies — by that I mean, gas, water, electric light and telephone companies — which already are regulated by State Public Service Commissions?

MR. HOWE: The National Recovery Act applies with equal force to all industries including Public Utilities. They may submit such agreements as they think are necessary to wipe out unfair trade practices. If these agreements are found in open hearing to be in the public interest, they will then be presented to the President for his action. The President has said that as the first phase of execution of the law, he wants the emphasis in these agreements put on reemployment by a shorter work week, and a higher pay for the shorter week. This also applies to Public Utilities.

MR. TRUMBULL: Thank you, Mr. Howe. And now we'll say GOOD NIGHT.

[PSF: Economic Unit]

CORRECTED COPY

PSF: London Economic Conf.

This telegram must be closely paraphrased before being communicated to anyone (C)

LONDON

Dated July 11, 1935

Rec'd 12th, 1:45 a. m.

*Paraphrase
7/12/35*

US State

Secretary of State,
Washington.

PSF: London Economic Conf

RUSH.

210, July 11, 11 p. m.

By order of the Secretary of State Hull this is to be decoded only by Salmon personally.

~~XXXXXXXXXXXXXXXXXXXX~~ FOR THE PRESIDENT. No distribution to any person.

I am very grateful for your congratulatory telegram No. 111, July 6, 10 p. m. It is most painful in this connection to have to report an attitude and course of conduct on the part of Professor Moley which has been utterly dumbfounding to me. I brushed aside the evident motives behind his radio speech of May which expressly discounted much or most of what you and I at the time, and all other supporters of the program for London Conference, thought could reasonably be accomplished by this Conference. He sent along at least one woman from his office who according to reliable information has consistently attempted to spy on my movements and make secret reports back to Moley. After his May speech, parts of

which

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#210, July 11, 11 p.m. from Amembassy, London - 2

which were broadcast over England repeatedly, every reason why he should not come to the Conference while being heralded as more closely in your confidence and more entitled to speak for you than any other person, was patent. Notwithstanding, he came, with the result that for some eight days while on his voyage here the press of London and Paris, which had most unfairly assailed the American Delegation, first about debts and next about temporary stabilization, with neither one of which the Delegation had anything to do, then proceeded to dramatize Moley as coming to speak and act for you and to take charge of American interests in London, with the result that the American Delegation found it impossible seriously to function in the face of great headlines morning and afternoon here about how Moley was coming to dispense salvation to every part of the world, especially as it might relate to matters immediately pending here.

When he finally arrived the high officials of the gold countries and of the United Kingdom riveted all their attention upon him, Moley. He sent Bullitt to me with the definite request that I announce to the Delegation that he, Moley, would in company with Doctor Sprague take custody of the temporary stabilization matter to the entire exclusion, again at his express request, of Warburg. Assuming that you authorized or directed statement I simply repeated the announcement he then asked me to make. And in this

connection

#210, July 11, 11 p. m. from Amembassy, London - 3

connection, after his failure he pretended to claim that I on my initiative directed him to assume the task. Bullitt and I agree in total refutation of this. He likewise represented to the Delegation after his failure to secure your approval of temporary stabilization proposal that he was not expressing any personal views about the matter whatever but was merely acting ad referendum.

Anyhow, he left my apartment in the forenoon and without any information on my part as to what he was doing, proceeded during the day to negotiate directly with MacDonald and other Prime Ministers or heads of treasuries from the gold countries, with the result that the first information I had came from him over the telephone near five o'clock that afternoon to the effect that "they had agreed", and requesting me to join in ratification, which I declined to do upon the ground that the Delegation had no jurisdiction and that I had expressed no opinion to you, pro or con, on temporary stabilization and that I and the Delegation had refused to MacDonald and gold countries every request to send one word to you, pro or con, about merits of temporary stabilization.

After your program had thus been forced a third time on this question within a few days it was but natural that you would be somewhat emphatic in making comment. This was followed by the efforts, especially of the British and the gold countries and certain other delegations controlled by the British, to adjourn the Conference and charge sole

responsibility

#210, July 11, 11 p.m. from Amembassy, London - 4

responsibility for its wrecking to you. The resolution was actually written and the gold delegates discussed it in my presence, wherein you were personally charged with wrecking the Conference. The chances seemed ninety-nine to a hundred that this course would be taken. Many of the Delegates were frozen towards me as I strove to quiet and compose them at the meeting called expressly to carry out this adjournment program. At any rate, while it so happened that I was in the position of undertaking to deal with this crisis single handed, and was lucky enough if I may say so to be the chief single factor in preserving the life of the Conference and in saving you from the outrage of being branded as its destroyer, Moley was secretly sending code messages to you about my incapacity to function here. He was at the same time pretending absolute loyalty of friendship and of official attitude toward me. He does not know that I am aware of this fact and I only discovered it after he sailed. My regret only equals my amazement to discover the deliberate attempt of one I have implicitly trusted thus secretly to undermine and destroy me in my situation while openly professing both friendship and loyalty. I refer you to Senator Pittman, Governor Cox, Mr. Morrison the Texas Delegate, and others for absolute confirmation of the essentials of the statements I have herein made. HULL.

BINGHAM

DAS

STATE, Acting Secretary of
July 11, 1933

PSF
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Mr. Howe advised him on the above date that he would like to have filed somewhere with the records of Mr. Kirby L. Prince the appreciation of the President as well as himself for the tireless and very excellent service in decoding cables both at Campobello and on the S. S. Indianapolis.

See 597



PSF
London Econ Conf File 71

July 12, 1933.

I am not certain that any note is desirable.

If one is sent, I think that it should be so worded that there can be no possible doubt that we retain our freedom to change the dollar any day without conference. I would therefore omit No. 3 or, if included, would change it to something like the following:

3. With such countries the United States will be happy to cooperate in minimizing unnecessary violent fluctuation in exchange while proceeding toward the attainment of the desired end and will cooperate in such other ways as will aid the common purpose.

J. F. W. arren

File W-2 19

CONFIDENTIAL

July 12, 1933.

SUGGESTED STATEMENT TO THE WORLD ECONOMIC CONFERENCE.

1. It is the purpose of the United States to restore prices to such a level as will enable industry and agriculture once more to give employment to the existing masses of the unemployed and as will make possible the payment of public and private debts. It is equally the purpose of the United States to prevent any rise in the price level beyond the point necessary for the attainment of these ends.
2. It is the hope of the United States that other countries will join with us in a common effort to achieve these purposes.
3. With such countries, the United States will be happy to negotiate exchange rate stabilization at such levels and for such periods as will best promote the attainment of these ends.

July 12, 1933.

TENTATIVE SUGGESTED PROGRAM.

1. Suggestions concerning the Economic Conference.
2. How to combat a rising dollar.
3. How to check possible inflation.
4. Specifications for a commodity dollar.
5. Possible international money unit.

FURTHER SUGGESTIONS.

1. Price stabilization should be delayed until the necessary increase in prices has been attained.
2. Permanent exchange stabilization should await price stabilization and the determination of the types of money units to be used by various countries in the future.
3. Specifications for a commodity dollar should be drafted for use when prices have reached the desired level.
4. Proposals for a possible international money unit should await the determination of kinds of money systems to be operated in other parts of the world.

PSF
London Econ Cont

DELEGATION OF THE UNITED STATES OF AMERICA

London, July 12, 1933

My dear Mr. President:

The enclosed copies of correspondence with the British Prime Minister but illustrate several similar clashes orally and more than one in writing during the recent troublous days.

Sincerely yours,

Cordell Hull

The President,
The White House.

E-Conf 14

COPY

July 11, 1933

PERSONAL

The Honorable
J. Ramsay MacDonald,
President, World Monetary and Economic Conference,
10 Downing Street,
Whitehall, London.

My dear Mr. Prime Minister:

Your surprising letter of July 5th to hand, in which you seriously criticize President Roosevelt upon the assumption or theory that there was some sort of censure of the Economic Conference by the President in a message of his to me of last Friday. Let me assure you that I find few persons who impute any such motive to the President or find any such interpretation in his message to which you refer. I assure you also that the President fully visualizes and comprehends the entire scope and purpose of the Conference.

In preparation for this London Conference the President, scores of times to my knowledge, carefully and fully examined all of the topics in the elaborate agenda prepared by the preparatory committee. You are in error, therefore, in your imputation that the President was under the impression that "the Conference seems to be called for one thing, namely to take measures to raise prices."

I am equally sure that the President is entirely familiar with the mechanics of a world conference, such as the Economic Conference now sitting in London. You may or may not recall that, at the instance of those who now criticize and insist in drawing wholly unreasonable inferences, insistent demands were made upon the President for a third decision within a few days time on the question of temporary stabilization. I have no disposition to criticize those who, in their over-eagerness, thus forced the hand of the President the third time within this brief period with the natural result that the President became somewhat emphatic in making reply to some of the arguments that have been so repeatedly thrust upon him, not by the Conference, but by a small group, and in which he did not honestly believe.

The President evidently did not address his message about which you complain to the Conference for the reason that it was not believed that the Conference had any jurisdiction over the question of temporary stabilization--that it was not listed as any definite or concrete part of the agenda; but that it involved more of a political decision which governmental treasuries in conference with their central banks would have to make. I myself think it most unfortunate that some of our good friends, through more or less

less unreasoning fear, have entirely over-emphasized and exaggerated this subject and needlessly endeavored to project it into the otherwise peaceful and regular proceedings of the Economic Conference.

With the greatest respect for your usually fine judgment and to you personally for whom I entertain the highest admiration, I must respectfully but earnestly protest against the criticism contained in your letter of July 5th the entire purport of which is that the President is charged with censuring the Conference. I have thus frankly written in earnest remonstrance against the placing of record in the files of the League of Nations what I must believe was a letter written in some haste.

The President is a genuine friend of international cooperation, as you well know; has since March 4th rendered it great service; and he would be one of the last persons on earth to impede in the least the progress of this great World Economic Conference to the success of which he contributed nearly two months of earnest personal work at Washington during April and May last.

I write in the best of good feeling and with great appreciation of the fine service you are performing as President of the Monetary and Economic Conference. I am

most

- 4 -

most anxious, as President Roosevelt is most anxious, to cooperate with you to the fullest extent deemed at all feasible.

With my warmest personal regards, I am

Sincerely yours,

CORDELL HULL.

A true copy of
the signed original.
JG

COPY:

10 Downing Street,
Whitehall.

5th July, 1933.

My dear Secretary of State,

In view of the censure implied in the President's message to you of last Friday, I should like to explain what you know from your own experience but what I think should be put on record - how the work is being done.

The President seems to be under the impression that the Conference is called to do one thing and one thing only, namely to take measures to raise prices. As you know, the Conference has been called for the purpose of trying to come to agreements along the whole front of problems and actions set out in the experts' report. I understood that there was a complete agreement between the President and myself that the whole of that work should be done with the utmost expedition so that every nation should be got to co-operate, in accordance with its own conditions and position, in the world recovery. As you know, this is being done by the simultaneous setting up of a considerable number of Committees, each charged with specified problems and groups of problems. Until the later part of last week, that work was being pushed ahead with great rapidity. Some of the wider and more comprehensive problems were being negotiated quietly amongst the more important nations whose contributions to their solution were essential, and so soon as a general understanding had been reached between those

those nations, the whole subject was to come out for public and general settlement. The time-table plan was that by the end of this month the Conference was to have finished its work and was to leave its Bureau or some other representative committee charged with the carrying out of the Conference decisions by the Governments represented at the London meeting. The reflections that the Conference was searching for excuses for pursuing certain policies, are most unjust and can only have arisen from a lack of understanding both of the duties imposed upon the Conference and the method that it was adopting to meet them. The idea that any one delegation or combination of delegations could, without discussion or negotiation, force certain countries to do certain things, is not one which if roughly pursued could lead to anything but a world disruption. It would defeat every hope to a great co-operation of goodwill active in promoting general understanding. When the message reflecting upon the Conference was not sent to your delegation to communicate to the Conference or to guide yourself but was broadcast to the world in the first instance, the most bitter resentment could not be avoided and the prospects of agreement were for the time shattered. The countries who do not agree with us in our immediate outlook have a right to be heard and have their case discussed. That is the process which has been going

going on and which, but for these interruptions, would have been approaching a settlement by now. At the middle of last week I was perfectly confident that I could have the work done on the projected time-table. Now I am afraid, whatever may happen during this week, my time-table will have to be extended by some return to a method which I understood that both the President and I wished to avoid, namely an adjournment of the meetings of the full Conference whilst Committees were dealing with details and negotiating agreements on them. Had I been asked before the publication of the President's censure what actually was happening, I think it would never have seen the light of day, because, as I have indicated above, it proceeds upon a complete misapprehension of how an international conference, representative as this is of sixty-six different nations who are here in the persons of Prime Ministers, Foreign Secretaries and Finance Ministers, has to be conducted if any good results are to be had from it.

With all my warmest good wishes and kindest regards,

I am,

Yours very sincerely,

(Sgd) J. Ramsay MacDonald.

The Hon. Cordell Hull,
American Delegation,
World Economic & Monetary Conference,
Geological Museum, S.W.7.

A true copy of
the signed original,
A. J. M.

Memorandum for the President

July 24, 1933.

Domestic Currency Problem

The Administration has, in my judgment, never faced a more serious situation than it does today. The entire recovery program, which is the heart of its policy, is jeopardized by uncertainty and doubt in the monetary field. The National Recovery Act cannot possibly function to any useful end if there is fear of currency depreciation of an unknown amount and fear as to monetary experimentation. There has already been a tremendous flight of capital, and this flight will continue at an increasing pace so long as uncertainty prevails.

Furthermore, while the threat of inflation originally acted as a stimulus to buying of commodities, and therefore as a stimulus to production and trade, it is obvious that the rise of prices and production, stimulated by fear of money, has far outstripped reality and now constitutes a menace in itself.

In the international field, the feeling that we were embarked upon a well-ordered program is rapidly shifting into a feeling that we are fumbling about in the dark, and the result of a continuation of our present undefined monetary policy will inevitably result in further monetary chaos in other countries. The line of probable events is perfectly clear but too long a story to include in this memorandum.

I therefore urgently recommend the following:

1. That all monetary ideas, projects and studies be concentrated in one place, and it would seem to me that the logical place would be the Treasury Department (and the Federal Reserve Board.)

2. That it be decided now what authorities are to be consulted in preparing a definite monetary program; and that a commission be formed of these authorities immediately; and that this commission be given not over a month to prepare a recommendation to the Treasury.

3. That the terms of reference for the commission be defined as follows:

(a) That the United States Government desires not later than October 1st to fix the amount of devaluation which is desired in order to bring about the necessary adjustment of the price level, allowing for a subsequent variation of not over 10%.

(b) That the United States Government desires to enter into conversations as soon as possible with the other countries now off gold with a view to their likewise fixing their ratios to gold with a variation of 10% at the same time that we fix ours. (As a matter of practice it is only necessary to agree with England because the rest will fall into line. This involves at least a tentative debt settlement.)

(c) Acting on assumptions (a) and (b), the commission is asked to determine two things:

A. What amount of devaluation should be fixed for the United States dollar. For example, if a seventy cent dollar is the answer, this would mean a definite declaration

that devaluation will not exceed 35% or be less than 25%, the actual figure to be determined over a period of time.

B. What should be the exact nature of the gold standard to which the United States returns in the Autumn? How can the pre-war gold standard be improved, and how can the purchasing power of the currency be rendered more stable without resorting to methods so academic and so untried that their adoption would in itself again disturb confidence?

.....

I believe it is perfectly possible for the commission to evolve an improved gold standard, and I have a definite idea as to how a gold standard can be made more likely to provide price stability than it did in the past. I believe further that in a program such as is outlined above, we would have the active support not only of Great Britain and the Dominions, but of the Scandinavian countries and eventually even of the gold countries. The result would be that in the Autumn the off-gold countries would return to a ratio to gold on an improved gold standard and that the gold countries would very quickly adopt the new standard, some of them possibly taking this opportunity to revalue their currencies overnight without ever getting into the position of running amuck as we are doing at the present moment. If such a program is not adopted, I foresee grave danger not only domestically in the breakdown of our entire program, but internationally, in that by the time we are compelled

to stabilize in the interests of our domestic picture, the present gold countries will have gone off gold and will be just where we are today.

J. P. Warburg.

W2

(Not sent - This was
Jimmy Warburg's draft
File under Warburg)

My dear Prime Minister,-

When you and I had our talks here in Washington only a little more than two months ago, and laid our plans for the World Monetary and Economic Conference, I little thought that I should so soon be addressing you on the subject of its adjournment. Had I been able to foresee then the march of events within my country which have necessitated so complete a change of policy in monetary matters, I should have told you in all frankness that I did not believe the time had come for the United States to participate in a conference of this sort. I should have told you that monetary stability was out of the question for some months to come, and I should not have urged upon you and the representatives of other nations that the Conference be held this summer. It has been a source of profound regret to me that events have followed the unpredictable path they have taken, and that, as a consequence, the United States has been the stormy petrel of the Conference. It is idle to deny that this is so. The Conference, so far as accomplishing tangible results is concerned, has been a failure, and the reason for its failure is that developments here have altered some of the basic premises upon which it was called into being. No one could realize this more clearly, or regret it more sincerely than I, but I should have been remiss in discharging my duty as President of the United States if I had not heeded the storm signals and altered the course of my vessel accordingly.

I am not afraid to say that in a practical sense the Conference has been a failure, because to my mind there is one thing worse that could have befallen us and that is a spurious success. If we had gone on as if nothing had happened, and had reached a series of illusory agreements, the Conference might have adjourned in a blaze of glory and the hopes of the world would have been raised to an entirely unjustifiable extent, only to be shattered irremediably by the inevitable spectacle of one agreement after another being rendered void by the inexorable progress of events.

By reason of the fact that this Conference has failed and not feared to avow its failure, it has to my mind accomplished much to redeem the self-respect and restore the courage of mankind. You, as President of the Conference, have done a heroic job under the most trying circumstances, and I am deeply grateful to you and to all the participants in the Conference for your perseverance on the one hand and your forbearance on the other. Events move at all times more rapidly in one part of the world than in another. The center of activity is constantly shifting throughout all history. It was the ill fortune of my country that it should happen to become the focal point of change at a time when rapid change anywhere spelled disaster for the deliberations of a World Conference. Your forbearance bears witness to your realization that a few months one way or the other might easily have cast some other country into this unpleasant role.

Let me say also one other thing to you and to all the nations to-day assembled for the last time at this session in Kensington. America is not, as so many people conclude, embarking upon economic nationalism and isolation. America will again devote herself to neighborliness when she has put her own house in order,- unreservedly and, I hope, soon. We must all solve our problems and conquer our difficulties by our own will and our own strength, realizing that in putting ourselves in order quickly we are making it that much easier for others to do likewise, and realizing also that we must not achieve our own success through measures that will bring distress and disorder upon the other nations of the world.

It is my earnest hope that America will soon have found the way out of the wilderness and that she will then be able to extend the helping hand to others who have not yet reached the goal.



DELEGATION OF THE
UNITED STATES OF AMERICA

July 17, 1933.

PST
London
Econ Conf

The Hon. Cordell Hull,
Chairman, Delegation of the
United States of America,
London, England.

Dear Judge:

Attached is a report on the activities and meetings of the Sub-commission No. 1, appointed from the membership of the Economic Commission, World Economic and Monetary Conference, to discuss commercial policy. The events reported are arranged as near as possible to their sequence of occurrence.

I have also attached an outline report of the same events prepared by Mr. Benjamin B. Wallace, delegation expert, which has cross page references singled out for detailed examination in the Conference Journal.

Sincerely yours,

W. H. H. H. H.

1.

(SUB-COMMISSION NO. 1
(Dealing With Commercial Policy

I. President Ramsay MacDonald, after some three day's discussion, before the plenary conference, announced the appointment by the Bureau of two Commissions, one called the Economic Commission, and the other Monetary and Financial Commission.

H. Colijn, of the Netherlands, was named president of the Economic Commission, and Governor James M. Cox, of the United States of America, was made president of the Monetary and Financial Commission. A representative from each nation was named on the Economic Commission.

The Hon. Ralph H. Morrison, and
the Hon. Samuel D. McReynolds,

were made representatives of the United States on the Economic Commission.

II. The first meeting of the Economic Commission was held on Friday, June 16, at which time President Colijn outlined four sub-headings for discussion by that Commission. They were:

1. Commercial Policy.
2. The Co-ordination of Production and Marketing.
- 3a. Direct and Indirect Bounties and Subsidies.
- 3b. Export Bonuses, Marks of Origin, Etc.

III. On June 20, Sub-commission No. 1, of the Economic Commission, was named to discuss sub-head No. 1 (Commercial Policy) with Dr. Carl V. Krogmann, of Germany, as chairman. Those nations designated to this sub-commission were:

Union of South Africa	Italy
Germany	Japan
Belgium	Norway
United Kingdom	Switzerland
Cuba	Czechoslovakia
United States	U.S.S.R.
France	Uruguay
Hungary	(Economic Committee of L. of N.)

Mr. McReynolds, of the United States, was assigned to this sub-commission with Mr. Benjamin B. Wallace and Mr. Henry Chalmers as experts.

IV. On June 19, 20 and 21, there were discussed before the Economic Commission by representatives of various nations the questions of tariff truce, commercial policies, quotas, embargoes, and other matters of similar character coming under the jurisdiction of this Commission.

2.

V. The first meeting of Sub-commission No. 1 was held at 3 p.m., June 21, and topics to be discussed by the sub-commission were outlined as:

A. Normalization of trade; provision of foreign exchanges for imports; gradual removal of prohibitions, quotas.

B. Problems relating to tariff and treaty policy including the regime of the most favored nation clause and possible exceptions.

First discussions were under sub-section A which were participated in by practically all members of the commission on June 22, 23, 26 and 27.

VI. On June 22, the Hon. Cordell Hull, chairman of the United States delegation, appeared before Sub-commission No. 1 and presented the resolution relative to tariffs and embargoes that had been approved by President Franklin D. Roosevelt (See Exhibit A).

Proposals from other interested nations along similar lines were made throughout the discussion (See Exhibit B).

VII. At the meeting of this sub-commission, June 27, Mr. McReynolds, of the United States, concluded discussion under sub-section A on the question of embargoes, quotas, and also dealt with American tariff policies and principles as his country's contribution to discussion to come under sub-section B (See Exhibit C).

VIII. On June 26, the president of Sub-commission No. 1 proposed that a sub-committee should be asked to condense the various opinions expressed during the discussion into a draft resolution on the basis of which the sub-commission might explore ways and means of preparing a convention either bilateral or multilateral. This was agreed to and the following delegations were appointed:

United Kingdom	United States
Norway	France
Switzerland	Poland
Belgium	Italy
Hungary	Germany

Mr. McReynolds was designated as the representative of the United States on this sub-committee. Mr. Chalmers and Mr. Wallace worked with him, and rendered valuable service.

This drafting sub-committee met four times, but at each meeting the question of stabilization of international currency would arise. Consequently, the drafting sub-committee was never able to even agree on a preamble.

IX. Discussion of sub-section B continued through five subsequent meetings, June 28 to July 4, when Sub-commission No. 1 was adjourned until notice of further meeting by its chairman. An adjournment was taken without any sub-committee being appointed to condense opinion given during discussion on sub-section B. (See Exhibit D).

At this stage of the conference, the question of

3.

temporary stabilization, having been strongly declined by President Roosevelt, the Sub-commission No. 1 on July 6 adjourned to wait the action of the Bureau, because it was generally understood that the Bureau would consider the question of the adjournment of the conference.

X. On July 6, the Bureau met and requested that each sub-commission meet as soon as possible to draw up a list of questions which might be in the existing circumstances usefully considered. Sub-commission No. 1 met at 12:30 p.m., July 7, and the which insisted that nothing further could be discussed or considered were:

France	Italy
Belgium	Poland
Germany	Hungary
Switzerland	Czechoslovakia

Those who desired to proceed were:

United States	U.S.S.R.
Norway	Japan
Cuba	United Kingdom and Dominions
Argentina	

Uruguay was not present.

At this time Mr. Colijn appeared before Sub-commission No. 1 and suggested that the president, Dr. Krogmann, appoint a committee to draft a report as to what could be considered outside of financial questions. Dr. Krogmann proceeded at once to name such a drafting committee, and on this committee he put among others Switzerland, France and Germany. Representatives of these nations refused to serve on this committee and insisted that Dr. Krogmann be instructed to prepare a report of the different views expressed and submit that to the president of the Economic Commission.

XI. The next meeting of Sub-commission No. 1 was July 11, 11 a.m., for the consideration of the nomination of a drafting committee in conformity with the decision of the Bureau of July 10 to draw up a report embodying the different ideas and points of view which had been put forward during debates in the meetings of Sub-commission No. 1.

The president of the sub-commission proposed that this drafting committee should consist of representatives in equal number of the two points of view expressed during debate. He named Belgium, France and Italy on one side, and Japan, Norway and the United States on the other. This was approved. The United States was represented on this drafting committee by Mr. McReynolds and also the experts, Mr. Chalmers and Mr. Wallace. Mr. Chalmers was very active and had much to do with the final draft. Mr. McReynolds insisted that this draft should go back to the sub-commission with the view of trying to submit a further proposed program for the consideration of that commission. This, however, was over ruled and the drafting committee's report was to be submitted direct to Mr. Colijn (See Exhibit D).

(Mr. Wallace's outline report of Sub-commission No. 1 activities with journal references is hereto attached).

EXHIBIT A

The fifth resolution, which is designed to lay the foundations for a gradual reduction and removal of artificial barriers to trade, is as follows:

WHEREAS, various nations have been constrained, on the one hand, to impose restrictions upon imports in the nature of tariffs, quotas, embargoes, etc., and, on the other hand, to subsidize exports, and

WHEREAS, this tendency has resulted in nationalistic action in all nations, which, if carried to its logical conclusion, will result in the almost complete elimination of international trade and a return to a medieval isolationism, and

WHEREAS, it is agreed that this tendency must be arrested if a world recovery is to be achieved and a decent standard of living widely maintained, and

NOW THEREFORE, BE IT RESOLVED, that all the nations participating in this conference agree

(a) That it is against the common interests for any nation to adopt or continue a policy of extreme economic nationalism and to raise additional trade barriers and discriminations;

(b) That embargoes, import quotas and various other arbitrary restrictions should be removed completely as possible; and

(c) That tariff barriers should be reduced as quickly as possible by reciprocal bilateral agreements or by multilateral agreements to a point where trade can once more move in a free and normal manner; and

(d) That care should be taken in making bilateral or multilateral agreements not to introduce discriminatory features which, while providing an advantage to the contracting parties, would react disadvantageously upon world trade as a whole.

EXHIBIT B

Conf.M.E./C.E.24.
London, June 23rd, 1933.

LEAGUE OF NATIONS.

MONETARY AND ECONOMIC CONFERENCE.

Sub-Commission I - Commercial Policy.

I. PRINCIPLE OF THE ABOLITION OF PROHIBITIONS & RESTRICTIONS.

Proposals for the immediate or progressive abolition of prohibitions or restrictions of imports were laid before the Committee, notably in the following three forms:

- (a) NORWEGIAN PROPOSAL (Conf.M.E./C.E.22) to adopt as a basis the Geneva Convention of 1927*. This proposal should be understood to mean that the conclusion of an international convention is to be aimed at. It is not proposed that the full text of a convention, which has naturally lapsed, should be retained; it would have to be amended to fit present conditions.
- (b) UNITED KINGDOM PROPOSAL (Conf.M.E./C.E.20) "..... it is imperative that all import prohibitions adopted on grounds of commercial policy should be abolished without prejudice, however, to the exceptions which are generally recognised internationally."
- (c) PROPOSAL OF THE UNITED STATES (Conf.M.E./C.E.23) Embargoes, import quotas and various other arbitrary restrictions should be removed completely as quickly as possible.

The majority of the delegations which took part in the discussions declared themselves in favour of the principle which is common to the three above-mentioned proposals, though with certain variations and subject to conditions which will be referred to later.

II. CONDITIONS AND LIMITATIONS TO THE PRINCIPLE OF ABOLITION.

- (a) Stabilisation of currencies.
The Sub-Commission appeared to be unanimous in considering that no general measure in the matter of prohibitions (as also in regard to tariff questions) could be adopted so long as the currencies of the principal States, as well as those of the Parties to the contemplated convention, had not been stabilised.

Note. - The question as to whether it would be possible to consider the gradual removal of restrictions, even failing the stabilisation of all currencies concerned, provided a larger amount of foreign exchange were made available for the importer has not yet been discussed.

* The essential clauses of this Convention are annexed hereto.

(b) Control of foreign exchange transactions.

From the discussions in the Sub-Commission it seems clear that the general view is that, considering the existing serious conditions and the necessity of reviving productive and commercial activities and of putting an end to unemployment, it is imperative that all countries should endeavour to place an increasing amount of foreign exchange at the disposal of importers. The question as to how far such a policy could be reconciled with the problem of financial obligations is not within the competence of the Economic Commission.

The link between the abolition of foreign exchange control and the suppression of commercial restrictions is brought out in THE POLISH DELEGATION'S PROPOSAL (Conf.M.E./C.E.3) for the simultaneous conclusion of two Conventions concerning these two subjects.

Pending the abolition of foreign exchange control this proposal advocates the placing at the disposal of importers the full amount of foreign exchange required by importers for the payment of goods from the contracting countries. The relation between these two problems was stressed by the ITALIAN DELEGATION, which stated that Italy was compelled to reserve the right to adopt or maintain measures of prohibition or restrictions in regard to imports from countries which, by means of foreign exchange control, put obstacles in the way of the export of her goods.

(c) Agricultural Products.

The exceptional fall in prices of these products, in the opinion of the FRENCH DELEGATION prevents France from renouncing the right to have recourse to quotas, at any rate until, by means of the international organisation of production, a level of prices has been reached which will ensure a reasonable profit to producers.

III. APPLICATION OF THE PRINCIPLE.

(a) Truce.

Excluding agricultural products and subject to the general reservation with regard to monetary and financial questions, the FRENCH DELEGATION proposes that the States should undertake, as from the signing of the Convention,

1. not to enact new prohibitions or quotas
2. not to reduce the quotas at present in force.

(b) Transitional Measures.

The Sub-Commission seems to be of opinion that a period of transition should in any case be provided for.

1. Fixed time-limit. The POLISH DELEGATION (Conf.M.E./C.E.3) suggests that, on the basis of a percentage to be agreed upon, there should be a progressive broadening of quotas until their complete cancellation at the end of the third year. The NORWEGIAN DELEGATION concurs in this view.

THE DELEGATION OF URUGUAY (Conf.M.E./C.E.17) proposes that the apportionment between the parties concerned of the quota fixed by importing States should be left to the exporting countries.

(2) Gradual abolition without a fixed time-limit.

THE FRENCH DELEGATION has pointed out that it seems very difficult to fix any time limit. On the other hand, States which have signed the general undertaking would proceed to modify or abolish restrictions at a rate corresponding to the fulfilment of the concomitant conditions (stabilisation, extensions of foreign exchange facilities, raising of agricultural prices etc.)

This idea of a parallel progress in the different reforms which constitute a return to normal trade conditions is expressly embodied in the PRESIDENT'S PROPOSAL (Conf.M.E./C.E.2).

IV. SAFEGUARDING CLAUSE.

In the 1927 Convention the States reserve the right to adopt measures of prohibition and restriction "for the purpose of protecting, in extraordinary and abnormal circumstances the vital interests of the country."

NOTE ^{Economic} In the/Committee's draft which served as a basis for the Convention it was further laid down that "these measures shall be applied only in case of exceptional necessity and shall not constitute an arbitrary means of protecting national production or discriminating against any other contracting State."

THE NORWEGIAN DELEGATION (Conf.M.E./C.E.22) taking as a basis the Cuchy Convention, proposed that the "Safeguarding Clause" should be supplemented by a provision whereby the quotas fixed to meet exceptional conditions shall not be below 100 per cent of the average quantities imported during normal years.

V. QUOTAS APPLIED AS A MEANS OF CONCERTED ECONOMIC ORGANISATION.

According to the BRITISH DELEGATION (Conf.M.E./C.E.20) it is necessary "that a clear distinction should be drawn between, on the one hand, import quotas arbitrarily imposed by the importing country as an additional measure of protection for the home producer, and, on the other hand, production or market quotas imposed in pursuance of international agreements to regulate production or marketing so as to restore and maintain a remunerative level of wholesale prices for producers in all countries."

NOTE: Since this idea seems to have been approved in the course of the debates a clause would appear to be necessary assuring the safeguarding of the interests of third States equally concerned in the branch of production to be organised by the parties to the international agreements in question.

VI. NON DISCRIMINATORY.

The DELEGATION OF THE UNION OF SOVIET SOCIALISTIC REPUBLICS has proposed (Conf. M.E./8) the abrogation of all administrative and legislative measures having the character of economic aggression or of discrimination against any country whatever. This proposal which applies equally to restrictions and to tariffs, or other similar measures, is set forth in document Conf.M.E./C.E.15)

The UNITED STATES DELEGATION (Conf. M.E./C.E.23 p.2) also recommends the avoidance of all discriminatory measures in regard to tariff restrictions.

OTHER PROPOSALS.

1. The TURKISH DELEGATION (Conf. M.E./C.E.11) proposes that "the financial and economic equilibrium of each country should be taken into account" in connection with the abolition of restrictions.
11. The GREEK DELEGATION (Conf. M.E./C.E.13) proposes that, when concluding special agreements between great creditor States and small debtor countries to facilitate the service of external debts, these agreements should remain "outside the existing quota systems".

- N.B. 1) Proposals and observations relating to clearing agreements have not been included in the present note as such agreements relate more properly to the problem of the limitation of means of international payments (Foreign exchange control).
- 2) It has been unanimously recognised that bilateral agreements would unquestionably be of value for the purpose of applying, giving greater precision and supplementing collective agreements regarding restrictions. Certain Delegations (Switzerland) are of the opinion that bilateral treaties alone are likely to lead to results in this matter.

ANNEX

INTERNATIONAL CONVENTION FOR THE ABOLITION OF IMPORT AND EXPORT
PROHIBITIONS AND RESTRICTIONS.

N.B. Only the essential articles of the said Convention are reproduced below; the formal clauses and the interpretative comments incorporated in the Protocol have been omitted as superfluous for the discussion before the Sub-Commission.

Article 1.

The provisions of the present Convention shall apply to prohibitions and restrictions imposed on the importation into the territories of any High Contracting Party of goods the produce or manufacture of the territories of any other High Contracting Party, and to prohibitions and restrictions imposed on the exportation of goods from the territories of any High Contracting Party to the territories of any other High Contracting Party.

Article 2.

Subject to the exceptions provided for in the following articles, the High Contracting Parties undertake to abolish within a period of six months from the date of the coming into force of the present Convention, in so far as the respective territories of each of them are concerned, all import and export prohibitions or restrictions, and not thereafter to impose any such prohibitions or restrictions. During this period each of the High Contracting Parties will adopt all appropriate measures in order to reduce existing prohibitions and restrictions to a minimum and will refrain from imposing any new prohibitions or restrictions.

Further, the High Contracting Parties undertake to adopt the necessary measures to ensure that the provisions of the present Convention are strictly observed by all authorities, central or local, and that no regulation is issued in contravention thereof.

Article 3.

Should the High Contracting Parties, in pursuance of their legislation, subject the importation or exportation of goods to certain regulations in respect of the manner, form or place of importation or exportation, or the imposition of marks, or to other formalities or conditions, they undertake that such regulations shall not be made a means of disguised prohibition or arbitrary restriction.

Article 4.

The following classes of prohibitions and restrictions are not prohibited by the present Convention, on condition, however, that they are not applied in such a manner as to constitute a means of arbitrary discrimination between foreign countries where the same conditions prevail, or a disguised restriction on international trade:

1. Prohibitions or restrictions relating to public security.
2. Prohibitions or restrictions imposed on moral or humanitarian grounds.
3. Prohibitions or restrictions regarding traffic in arms, ammunition and implements of war, or, in exceptional circumstances, all other military supplies.
4. Prohibitions or restrictions imposed for the protection of public health or for the protection of animals or plants against disease, insects and harmful parasites.
5. Export prohibitions or restrictions issued for the protection of national treasures of artistic, historic or archaeological value.
6. Prohibitions or restrictions applicable to gold, silver, coins, currency notes, banknotes or securities.

7. Prohibitions or restrictions designed to extend to foreign products the regime established within the country in respect of the production of, trade in, and transport and consumption of native products of the same kind.
8. Prohibitions or restrictions applied to products which, as regards production or trade, are or may in future be subject within the country to State monopoly or to monopolies exercised under State control.

Article 5.

Nothing in this Convention shall affect the right of any High Contracting Party to adopt measures prohibiting or restricting importation or exportation for the purpose of protecting, in extraordinary and abnormal circumstances, the vital interests of the country.

Should measures of this character be adopted, they shall be applied in such a manner as not to lead to any arbitrary discrimination against any other High Contracting Party. Their duration shall be restricted to that of the causes or circumstances from which they arise.

Article 6.

1. The High Contracting Parties, recognising that there exist in the case of certain of them situations of fact or of law which prevent the latter from immediately undertaking, as regards certain specified products, the engagements entered into under the previous articles, have deemed it equitable to authorise these High Contracting Parties to make a reservation in regard to certain temporary exceptions, which the latter undertake to withdraw as soon as the circumstances from which they arise cease to exist.

2. Moreover, the High Contracting Parties, recognising that the abolition of certain import or export prohibitions or restrictions applied by some of them would involve the latter in grave difficulties, and that, moreover, these prohibitions or restrictions do not prejudicially affect the trade of other countries, have also deemed it equitable to authorise these High Contracting Parties to make a reservation in regard to these exceptions.

3. The Annex to the present Convention sets forth the exceptions coming within the provisions of the two preceding paragraphs, which have been agreed to on this day's date in favour of the High Contracting Parties who are mentioned by name in the Annex and who have signed the Convention on that date.

4. Exceptions which the High Contracting Parties may desire to claim subsequently to that date shall be dealt with in accordance with the procedure laid down in the Protocol to the present Convention.

Article 7.

Should one of the High Contracting Parties be obliged to adopt any measure of prohibition or restriction against products of any foreign country, whether the Convention be applicable to that country or not, he shall frame the measure in such a way as to cause the least possible injury to the trade of the other High Contracting Parties.

ECONOMIC COMMISSION.

July 14th, 1933.

In communicating to the Delegates the annexed Report the Secretariat has the honour to inform them that M. Colijn, President of the Economic Commission, will transmit it on Friday morning, July 21st, to the President of the Conference, taking into account, however, any observations which he may receive in writing before Tuesday evening, July 18th.

EXHIBIT C

DELEGATION OF THE UNITED STATES

FOR THE PRESS

JUNE 27, 1933.

ADDRESS BY THE HONORABLE SAMUEL D. McREYNOLDS,
OF THE AMERICAN DELEGATION, BEFORE THE COMMITTEE
ON COMMERCIAL POLICY OF THE MONETARY AND ECONOMIC
CONFERENCE

Mr. Chairman, and members of the Committee:

I realize that we are now about to consider section B, relative to the problems of tariff and treaty policy, and that section A also to some extent involves these questions. However, as I was not prepared to speak on section A at the time the discussion arose, I trust you will pardon me if I now connect both propositions.

I have followed the discussions of this Committee with great interest, particularly because of the frank and realistic manner in which the problems are being faced. I listened very attentively on Friday to the speech made by the distinguished gentleman, Mr. Stucki, of Switzerland, but as I do not understand French I could only make out enough from some of his words, and from the expressions of those near him, that he was attacking the American tariff bill of 1930 or rather justifying the quota system of his country on account of the high tariffs of other countries.

I am not here to defend the tariff act of 1930; consequently he can get no argument from me along those lines. But I am here to say that the tariff act of 1930 was unjust, rather a handicap to commerce, and also that the quotas are in the same category. I feel that neither is good and both should be corrected. In order to give the members of this Committee the background of our tariff policies, I feel that it is necessary for me to explain to you our political situation. We have two great political parties in the United States of America, the Republican party and the Democratic party. The Republican party has always been known as the high protective tariff party and the Democratic party's policy is for lower tariffs. The tariff act of 1930 was bitterly opposed by the rank and file of the Democrats, but the Republicans were in power at that time and passed that bill. In the election last fall our Democratic nominee, Mr. Roosevelt, was overwhelmingly elected, carrying most of the states in the union. And while discontent over the depression, to a great extent, was the cause of this overwhelming victory, yet one other important contributing factor was considered the high protective tariff.

As further evidence of the policy of the present Administration, I wish to call your attention to one plank in our platform during the Presidential election of 1932:

"A competitive tariff for revenue, with a fact-finding commission free from executive interference, reciprocal tariff agreements with other nations, and an international economic conference designed to restore international trade and facilitate exchange."

Not only was Mr. Roosevelt swept into the Presidential chair, but an immense majority of his own political party was elected to the House and the Senate. Congress alone has the right to pass the tariff bills in our country, but that Congress can pass a law

giving the President the right for reciprocal tariff agreements when it so desires. Of course, the President has the right to enter into treaty relations with other nations subject to the ratification by the Senate relative to tariff matters. It was the purpose of the President to submit to Congress at this special session a bill giving him the authority to lower tariffs in agreement with other nations by multilateral or bilateral agreements. I have no doubt, if this bill had been presented, that it would have been passed, but on account of conditions existing it was found necessary to let Congress adjourn. Our Congress is entirely behind our President and I feel sure that any agreements reached of which he approves will be ratified by Congress.

I trust that I have not bored you with this rather detailed statement of our political conditions, but as before stated, I felt that you ought to understand the true situation. One might infer from the gentleman's remarks from Switzerland that probably the high tariff act passed by the United States in 1930 was somewhat responsible for quotas and so forth placed by other nations since that date. While I am not prepared to admit this to be true, yet I do condemn both high tariffs and quotas because we feel that it prevents the reasonable flow of commerce from one nation to the other, which is necessary for the economic health and financial stability of the world. Prior to 1930, while high tariff existed among some nations, yet at that time it did not seem to interfere seriously with the natural commerce of the world. Some nations now insist that their tariffs are low. But some of these same nations have placed new tariffs into operation within the past two or three years; and while you might want to consider whether or not their tariffs are indeed low, I think you will agree that by being brought into operation at this time of depression they have been most harmful to international commerce.

It has been charged through the press that our country is nationalistic. If trying to place our own house in order to increase the purchasing power of the dollar, to give the unemployed employment, and once more bring our country back to prosperity, if that is what is meant, then we plead guilty to the charge. We have a program by which we expect to pull our country out of this depression. We are doing it by controlling production, by an immense building program, by raising the prices of commodities, by cutting down the hours of labor, and raising the wages of labor, thereby increasing the purchasing power, and while this program is in its infancy, during the last 30 days we have put more than a million men to work and increased commodity prices 16 per cent.

We hope other nations can do the same thing, while this is their problem, if we can aid or assist, it is our desire to do so. We feel that whatever increases the purchasing power of our people and makes them more prosperous is reflected throughout the world.

We would like to see every nation on earth reach the same results that we expect to reach. We can aid in this by reducing tariffs, cutting off trade barriers and quotas, which will stabilize the markets of the world and be on the road to prosperity.

While the question of temporary stabilization of currency is not within the jurisdiction of this Committee, nor within the jurisdiction of the Delegation from America, yet permit me to refer to it briefly. Since much has been said especially through

the press as to the necessity of temporary stabilization, before anything material could be done, personally I feel the only stabilization we can have should be by all the nations and that any temporary stabilization by some three or four countries would be like the chaff before the wind. We have to remove the causes.

There was presented to this Committee by our Secretary of State and Chairman of our Delegation a resolution condemning high tariffs, trade barriers, quotas and so forth, and advocating multilateral and bylateral agreements along these lines. This resolution was approved by our President. It may be said that it is very broad and general in its scope. That is true. It was drawn for that purpose hoping that some specific remedy might be worked out within the scope of that resolution. We are not here seeking any advantage or desiring any advantage. We are here trying to cooperate and lend a helping hand to solving this serious situation before us.

Commerce is sick. It is paralyzed. Let us diagnose its symptoms and endeavor to prescribe the remedy.

In conclusion, permit me to say that I have tried to lay the cards before you, and you can play the game in any way you desire so long as it comes within the resolution provided. In other words, we are ready to give serious consideration to any concrete or detailed project that might be worked out by this Committee that is within the scope of the authority given us by the resolution introduced by the Chairman of our Delegation. We realize that these conditions can not be corrected at once, but we feel that a program for the nations to that end should be agreed upon here, and that each government should then take steps to put the plan into operation within its territory as soon as its governmental processes allow.

We realize that these are serious questions and great problems, otherwise we would not be here.

EXHIBIT D

ECONOMIC COMMISSION.

Conf. M. E/C. E/87.

July 14th, 1933.

REPORT OF SUB-COMMISSION I: COMMERCIAL POLICY.

The terms of reference conferred upon the Drafting Committee of Sub-Commission I by the Bureau of the Conference are worded as follows:-

"In order not to lose the benefit of all the discussions which have taken place up to now in this Sub-Commission we suggest that a Drafting Committee of this Sub-Commission should be appointed to embody in a report the different ideas and different points of view which have manifested themselves during the debates. This document will form a valuable basis when the discussion can be resumed".

In accordance with these terms the Drafting Committee has prepared the following report:-

I.

1. The Sub-Committee set up to study the problem of Commercial Policy has, in the course of its discussions, considered two fundamental questions:

- (a) Abolition and reduction of quantitative restrictions to the exchange of goods and progressive restoration of normal exchange.
- (b) Tariff policy and the most-favoured-nation clause.

2. It should be stressed at the outset that the hypothesis on which the whole work of the Sub-Commission was based was the stabilisation or at any rate the de facto stability of currencies. When events showed that this hypothesis could not be realised, at any rate at the moment, several countries, in view of the fluctuations in the exchanges, deemed it necessary to reserve full liberty of action in the matter either of quantitative restrictions, or foreign exchange control or customs tariffs.

Other delegations were of opinion that it would be expedient to endeavour to draw up a positive and constructive programme, indicating the measures which they were prepared to take in the sphere of commercial policy when stability had been achieved. This divergence of opinion made unanimous agreement impossible.

II.

QUANTITATIVE RESTRICTIONS TO THE EXCHANGE OF GOODS.

All the delegations are agreed that these restrictions, whether direct or indirect, must disappear as soon as possible. Reservations have, however, been made by some delegations in regard to the maintenance of quotas for agricultural products until such time as sufficient progress has been made in the international co-ordination of production.

Certain delegations have expressed the opinion that the maintenance or introduction of certain restrictions may be necessary as a means of carrying out concerted programmes for the co-ordination of production and marketing.

Various proposals have been submitted.

1. The unconditional and complete abolition within the shortest possible time of all import prohibitions and quotas and of any other arbitrary restrictions;

2. The concurrent abolition of import quotas and exchange control by the simultaneous conclusion of two general conventions so framed as to establish a progressive parallelism between their effects.

3. The conclusion of a Convention based on the text of the 1927 Convention for the abolition of Prohibitions, so modified as to adapt it to present circumstances (in particular a transitional system and a 100% quota system would be introduced).

4. The conclusion of an immediate truce to restrictive measures was also advocated.

The Sub-Commission began the study of a draft agreement of principle for the Return to Normal Conditions of Trade which was prepared on the basis of the discussions on this question. Consideration of this draft did not, however, go beyond the Preamble, and the General Undertaking, the final text of which has not yet been determined (Doc. C.E./Comité de Rédaction I and Addenda 1, 2 and 3) since certain delegations made their undertaking contingent not only upon the *de facto* stability of currencies, but also on the progress made in the restoration of the monetary and financial situation, and with regard to exchange control, the organisation of the production of certain commodities, excessive tariffs and indirect protectionism in its various forms.

III.

TARIFF POLICY AND THE MOST-FAVOURLED-NATION CLAUSE.

A. Tariff Policy.

The problem of tariff policy has been discussed by the Sub-Commission.

The need and urgency of reducing excessive customs tariffs were unanimously admitted. Views differed however as to the best means of effecting this tariff disarmament.

It should be noted that some delegations held that before tariffs are reduced, the present customs truce should be prolonged, but made stricter; that is to say, it should not be subject to the reservations which make it almost inoperative. Other delegations were opposed to this suggestion, being of the opinion that the truce favours countries which have hedged themselves round with a policy of exclusive nationalism.

With regard to the actual means by which the problem of tariff demobilisation should be attacked, three different points of views have been voiced in the Sub-Commission.

- (1) A collective or general convention could alone attain the desired result;
- (2) Customs duties could only be lowered by the conclusion of bilateral treaties;
- (3) No method should be excluded; that of a general convention and that of bilateral treaties might be adopted concurrently.

Among the countries which are in favour of a collective or general convention, some consider that tariffs should be gradually reduced by uniform annual percentages (principle embodied in the Cuchy Convention).

Those delegations which recommend bilateral treaties, on the other hand, argue that a horizontal reduction of customs tariffs would not be equitable since it would penalise countries with moderate tariffs and would take no account of the special situation of each country. It would also disturb the balance of the general system of customs tariffs.

B. The Most-Favoured-Nation Clause.

This problem has also been studied by the Sub-Commission especially from the point of view of the exceptions that might be allowed in order to make its application more elastic and better suited to present conditions.

There was a general opinion in favour of the maintenance of the most-favoured-nation clause, in its unconditional and unrestricted form, - naturally with the usually recognised exceptions, - stressing the points that it represents the basis of all liberal commercial policy; and that any general and substantial reduction of tariffs by the method of bilateral treaties is only possible if the clause is unrestricted, and that this method would avoid the constant resumption of negotiations.

However, certain delegations manifested a strong tendency (opinion) in favour of allowing new exceptions in addition to those hitherto unanimously admitted, on the ground that, although the unconditional and unrestricted most-favoured-nation clause does under normal conditions secure for trade the indispensable minimum of guarantees and prevents arbitrary and discriminatory treatment, if insisted upon with too great rigidity, it may obstruct its own purposes in a period of crisis and difficulty such as we are now passing through.

As regards the nature of these exceptions, opinions differed very widely, and the following recommendations were made:

An exception in favour of collective conventions for tariff reduction, open to all countries;

An exception in favour of agricultural products;

An exception in favour of agreements arising out of historic ties between certain countries, subject to a favourable opinion by the Council of the League of Nations;

An exception in favour of agreements binding only those countries which undertake to accept a certain régime and to maintain a certain standard of living for their population;

An exception in favour of the agreements contemplated at Stresa and in favour of regional and collective agreements concluded under the auspices of the League of Nations:

An exception based on reciprocity and equitable treatment.

A request was also made to examine the possibility of special temporary agreements between creditor and debtor States in order that the latter might be enabled to discharge their debt services in goods.

The Sub-Commission has not had time to ascertain the views of the different delegations in regard to the above proposed exceptions.

* * *

Specific proposals on tariff policy have been submitted by the Cuban delegation (bases of a convention with a view to preventing tariff wars, Conf.M.E./6) and by the Roumanian delegation (Conf.M.E./C.E./57). Further, a draft Economic Charter submitted personally and in his own name by M. Clairier, a member of the Persian delegation, has been distributed to the Conference at the request of the Persian delegation (Conf.M.E.12).

* * *

IV. Soviet Proposals.

The Soviet delegation has submitted two proposals, the first for a Pact of Economic Non-Aggression (Document Conf.M.E./C.E./15) and the second regarding the question of extending the import possibilities of various countries and of the conditions on which such extension would be possible (Document Conf.M.E.16).

The Economic Commission took note of these proposals and decided to place them on its agenda when the time came for the resumption of the discussions of Sub-Commission I, so as to be able, if necessary, to take a decision on the subject.

* * *

V. Other Proposals

Finally, it should be noted that the Czechoslovak delegation has proposed that the question of an international Customs agreement on wool should be examined and that the delegation of Iraq has raised the question of the Customs treatment of dates (Conf.M.E./C.E./72).

These two points have not yet been submitted to the Sub-Commission's consideration.

MR. WALLACE'S REPORT (OUTLINE)

CONFERENCE CHRONOLOGICALLY RELATING TO TARIFFS
AND TRADE RESTRICTIONS.

June 12 - 15: Seven Plenary Sessions of the Conference.

June 16 (Friday): Meeting of Economic Commission.

President: Colijn (Holland)

Vice Presidents: Krogmann (Germany)

Le Breton (Argentina)

Rapporteur: (Appointed later) Runciman
(Great Britain)

Membership of the Commission: See pages
43, 50, 61 and 81 of the Journal.

The President and the Secretariat proposed
the following agenda:

"1. Commercial Policy.

"(a) Normalisation of trade;
provision of foreign exchange for
imports; gradual removal of prohibi-
tions, quotas, etc.

"(b) Problems of tariff and
treaty policy, including the most-
favored-nation clause and possible
exceptions.

"2. Measures, other than customs
duties and prohibitions, affecting
international trade.

"Veterinary and phyto-pathological
questions, direct and indirect subsi-
dies, (in particular shipping subsidies),
and marks of origin etc., came under
this head.

"3. Co-ordination of production and
marketing.

"The questions of wheat and other
foodstuffs, of raw materials and of
industrial cartels came under this
head.

"4. Public Works.

"This question would no doubt
be discussed in both Commissions."

June 21: After the sixth meeting, devoted largely to general discussion, Sub-Committee I on commercial policy met under the Presidency of Krogmann. The following countries were represented:

Union of South Africa, Germany, Belgium, United Kingdom, Cuba, United States, France, Hungary, Italy, Japan, Norway, Poland, Switzerland, Czechoslovakia, U.S.S.R. and Uruguay. (Page 64 of Journal.)

The Economic Committee of the League of Nations was represented by Schüller (Switzerland) and Di Nola (Italy).

Great Britain submitted proposals concerning import quotas and the balance of trade. (Page 81 of the Journal.)

June 22: Secretary HULL proposed four principles. (Page 86 of Journal.)

(June 22: First meeting of Sub-Commission II on co-ordination of production and marketing. Membership on pages 77 and 85 of Journal.)

(June 23: Sub-Commission IIIA on subsidies and merchant shipping, and Sub-Commission IIIB on indirect protectionism began their meetings. Membership of IIIA and IIIB on Page 85.)

June 27: Fifth meeting of Sub-Commission I begins discussion of tariffs. Statement by MOREYNOLDS, Journal, Page 110.

Drafting Committee on trade restrictions meets privately with the following ten countries represented:

United Kingdom, Norway, Switzerland, United States, France, Poland, Belgium, Italy, Hungary, and Germany.

The following list gives the dates of the discussions by Sub-Commission I, the names or countries of the chief speakers and the references to the Journal:

Discussion of Quotas and Other Trade Restrictions.

- June 21: Poland, Soviet, United Kingdom, Pages 81 and 82.
Norway, Holland.
- June 22: Connolly, HULL, Serre, Ciancarelli, Pages 85 and 86.
Tevfik Bey, Runciman, Schüller.
- June 23: Di Nola, Andvord, Van Langenhove, Pages 93 and 94.
and Stucki.
- June 26: Posse, De Nickl, Hueyo (Argentina),
Sokolowski, and Ciancarelli.
- June 27: MCREYNOLDS Pages 110 and 111.

Discussion of Tariffs and Most-Favored-Nation
Clause.

- June 28: Van Langenhove, Nederbragt (Holland), Page 119 and 121.
Andvord, Matsudaira.
- June 29: Pilja (Uruguay), Sami Bey Page 124 and 126.
(Turkey), Serre, Ciancarelli.
- June 30: Sokolowski, Posse, and Serre. Page 132 and 134.
- July 3: Ferrara, Peroutka (Czechoslovakia), Page 138 and 139.
Ahmed Pasha (Egypt), Andvord.
- July 4: Madgearu (Rumania), Page 144 - 145.
Havenga (South Africa),
Clavier (Persia),
Hueyo (Argentina),
Tschakaloff (Bulgaria),
Rehebo (Portugal).

June 28: The Secretary General reviewed the organiza-
tion and present position of the discussions of
the Conference. Commercial policy summarized
on Page 129.

July 3: Roosevelt's message.

July 6: At the eleventh meeting of Sub-Commission I
the French Delegate (M. Bonnefon-Craponne) pro-
posed adjournment and was seconded by the Italian,
German, Belgian, Rumanian, Hungarian, Norwegian
and Polish representatives. (Page 152.)

July 3
Roosevelt

The Bureau of the Conference passed the following resolution:

"Whereas the Bureau is firmly determined to proceed with the work of the Conference to the utmost possible extent and as rapidly as possible;

"And whereas, on account of circumstances which have recently arisen, the countries on the gold standard find themselves obliged to declare that for the time being it is impossible for them to take part in any discussion of monetary questions:

"The Bureau agrees unanimously to:

"(a) Request each Sub-Committee to meet as soon as possible to draw up a list of the questions which can, in these circumstances, be usefully studied by it,

"(b) Meet as soon as the reports of the Sub-Committees have been received in order to make recommendations as to the arrangements which should be made for the further business of the Conference. " (Page 154.)

Joint meeting of the Sub-Commissions of the Economic Commission. The Sub-Commissions on co-ordination of production and marketing and on indirect protectionism decided unanimously to continue work. (Page 158.)

Sub-Commission I on commercial policy met but instead of drawing up a list of the questions which might be usefully studied by it even in existing circumstances, it discussed the futility or the utility of continuing its labors as a whole. The presiding officer was instructed to prepare a report summarizing the discussion for submission to the President of the Economic Commission. (Page 159.)

Eight Delegates belonging to the Sub-Committee and also the Yugoslav Delegation

favored suspending the work. Ten Delegations, including the Dominions and the Argentine Republic and (not a member of the Commission) favored continuance of the work. (Page 168.)

Against continuance: France, Italy, Germany, Switzerland, Belgium, Poland, Hungary, Czechoslovakia, Yugoslavia.

For continuance: United Kingdom, Norway, Argentina, United States, Japan, Russia, Cuba, and the Dominions.

(Delegations not named in the Journal.)

Sub-Commission I appointed a drafting committee to draw up a report summarizing the ideas expressed during the debates.

Countries named to the drafting committee:

Belgium, France and Italy;
Japan, Norway and the United States;
as well as the Rapporteur, Runciman,
and the President, Krogmann.
(Page 172.)

Meetings of Economic Commission on public works and on the Soviet proposal of economic non-aggression.

(Pages 180 - 183.)

MEMORANDUM ON THE WORK OF FIRST SUB-COMMISSION
OF THE MONETARY AND FINANCIAL COMMISSION,
WITH SPECIAL REFERENCE TO CREDIT POLICY,
PRICE LEVELS AND INDEBTEDNESS.

On June 16 a Committee was appointed by the Monetary and Financial Commission to suggest the Sub-Commissions to which the work of the Commission might be allotted. It decided to recommend to the Plenary Commission the creation of two Sub-Commissions, one to consider immediate measures of financial reconstruction, and the other to consider permanent measures for the re-establishment of an international monetary standard. The first Sub-Commission would consider the following questions: credit policy, price levels, limitation of currency fluctuations, exchange controls, problems of indebtedness and resumption of international lending. The second Sub-Commission would consider the functions of central banks, the coordination of their policies, monetary reserves and silver.

At the Second Meeting of the Monetary and Financial Commission, presided over by Mr. Cox, on June 19, the above proposals were adopted. It was further agreed that the President of the Bank for International Settlements and the representatives of the Financial Committee of the League of Nations might consider themselves members of the Commission or its Sub-Commissions. At this same meeting the Rumanian Delegate submitted, with reference

Enc. No.1

to document Conf. M.E./C.M.F. 1, dated June 17, proposals in behalf of the Delegations of Bulgaria, Latvia, Poland, Rumania, Czechoslovakia and Yugoslavia with respect to the work of the two Monetary Sub-Commissions.

The

The present memorandum will summarize the work of the First Sub-Commission of the Monetary and Financial Commission, whose duties were to study immediate measures.

Enc. No.2 The First Meeting of the Sub-Commission was held on
Enc. No.3 June 19, presided over by M. Jung of Italy. The President
proposed that the declaration of the above-mentioned
Eastern European countries should be dealt with as the
Enc. No.4 subjects with which it was concerned might arise. This
document is attached as Conf. M.E./C.M.F.4. The same
disposition was made of document Conf. M.E./7, dated
June 14, of the Hungarian Delegation. The part of the
document submitted by the Swiss Delegation which related
to the question of a common monetary standard was re-
ferred to the Second Sub-Commission with the request
that it should discuss the matter as the first point on
its agenda.

The President invited the Sub-Commission to pass to the question of credit policy. No delegates desired to speak on the subject.

The Sub-Commission discussed questions of procedure in connection with the consideration of price levels. Professor Cassell of Sweden suggested that a general resolution would facilitate the discussion. Mr. Chamberlain, United Kingdom, gave notice of a resolution which he proposed to submit for discussion on the following day. On the proposal of M. Jaspar, Belgium, it was agreed to take the draft annotated agenda point by point as the basis of discussion, having regard to Mr. Chamberlain's resolution as falling within its limits.

The

Enc. No.5

The Second Meeting of the First Sub-Commission was held on June 20. Document Genf. M.E./C.M.F.8, constituting the draft resolution submitted by the United Kingdom Delegation, was taken as the basis for the discussion of credit policy and price levels, along with the draft annotated agenda. A copy of the British document is attached. It pointed out the necessity of bringing about a recovery in the world level of wholesale commodity prices sufficient to yield an economic return to the producer of primary commodities and to restore equilibrium between cost of production and prices generally. Its second point was that monetary action is one of the essential factors in obtaining a recovery in world prices. The fundamental monetary conditions of the recovery of prices are that deflation cease, that cheap and plentiful credit should be made available and that its circulation should be actively encouraged. Under its third point the resolution recommended that the central banks of the principal countries should undertake to cooperate with a view to securing these conditions and should announce their intention of pursuing vigorously the policy of cheap and plentiful money by open market operations.

Sir Henry Strakosch, India, said that the Indian Delegation associated itself with the United Kingdom resolution. The only two ways of dealing with the crisis were (a) a reduction of costs or (b) an increase of prices.

Mr. Havenga, South Africa, agreed in general with the United Kingdom resolution. Mr. Bruce of Australia welcomed generally the British draft resolution. In his view the principal measures required towards cooperation in a policy of raising prices were: 1. abundant credit
and

and cheap money; 2. a wider extension of open market operations; 3. an active use of increased credit, whether by the public or by governments; 4. currency stability; 5. abolition of exchange restrictions; 6. the removal of prohibitions and trade barriers, and 7. the resumption of international lending.

The Third Meeting of the First Sub-Commission was held on the afternoon of June 20 and continued the discussion of credit policy and price levels, with particular reference to the British resolution. Mr. Patterson of Cuba agreed that the suggestion for cooperation by the central banks of the principal countries was of vital importance, and insisted that another important item was the stabilization of currency with a fixed provisional rate of exchange, pending the restoration of the gold standard. Dr. Ulrich of Portugal stated that the psychological factor was the most important element in the present situation, and that currency stabilization would have a decisive effect in restoring confidence. The major international currencies must, however, be stabilized first and Portugal would only be able to return to the gold standard when sterling had done so. Dr. Trip, Netherlands, thought that the essential factor for world recovery was the restoration of confidence, without which long term investments would remain impossible. With regard to the raising of price levels, he thought that monetary policy could not do the work alone, and that no lasting and sound recovery could be expected without the fulfilment of certain fundamental conditions in, more especially, the economic field, and in the matter of currency stabilization.

The Fourth Meeting of the First Sub-Commission was held in the forenoon of June 21 and continued to discuss the British resolution. M. Tsushima of Japan pointed out that the Japanese Government and the Bank of Japan had pursued a liberal credit policy on the lines recommended in the resolution. M. Bachmann, Switzerland, thought that the British resolution gave undue emphasis to the importance of monetary and credit policy in raising prices. He said that this position was not in agreement with the opinion of the majority of the Gold Delegation or of the Preparatory Committee, as recorded in the draft annotated agenda. The prime necessity was to restore confidence, and the first step to this end was to return to the gold standard, particularly in Great Britain and the United States. Budgets must be balanced, trade restarted, international debts, both inter-Governmental and private, settled on lines permitting of transfers and payments. The expansion of credits should be a consequence of recovery, not a cause. M. Beneduce, Italy, did not believe that monetary policy was of prime importance in restoring the balance between cost and prices. He supported Dr. Bachmann's views and insisted that it was essential that a demand for credit should arise naturally. To put one's faith in immediate measures for augmenting the volume of money and credit might lead to a speculative boom followed by an even worse slump. M. Bonnet, France, stated that France was prepared to associate herself with any policy for a durable increase of prices. He explained the different positions of various countries, listing separately those:

1. on a pre-war parity;
2. which had returned to gold after devaluation;
3. off gold.

He argued that no durable recovery of consumption and trade was possible without recreating the sense of security - political, economic and monetary. His main point was that without stable currency there could be no lasting confidence. While the hoarding of capital continued, there could be no solution.

On the afternoon of June 21 the First Commission held its Fifth Meeting, continuing the discussion of the British document. M. Baranski of Poland said that his Delegation was not in favor of artificial methods for raising price levels. Monetary action would only have a successful influence on prices if currencies were effectively stabilized. Inflation would lead to hoarding, and the resultant instability would be detrimental to long term credits, whereas the re-establishment of confidence in the monetary sphere would lead to automatically cheap and plentiful credit. It was his firm belief that the only effective means of raising prices was to be found in universal currency stabilization. M. Jahn of Norway stressed the necessity for close cooperation between the central banks. He considered as dangerous proposals for the control and restriction of production. M. Stoyanoff of Bulgaria concurred with the United Kingdom resolution. He stated that the essential basis for the normal development of credit and international trade was a stabilized currency system. A rise in prices, especially in the prices of agricultural commodities, should be sought

sought along the lines of confidence and the renunciation of artificial protection. Baron Palmstierna of Sweden said that his country wholeheartedly associated herself with any action for raising the general price level. Sweden was undertaking a big program of public works. The Swedish Government had no intention of using currency depreciation as a means of getting foreign trade advantages. A memorandum on the monetary policy of Sweden was submitted as document Conf.M.E./C.M.F.11.

Enc. No.6

Dr. Vocke, Germany, thought that it was impossible to solve the existing problems of the different countries by a general uniform rule. Nevertheless, a general rise in prices throughout the world would be warmly welcomed by Germany. He had doubts concerning the advisability of fundamentally altering a country's monetary system with a view to artificially raising the price level. In his opinion the real center of the price problem lay in the economic and/^{not}in the monetary field. Given an increase in the world's purchasing power by the provision of work for the unemployed, the price problem would right itself naturally. An artificial increase in purchasing power would only increase indebtedness. M. Charitakis, Greece, urged the organization of production to achieve a balance between production and consumption. Greece was unable to sell certain of her products and was compelled to sell those she did export at unremunerative prices. M. Malbran, Argentina, welcomed the British draft. A rise in the prices of her agricultural products was all-important to Argentina. He pointed out that the increase in demand which would logically follow an expansion of credit must

not

not be allowed to be restricted by the maintenance of existing customs barriers. M. Madgearu, Rumania, recommended that currency stabilization in the big financial centers must be achieved as soon as possible. For this purpose the first conditions were a re-valorization of prices, more especially of agricultural products, improved marketing facilities and a favorable debt settlement. M. Diouritch, Yugoslavia, failed to see how the objects of the British draft could be achieved by monetary action alone. Inflation would be especially dangerous. The Conference should strive for a more permanent recovery in the economic position and the main factor of recovery was the removal of trade restrictions. The revival of confidence in the economic field and financial field depended chiefly on currency stabilization.

The Sub-Commission decided to continue its general discussion on the other items of the agenda before attempting to draw up a general resolution on the basis of the British draft. The first items to be discussed would be international indebtedness and public works and their effect on the level of prices.

The Sixth Meeting of the First Sub-Commission was held on the afternoon of June 22, and the subject discussed was indebtedness. M. de Imredy, Hungary, observed that there was no doubt a connection between a debtor's capacity to pay and the level of prices, but only where the debtor was in a position to sell the surplus of his production. He believed that the debt problem would continue to exist, even if it were possible to return to the price level of 1929. The Hungarian Delegation submitted

Enc. No.7

a resolution on the problem of indebtedness under No. Conf.M.E./C.M.F.13. M. Madgearu of Rumania described the circumstances which made it difficult for Rumania to maintain service on her foreign debt. He thought the Preparatory Committee should have pronounced clearly in favor of the principle that debts must be adjusted to the capacity to pay and to effect transfers, and that debt policy should take account of the fall in prices of the principal exports of the debtors. Tevfik Rustu Bey, Turkey, agreed with the proposal of the Greek Delegation that special arrangements should be made between debtors and creditors to enable the debtors to pay their external debts in kind. It was also important for agricultural countries to be able to market their products at a price yielding an economic return sufficient to meet external debts. M. Andrade, Ecuador, thought that it was inadvisable to attempt to remedy the economic crisis by currency depreciation. He proposed that a special sub-committee should be appointed to deal with the recommendations of the draft annotated agenda to the effect that a fund be created to assist in the financial reconstruction of the world. He approved the suggestion of the Preparatory Commission that the management of the fund should be entrusted to the Bank for International Settlements.

Enc. No.8

M. Charitakis of Greece referred to the proposal of his Delegation (Conf.M.E./C.E./13), and argued that special commercial agreements should be made between the great creditor nations and the small debtor nations in order to facilitate the export of certain products at an appropriate price from the debtor countries. See document

Enc. No.9

Conf.

Conf.M.E./C.M.F.6 in regard to the currency situation of Greece.

The Seventh Meeting of the First Sub-Commission on Immediate Measures was held on the afternoon of June 23, with Professor Beneduce of Italy as Acting President. The discussion of indebtedness was continued. M. Boucas of Brazil stated that the big creditor countries must take the initiative in adjusting the debt situation and in reviving the market for products such as coffee and cotton. Stable currencies and the release of frozen credits and freer trade were the first conditions for recovery. M. Stoyanoff, Bulgaria, described the situation in Bulgaria, and concluded that a definitive settlement was essential, and that debts must be adjusted to capacity to pay. The Bulgarian Delegation proposed that all existing issues should be replaced by a single new issue representing the new reduced capital and the new decreased rate of interest, without resort being had to a new loan. Document Conf.M.E./18 describes the Bulgarian situation.

Enc. No.10

The Eighth Meeting of Sub-Commission I was held on the afternoon of June 26, with M. Bonnet acting as President. In continuing the discussion of indebtedness, M. Madgearu, Rumania, submitted a draft resolution, which is attached as document Conf.M.E./C.M.F./15.

Enc. No. 11

Mr. Neville Chamberlain, United Kingdom, expressed his sympathy for the positions of the debtor countries and made certain observations from the viewpoint of a creditor country. He thought that the experiences of the last ten years in regard to international lending had shown that certain additional safeguards would be required

required in the future, among them the provision of further information regarding the volume of borrowing on both short and long term. It was further a matter for consideration whether the issue of loans should not be subject to a greater measure of control by the authorities of either the borrowing or the lending country. Some definite measures of this kind would be necessary to re-assure investors, whose confidence had been severely shaken, as to the security of their principal and interest. It did not seem to him that the necessity of the times was such as to call for a permanent reorganization of either short or long term debts. A general rise in world prices, for instance, might very materially affect the situation to the advantage of the debtors. On the other hand, it must be recognized that there were cases where temporary adjustments might be necessary to assist debtors to fulfil their external engagements as far as possible in existing circumstances.

Enc. No. 12 The British position was set forth in the attached draft resolution on problems of indebtedness.

Sir Henry Strakosch, India, said that the problem of indebtedness resulting from the world crisis lay at the root of the question of recovery with which the Conference had met to deal. The statements made before the Commission strikingly brought out the relations between this problem and the other subjects before the Commission, with particular reference to three points, namely: (1) the crushing increase in the burden of debts, particularly for countries principally engaged in the production of primary commodities, (2) the effort to encourage the export and to restrict the import of goods

in order to find the means of payment, and (3) the failure notwithstanding to procure sufficient foreign assets wherewith to pay.

Mr. Couzens, U. S. A., referred to the resolution proposed by the American Delegation on June 22 on price levels and credit policy, a copy of which is attached as Conf.M.E./C.M.F./14. He amplified his Government's attitude, and pointed out that he did not believe that prices could be raised by monetary means alone. Raising the price level was only one part of the problem of restoring economic equilibrium. An adjustment of the debt structure was equally necessary. Prices must be raised; but, at the same time, the burden of debt must be lightened. He pointed out that the United States was adopting measures to increase purchasing power. The fundamental objective of the United States Government was to bring about an increase in production and in consumption. The full text of Senator Couzens' speech of June 26 is attached as enclosure No. 14.

The Ninth Meeting of the First Sub-Commission was held on the morning of June 27, with M. Bonnet, and later, M. Beneduce, presiding. The President reported that the Bureau had proposed the appointment of a small sub-committee to make concrete proposals with regard to the agenda in the light of the discussions which had already taken place, and to be composed of representatives of the following countries: Germany, Argentina, Australia, Belgium, Brazil, United Kingdom, Canada, China, United States, France, Greece, Hungary, India, Italy, Japan, Norway, Netherlands, Poland, Rumania, Sweden, Switzerland, Czechoslovakia, together with representatives

representatives of the Financial Committee of the League of Nations and the Bank for International Settlement.

The discussion of indebtedness was then continued, M. Beneduce stating that the Italian Delegation was in general agreement with the United Kingdom Delegation in the matter of the proposed procedure for negotiations between debtor and creditor countries with a view to a debt settlement. He stated with regard to the immediate problem of indebtedness that the settlement of the foreign debt of the debtor countries should be such as to foster the efforts made or to be made by those countries to establish equilibrium in their several balances of payments. Equilibrium of the balances of payments was a condition precedent to the stabilization of currencies and to the restoration of economic activities.

M. Bonnet of France pointed out that even when the crisis was becoming acute the French market had remained open to important foreign issues. He appreciated the courageous efforts of many debtors to fulfil their obligations. Economic recovery would depend upon a concurrent recovery of credit. There was no solution of the problem of indebtedness at the expense of credit. It was imperative to put an end to standstill agreements which lumped all claims together, good or bad. He recommended that recourse should be had to the Financial Committee of the League of Nations to determine the position of debtor countries. He maintained that monetary stability was at the root of all the problems which had been raised; and that the Conference could yield no definite results, unless it reached a conclusion on this subject.

M. Sarasin

Mr. Sarasin, Switzerland, said it was clear that the best method of dealing with the problem of indebtedness was by direct negotiation between creditors and debtors. He questioned the wisdom of setting up any new organization for this purpose, and suggested the Bank of International Settlement as the best body for dealing with the matter.

On the afternoon of June 27 there was the First Meeting of the principal Sub-Committee set up by the First Sub-Commission. After some discussion, the Sub-Committee decided to take up the two subjects of credit policy and indebtedness. The following Drafting Committee was appointed to submit a text on credit policy: the representatives of Brazil, United Kingdom, United States, France, Italy, India and the Netherlands. The representatives of the same States, together with Germany and Rumania, were appointed as a Drafting Committee on indebtedness. It was understood that the representatives of the Financial Committee of the League of Nations and of the Bank for International Settlements would be members of both Drafting Committees.

The Drafting Committee appointed on June 27 discussed on June 28 the question of the limitation of currency fluctuations on the basis of a note submitted by the United Kingdom Delegation.

The Meeting of the Bureau of the Conference held on July 6 unanimously adopted the following resolution presented by President MacDonald, after consultation with a number of his colleagues:

"Whereas

"Whereas the Bureau is firmly determined to proceed with the work of the Conference to the utmost possible extent and as rapidly as possible;

"And whereas, on account of circumstances which have recently arisen, the countries on the gold standard find themselves obliged to declare that for the time being it is impossible for them to take part in any discussion of monetary questions;

"The Bureau agrees unanimously to:

"(a) Request each Sub-Committee to meet as soon as possible to draw up a list of the questions which can, in these circumstances, be usefully studied by it.

"(b) Meet as soon as the reports of the Sub-Committees have been received in order to make recommendations as to the arrangements which should be made for the further business of the Conference."

It was agreed that the Bureau would meet again on Monday, July 10, to receive the reports requested from the Sub-Committees.

On the morning of July 7 there was held the Tenth Meeting of the First Sub-Commission on Immediate Measures. President Jung read the resolution adopted by the Bureau on July 6. He reminded the Sub-Commission that the subjects it was called upon to consider were listed in document Conf.M.E./C.M.F./1. He raised the question as to which of these might, in present circumstances, be usefully studied. My Chamberlain thought that the various items of the agenda were intimately interconnected and could scarcely be discussed without reference to each other. M. Madgearu of Rumania thought that if all the subjects were kept on the agenda the same divergence of opinion, which had recently been manifested, would again arise. He would, for the time being, only retain the question of indebtedness on the agenda. M. Boucas of Brazil suggested the appointment of two main Sub-Committees composed of representatives of each of the

two opposing groups: the countries that believed a return to the gold standard was an essential preliminary should form one committee, and the countries that believed progress was possible without immediately stabilizing currencies should form another. The Sub-Committees should meet concurrently and coordinate their work where concerted action was required. M. Bonnet said that he was surprised that some delegations were now reopening a discussion which had been closed in the Bureau and were going back on the decisions arrived at in that body. He differed from Mr. Chamberlain and agreed with the Rumanian representative that only indebtedness should be left on the agenda for immediate discussion.

The Eleventh Meeting of Sub-Commission I took place on the afternoon of July 7. Senator Couzens referred to the resolution submitted by the United States Delegation on June 22 and emphasized the importance of finding a solution for the problem of unemployment. He saw no reason why efforts toward the achievement of the essential aims before the Conference should not be continued.

Enc. No. 14a

Senator Couzens' speech is attached as enclosure No. 14a. A long discussion followed which was participated in by numerous delegates. The President finally submitted to a vote Mr. Chamberlain's proposal that all the items on the agenda of the Sub-Commission, namely, credit policy, price levels, limitation of currency fluctuations, exchange controls, problems of indebtedness and resumption of lending, should be included in the list to be submitted to the Bureau. A division was taken by roll-call, and the proposal was carried by 25 votes to 15, with one abstention. The following delegations voted for the

proposal:

proposal: Union of South Africa, Argentine Republic, Australia, Brazil, United Kingdom, Canada, Chile, China, Colombia, Denmark, Dominican Republic, Ecuador, Estonia, United States of America, Finland, Haiti, India, Irish Free State, Japan, Norway, New Zealand, Persia, Portugal, Siam and Sweden. The following delegations voted against the proposal: Germany, Austria, Belgium, Bulgaria, Spain, France, Italy, Lithuania, Netherlands, Poland, Rumania, Switzerland, Czechoslovakia, Turkey and Yugoslavia. The Soviet Delegation abstained from voting. The following delegations were marked as absent: Afghanistan, Albania, Saudi Arabia, Bolivia, Cuba, Free City of Danzig, Egypt, Abyssinia, Greece, Guatemala, Hungary, Iraq, Iceland, Latvia, Liberia, Luxemburg, Mexico, Nicaragua, Paraguay, Peru, Salvador, Uruguay and Venezuela.

The Third Meeting of the Monetary and Financial Commission was held on the afternoon of July 10 under the Presidency of Governor Cox. M. Jung reported the results of the vote taken in the First Sub-Commission as to continuing the discussion of all the points on the agenda which had originally been assigned to the Sub-Commission. The President observed that the result of the voting in the First Sub-Commission had brought out the serious character of the differences dividing the various delegations. He did not think it possible to continue the work of the Conference until these differences had given place to an agreement. The Bureau had expressed a desire that a Drafting Committee should be set up to endeavor to bring about an agreement. On the proposal of M. Bonnet, Reporter, it was decided to set up a
drafting

Drafting Committee with the following membership:
M. Colijn (Netherlands), M. Jung (Italy), M. Kienbock (Austria), M. Bonnet (France), Mr. Neville Chamberlain (United Kingdom), M. Schacht (Germany, M. Wigforss (Sweden), Mr. Bennett (Canada), M. Le Breton (Argentina), the Committee to be presided over by Mr. Cox (United States).

The Eighth Meeting of the Bureau of the Conference, held on July 11, considered the following report submitted by the Drafting Committee of the Monetary and Financial Commission:

"The Drafting Committee appointed by the Monetary and Financial Commission on July 10 met today to consider the report of the First and Second Sub-Commissions with reference to the request of the Bureau that each Sub-Commission should draw up a list of the questions which can in existing circumstances be usefully studied by it.

"It recommends that

"(1) The Monetary and Financial Sub-Commission I should proceed in the first instance to the discussion of the subject of indebtedness;

"(2) The Monetary and Financial Sub-Commission II should take up the resolutions, already adopted by its Sub-Committees, on central banking cooperation and on the creation of central banks in certain countries where they do not exist, and should pursue through its Sub-Committees the examination of the question of silver and any other subject on its agenda which may by general agreement be considered suitable for discussion."

The report was adopted.

The Drafting Committee on the problems of indebtedness, set up on June 27, decided on July 12 that the representatives of other States interested in the subject might attend the meetings of the Drafting Committee, but should put forward their views through the intermediary of members of the Drafting Committee. The Committee then proceeded to

discuss

discuss in the first instance the question of how to establish a suitable machinery for negotiations between creditors and debtors in different countries on the basis of draft resolutions submitted by the Hungarian (Enclosure No. 7), Rumanian (Enclosure No. 11) and United Kingdom (Enclosure No. 12) delegations.

The Drafting Committee on the problems of indebtedness met on July 13, under the Chairmanship of M. Asquini of Italy, and continued its discussion of the question how to establish suitable machinery for negotiations between creditors and debtors in different countries.

The same Drafting Committee met on the morning of July 14 and continued its discussions, including certain general aspects of the problem of indebtedness. As there was a sharp conflict of opinions manifested at this meeting, particularly between the Rumanian and German delegates, on the one side, representing debtor countries, and the British and Italians, on the other side, representing creditor countries, with the American representative, Senator Couzens, taking the position that the whole discussion should be ended, it was decided that the meeting should be adjourned until afternoon. At the afternoon meeting the Committee transacted no business other than that of inviting the United Kingdom, French, Italian and Rumanian representatives to prepare a draft resolution on the general aspects of the problem. The idea was to effect a compromise, using the British draft resolution, Enclosure No.12, as the base.

On Sunday morning, July 16, the American Delegation received from M. Asquini the text of the compromise draft. This was cabled to the Department of State on Sunday
afternoon

afternoon under No. 141. It was explained to the Department that certain other points might be raised which would call for amendment of the draft resolution, and the Department's instructions were requested.

On Monday afternoon, July 17, at 5:30 p.m. there was held a meeting of the representatives of the four countries which had drawn up the draft of the compromise resolution. To this meeting were also invited the representatives of Germany and the United States (Mr. Cochran). The meeting lasted until 8:30 and was marked by a sharp difference between the debtor and creditor countries' representatives. The German representative, Dr. Schacht, bitterly opposed the inclusion in the resolution of any statement which might be considered as blaming any country for the policies which it has followed with respect to its foreign debts. He desired that neither criticism nor commendation should be incorporated therein. He insisted that every country would meet its indebtedness to the full extent of its ability to pay, but considered this so self-evident that it should not be stated in a resolution of the Conference.

On the afternoon of Tuesday, July 18, the full Drafting Committee on problems of indebtedness met and the study of the compromise resolution was pursued. The German Delegation had prepared a substitute draft for the second paragraph of the compromise text. After long consideration of various texts, compromises were reached on all points and an agreement achieved on a draft resolution in the form of document Conf.M.E./C.M.F./25. It should be noted that the fifth paragraph was added at the instance of the American Delegation to meet the instructions

instructions received from the Department on the morning of July 18, through telegram No. 151, to the effect that the question of intergovernmental debts lies entirely outside the field of discussion of this Conference.

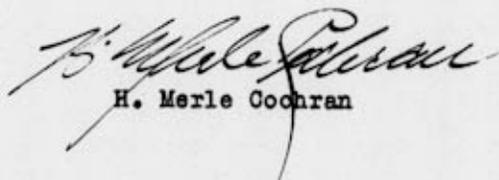
Enc. No. 16 As Enclosure No. 16, there is attached document Conf.M.E./C.M.F./24, giving extracts from speeches made during the general discussion of problems of indebtedness.

There are also appended various draft texts which were proposed and studied before agreement was finally reached on the draft resolution constituting Enclosure No. 15. These other drafts are designated as documents Conf.M.E./C.M.F./ Dettes 1 to 8.

Encs. Nos.
17-24

The Draft Report of the First Sub-Commission is

Enc. No.25 attached as Conf.M.E./C.M.F./ 27.


H. Merle Cochran

Enclosures:
Nos. 1 to 25.

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WORK OF THE FINANCIAL COMMITTEES
OF THE MONETARY AND ECONOMIC CONFERENCE.

Soon after its opening on June 12th, the Monetary and Economic Conference divided into two major Commissions, -one the Economic Commission,-the other the Monetary and Financial Commission. Mr. Cox of the United States was made chairman of the latter. This Commission in turn divided into two sub-commissions, the first to deal with immediate measures for financial reconstruction, the second to deal with the future reestablishment of an international monetary standard.

First Sub-Commission

Our representative on the First Sub-Commission was Senator Couzens. The agenda of the Commission covered: 1. Credit Policy; 2. Price Levels; 3. Limitation of Currency Fluctuations; 4. Exchange Controls; 5. Problems of indebtedness; 6. Resumption of lending. The only American resolution presented in this Commission was one on price levels and credit policy reading as follows:

"Whereas, industry and trade in nearly all the major countries of the world have fallen to unprecedentedly low levels, and

"Whereas, as a consequence thereof, millions of people throughout the world have been thrown out of employment and unwillingly have become an ever-increasing burden upon those who still have employment, and

"Whereas, the emergency is of such a nature as to demand that all nations and all peoples cooperate to the fullest possible extent in combatting the depression by all available means and in close consultation and harmony with each other, and

"Whereas, abundant credit and wise encouragement of private enterprise through government expenditure are essential in bringing about an improvement in prices and an increase of business activity, and

"Whereas, such government expenditure shall not necessarily be included in the budget for recurring expenses but may properly be financed by borrowing, provided that the service of government debt so incurred is taken care of in a balanced budget for recurring expenses.

"NOW THEREFORE, BE IT RESOLVED, that all the nations participating in this Conference agree

(a) That a close cooperation toward these ends between governments and between their respective Central Banks should be undertaken;

(b) That a primary step in such cooperation should be the carrying out of a policy of making credit abundantly and readily available to sound enterprise; this may be done by open market operations, where consistent with national policy, or by such other means as may suit the particular requirements of an individual market; and

(c) That an acceleration of the process of recovery should be sought by means of synchronized program of governmental expenditure in the different countries along parallel lines, designed to stimulate the natural sources of employment, to restart the wheels of industry and commerce, and to restore the willingness of the individual again to assume the normal risks of trade without which any recovery is impossible.

"It is not the sense of this resolution that all nations should agree necessarily to attack the problem in the same way, but rather that the efforts already being made by many nations should be coordinated, and that other nations should be stimulated to make similar efforts."

"It should be borne in mind that in the development of such a program care must be exercised lest the cost of a particular kind of work undertaken be inordinately increased whether on the part of suppliers, landowners or wage earners particularly concerned.

"AND BE IT FURTHER RESOLVED,

"(a) That the Issue Banks of the various nations be requested to send at once to London a representative or representatives for the purpose of immediate consultation with each other, and

"(b) That a committee be appointed by this Conference to study the various methods of governmental expenditure which have been in use or under consideration by the various nations, with a view towards making a report to be sent to each of the nations for its guidance in working out its own program in the future."

There/

There was little direct discussion of this resolution and no action was taken on the two final proposals-namely, that the banks of issue of the various nations should be requested to send representatives at once to London for the purpose of immediate consultation on Central Bank action to ease credit and also that a Committee should be appointed by the Conference to study various methods of governmental expenditure.

The first business before the Commission was a much shorter resolution submitted by the British Delegation on the same subject. The British Resolution had three clauses as follows:

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

"2. In order to obtain a recovery in world prices, monetary action is one of the essential factors. The fundamental monetary conditions of the recovery of prices are that deflation should cease, that cheap and plentiful credit should be made available and that its circulation should be actively encouraged.

"3. The Central Banks of the principal countries should undertake to co-operate with a view to securing these conditions and should announce their intention of pursuing vigorously a policy of cheap and plentiful money by open market operations."

The discussion of the British resolution brought out clearly the essential differences between the gold standard countries and the countries off gold. The former were sceptical of the efficacy of monetary means to raise prices. They felt that the first essential was confidence and that this could not be achieved unless budgets were balanced and reasonably conservative practices were followed by Central

Banks/

Banks. In particular, they questioned the power of Central Banks through open market operations to effect a rise of prices, citing the experience of the United States before it left the gold standard as well as that of other countries. As for deliberate currency depreciation, they regarded it as quite out of the question as a method for obtaining an orderly and permanent recovery of prices. A number of countries that had had experience with currency depreciation in the war and immediate post-war period supported the gold standard countries in this viewpoint.

The British themselves were far from specific in indicating what other factors than an easy Central Bank policy might be brought to bear to raise prices. Before any conclusion was reached on the British resolution, the discussion was shifted to problems of indebtedness. The discussion was general and again no definite conclusions were reached.

On June 27th, it was decided to appoint a principal Sub-Committee to make concrete proposals relating to the procedure to be adopted. This principal Sub-Committee met the same day and decided to appoint two drafting committees to prepare resolutions, the first on the question of credit policy and the second on problems of indebtedness. The first drafting committee met on June 28th, but instead of discussing credit policy along the lines of the previous discussion in the Sub-Commission, it turned to the question of the limitation of currency fluctuations, on the basis of a note submitted by the British Delegation. Shortly thereafter the work of the Committee was interrupted by the reaction of

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the gold standard countries to President Roosevelt's message of July 3rd.

On July 7th, the Sub-Commission met to consider the agenda which might profitably be discussed in view of the changed circumstances. The British Delegation proposed that the six items on the original agenda should all be retained and, after active debate, the proposal was adopted by a vote of twenty-five to fifteen. This situation was unsatisfactory, however, and subsequently unanimous consent was obtained to pursue the discussion of problems of indebtedness. This task was confided to the second drafting committee appointed on June 27th. There was a sharp line of division between the creditor countries and the debtor countries in the discussion which followed. Debtor countries were anxious to obtain a final settlement of their obligations on a reduced scale consistent with present economic conditions. Several of the debtor countries went farther and insisted that creditor countries should reduce their tariff walls in order to permit payment of the indebtedness in goods and services. The Greek Delegation even proposed special commercial treaties for this purpose in disregard of the most-favored-nation clause. As against this the creditor countries took the position that debt settlements should be not final, but temporary, pending a possible recovery of international trade and prices. They furthermore refused to make any special concessions to debtors in the way of tariff reductions, although they were inclined to recognize some obligation to facilitate general recovery of international trade. All were in favor of stimulating the establishment/

establishment of creditor organizations to deal with debtors who found themselves in difficulties; but whereas there was some tendency on the part of debtor countries, particularly Rumania, to ask that a system of semi-compulsory arbitration of debts should be set up, the creditor countries took the position that these organizations should operate in a wholly voluntary manner.

The following resolution based upon an original British text was finally reported out by the drafting committee and adopted on July 20th by the Sub-Commission:

"1. The service of external debts is in different degrees an important item among the liabilities in the balance of payments of many countries and can only be assured if the debtor country can procure the necessary resources. The facility with which such resources can be procured in the present and in the future may depend on the revival of economic activity and credit. It would be assisted by a return to a reasonable degree of freedom in the movement of goods and services and the creditor countries in particular should cooperate to this end. It will also depend on the economic and financial policy adopted by the debtor country. In present conditions a solution of the problem of indebtedness may in certain cases be necessary for the reestablishment of equilibrium. It should not, however, be dealt with in such a way as to impair credit.

"2. The conditions in the debtor countries vary considerably and it is not possible to lay down a uniform treatment applicable to all cases. But debtors should make every possible effort to meet the services of their debts and to fulfil their contracts. It is indispensable, indeed, for the restoration of credit that contracts should be respected in the absence of modifications agreed between the parties concerned.

"3. When arrangements are recognized to be necessary care should be taken by all concerned to secure the maintenance of confidence. They should therefore be limited to those cases where they are unavoidable, be made directly between debtors and creditors and be based on the debtors' ability to pay. As regards State loans, it is in the interest of the creditors themselves to conclude arrangements of such a nature as will permit the adoption at the same time of a programme of economic and financial restoration by the debtor countries and its effective application.

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"4. It is desirable that in each of the countries concerned there should exist organizations in a position to represent the several classes of creditors in respect of foreign loans, including, in suitable cases, short as well as long term loans, and that such organizations should maintain such contact with one another as may be necessary to facilitate their proceedings. The Commission therefore recommends to the Governments of these countries that they should encourage the creation of and contact between organizations of this kind where they do not already exist, at such times and in such measure as action can in their view be usefully applied.

"5. The question of intergovernmental debts lies entirely outside the field of discussion of this Conference."

This was the only tangible achievement of the First Sub-Commission. No effort was made to discuss other topics on its agenda at this time. The gold standard countries were extremely sensitive about their precarious position and ~~feared~~ ^{were afraid} that any consideration of measures that appeared to be of an inflationary character would have a most unsettling effect upon their public opinion at home. Under the circumstances the American Delegation withheld a resolution upon which they were themselves prepared to act and which is given in full below:

"1. Countries in which price levels are abnormally depressed should take measures to correct the situation, thereby facilitating the re-employment of labor and the restoration of stable business conditions.

"2. The levels to which prices should be raised in such countries and the measures to be adopted must be left to each country to determine in its own case.

"3. In order that confidence may be maintained and governments may be in position to check the rise of prices when the desired levels have been reached, it is essential that governments should balance their current revenues and expenditures, including in expenditures the service of any debt incurred in financing public works."

The French, when this resolution was discussed with them privately, were extremely reluctant to have it introduced and expressed the fear that it might lead to controversial discussion and perhaps spoil the atmosphere of good-will in which/
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Second Sub-Commission - Second Sub-Committee (Technical Problems)

The Committee on technical problems connected with the re-establishment of a future international gold standard had for its field of action the first three items on the agenda of the Second Sub-Commission (see p. 8). Its initial work, however, was on clauses (c), (d), and (e) of the Pittman resolution. The form in which clause (c) was finally adopted was as follows:

"(c). That under modern conditions monetary gold is required not for internal circulation but as a reserve against Central Bank liabilities and primarily to meet external demands for payments caused by some disequilibrium on the foreign account. It is consequently undesirable to put gold coins or gold certificates into internal circulation."

Mr. Warburg pointed out that in this form attacks upon Central Bank gold reserves by hoarders of bullion were still possible. The first revised draft of this clause of the Pittman resolution had been submitted by Mr. Fraser of the Bank for International Settlements with a final section proposing that power should be given to the monetary authorities to take over gold from the public in time of need. In this form the draft went far to meet the American specifications; and at one time the entire Fraser resolution, with slight alterations, was unanimously adopted by the drafting committee. Later, however, the French asked that the question should be reopened, stating that the inclusion of the commandeering section would have a very bad effect upon the psychology of the French public at the present time. The Committee deferred to French wishes in this respect in order not to put any undue strain upon the gold standard countries, but Mr. Warburg pointed out that clause (c) as adopted involved an unnecessary hazard in the operation of
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the gold standard and might well postpone the date of American return to gold.

With regard to clauses (d) and (e) of the Pittman resolution, Mr. Fraser submitted a new draft embodying the subject matter of both. The new draft in the form finally adopted by the Committee, was as follows:

"(d) That in order to improve the working of a future gold standard greater elasticity should be given to Central Bank legal cover provisions; for instance, insofar as the system of percentage gold cover is applied a minimum ratio of not more than twenty-five per cent should be considered as sufficient; similar elasticity should be achieved by appropriate measures where other systems are applied. However, such changes must not be taken as an excuse for unduly building up a larger superstructure of notes and credits; in other words the effect of this resolution should be to increase the free reserve of Central Banks and thereby to strengthen their position."

This draft departs from the Pittman resolution in several respects. It does not provide a uniform 25 per cent reserve, nor a reserve composed wholly of metal, nor one held solely against currency; but all these differences result in a resolution more consistent with actually functioning banking systems, without sacrificing the chief objective of the Pittman resolution - namely, the rendering available for use of a considerable portion of Central Bank reserves now impounded by law. These revised clauses of the Pittman resolution were reported out to the parent Sub-Commission, which adopted them on June 28.

The Sub-Committee on technical monetary problems continued with its work and adopted three minor resolutions as follows:

"II. The Conference considers it to be essential, in order to provide an international gold standard with the necessary mechanism for satisfactory working,

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that independent Central Banks, with the requisite powers and freedom to carry out an appropriate currency and credit policy, should be created in such developed countries as have not at present an adequate Central Banking institution.

"III. The Conference wish to reaffirm the declarations of previous conferences with regard to the great utility of close and continuous cooperation between Central Banks. The Bank for International Settlements should play an increasingly important part not only by improving contact but also as an instrument for common action.

"IV. The Sub-Committee has taken note of the suggestions of the Roumanian delegation with a view to securing the adaptation of the Central Banks of certain agricultural countries to the special economic conditions of these countries and of the views expressed in the discussion thereof. The Sub-Committee feels that the local conditions in each country will to a very large extent determine the solutions to be adopted in this matter and suggests that if any countries desire advice on these questions in view of their technical character they might appropriately be considered by the international organizations specially competent to advise on these matters."

It then proceeded to consider a highly important resolution submitted by Mr. Fraser of the Bank for International Settlements. The resolution was designed to stabilize the operations of the gold standard; and it had been fully discussed in previous months at the meetings of directors of the Bank for International Settlements. These directors are the governors of the leading Central Banks of the world with the exception of the Federal Reserve Banks, which are not members. The principle is laid down in the resolution that the primary function of a Central Bank is to maintain in equilibrium the international balance of payments of its country, thereby avoiding persistent one way international movements of gold. So far as is consistent with the performance of this primary function, however, it is stated that Central Banks should cooperate in putting into effect

a policy designed to moderate the upward and downward swings of general business activity. The resolution is given in full below:

"The Sub-Committee approves the annexed statement of general principles of Central Banks monetary policy which was laid before it.

"(1) The proper functioning of the gold standard requires in the first place the adoption by each individual Central Bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country. Gold movements which reflect a lack of such an equilibrium constitute therefore an essential factor in determining Central Bank policy.

"(2) Gold movements so far as they seem to be of a more permanent character should normally not be prevented from making their influence felt both in the country losing gold and in the country receiving gold.

"(3) While gold should be allowed freely to flow out of and into the countries concerned, Central Banks should always be prepared to buy gold at a publicly announced fixed price, expressed in their currency, and to sell gold at a publicly announced fixed price, expressed in their currency, the latter at least when exchange rates reach gold points.

"(4) Central Banks should obtain from their market the fullest possible information concerning the demands that might be made upon their reserves.

"(5) Since as already stated under (1) the proper functioning of the gold standard requires in the first place the adoption by each individual Central Bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country, the discretion of each Central Bank in regulating the working of the gold standard in its own country should remain unimpaired. Central Banks should, however, recognise that in addition to their national task they have also to fulfil a task of international character. Their aim should be to co-ordinate the policy pursued in the various centres in order to contribute towards the satisfactory working of the international gold standard system.

"Moreover, they should endeavour to adapt their measures of credit regulation, as far as their domestic position permits, to any tendency towards an undue change in the state of general business activity. An expansion of general business activity of a kind which clearly cannot be permanently maintained, should lead Central Banks to introduce a bias towards credit restriction into the credit policy which they think fit to adopt, having regard to internal conditions in

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their own countries. On the other hand, an undue decline in general business activity in the world at large should lead them to introduce a bias towards relaxation.

"In pursuing such a policy the Central Banks will have done what is in their power to reduce fluctuations in business activity and thereby also undue fluctuations in the purchasing power of gold.

"(6) With a view to arriving at an agreed interpretation of the data revealing the tendency of developments in general business activity, and at an agreed policy, Central Banks should consult together continuously, each Central Bank in case of difference of opinion, acting on its own judgment of the situation. The Bank for International Settlements constitutes an essential agency for Central Bank action designed to harmonise conflicting views and for joint consultation. This instrument should continue to be employed, as far as possible, for the realisation of the principles set forth in the present note. It should continuously examine the application of the principles of the working of the gold standard and study such modifications thereof as experience may prove desirable."

This important resolution was put through without change in the course of one meeting of the Committee. In assenting to it, however, Mr. Warburg made a reservation. He stated that he could not accept the resolution definitely until he had submitted it to the Treasury, the Federal Reserve Board, and the Federal Reserve Bank of New York, and had obtained their views upon it.

It was at this point that the work of the Committee was interrupted by the reaction of the gold standard countries to President Roosevelt's message of July 3. On July 11 the Bureau of the Conference instructed the Second Sub-Commission "to take up the resolutions, already adopted by its Sub-Committees, on central banking cooperation and on the creation of Central Banks in certain countries where they did not now exist, and to pursue through its Sub-Committees the examination of the question of silver and any other

subject/

subject on its agenda which might by general agreement be considered suitable for discussion." These instructions were worked out with the knowledge and consent of Mr. Cox of the United States Delegation. Meanwhile, however, no reply had been received to Mr. Warburg's cable of June 30 with reference to the resolution on which he had placed a reserve.

The reply was received on July 13 just before the Committee on Technical Problems resumed work in accordance with the instructions of the Bureau. The reply not only criticized the substance of the resolution, but it suggested that such a statement of principle subscribed to by our Government at this time might lead to misunderstanding of our intention relative to the gold standard. Mr. Warburg was not in London at the time; but Senator Pittman attended the meeting of the Committee and stated that in view of the cable just received from Washington the American Delegation could not consider further the resolution previously accepted under reserve by Mr. Warburg. His action came as something of a shock to the other countries represented on the Committee and resulted in an immediate adjournment of the meeting. The next day, however, it was decided to report out the three resolutions already passed by the Committee (see p. 15), and these were unanimously adopted by the full Sub-Commission.

Subsequently, on the basis of a second cable from Washington, a formula was developed for communicating to the Sub-Commission the resolution which the American Delegation was no longer in a position to discuss. The Delegation

agreed/

agreed that it would be proper for the Rapporteur of the Committee to quote in full the text of the resolution, stating that agreement had been reached "by all governments represented on the Sub-Committee on Technical Monetary Problems, except that of the United States, which considered discussion of the question at this time premature, it being understood that the Federal Reserve Banks would be glad to confer at an opportune time with other Central Banks on questions of this character to the extent that they are compatible with national policies." The resolution was communicated with this explanation to the Sub-Commission at its final meeting on July 20. It was not made the subject of discussion or action at this time.

The drafting committee further stated that it had not been able during the present session to complete its work on the gold exchange standard, methods of economizing gold, and the distribution of monetary reserves. This was merely a way of glossing over the fact that these were questions which the gold standard countries felt they could not safely discuss in view of the present disturbed condition of their public opinion at home. It is probable, too, that the American Delegation would have had to state in regard to a number of the proposals that would have been made under these headings that they were subjects for central banks to discuss rather than for government representatives. Other countries did not find it necessary to make this distinction, either because the heads of their central banks were their representatives on the committee or because most of the questions raised had already been fully discussed by their central bank governors at the monthly meetings of the Bank

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for International Settlements. Even had Governor Black or Governor Harrison been present in the Committee, however, we should have had to proceed with extreme caution until the outlines of our future monetary policy should become clearer. It was as much in the interest of the United States as of the gold standard countries that the work of the Committee at this stage should cease.

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MEMORANDUM

Dear Mr. Secretary:

In accordance with the request you made the other day, I am sending you resumés of the activities of the two sub-commissions on which I sat as the American representative. I should have prepared them sooner, but up to last evening I was occupied with three meetings each day.

If you desire any amplification or contraction, or other form of modification, I can readily attend to the matter. I tried to indicate broadly the general character of the subjects that came before the sub-commissions; the attitude taken by the respective representatives; and the final results of deliberations.

As I said the other day, I shall be very glad subsequently to furnish you personally with a report giving a more specific background of discussions before the two sub-commissions. It might be useful to do so in view of the fact that, irrespective of what may be the ultimate fate of the Conference, some of the activities of these two sub-commissions may, I think, be of interest to the Department of State from time to time. And the records of the deliberations of this international Conference are remarkable, I think, for their brevity, vagueness and inaccuracies. I have never seen records of any international Conference so meagre and inadequate as those found in the League of Nations Journal. Records of this nature are, of course, highly important in connection with the interpretation of acts.

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ECONOMIC COMMISSION - SUB-COMMISSION III-A.

Sub-commission III-A of the Economic Commission of the Conference was appointed by the commission on June 22, 1933, for the purpose of considering "bounties and direct and indirect subsidies, and in particular, shipping subsidies". Twelve countries, including the United States, were represented on this sub-commission.

General Character of Subjects before the Sub-commission.

Declarations of views and so-called "proposals" in various forms were submitted by several delegations. These declarations and proposals were of a general character and none took the form of an international act, such as a resolution or convention. During the discussions that took place, it could be inferred that more concrete action was contemplated by some delegations, especially with respect to so-called "shipping subsidies". Proposals submitted were concerned with bounties or subsidies to production, including agricultural production, and subsidies to export trade, and to shipping. Clearly, a mere discussion of any one subject, among many which were presented in a fragmentary way, would have required a great deal of time and effort. It can undoubtedly be properly said that it would be useless to speculate on possible results of further efforts, going beyond the stage of discussion and looking to concrete acts in the form of resolutions or conventions.

Shipping

Shipping Subsidies.

Certain maritime nations obviously were principally, if not solely, interested in subsidies to shipping. The subject was particularly stressed by the British delegate, Dr. Burgin, who put into the records of the Conference a somewhat extensive memorandum, which he orally discussed. He acted as Chairman of the sub-commission.

The memorandum in general terms condemned "uneconomic shipping subsidies". It was argued that they were responsible for the excess of tonnage over the existing demand; that they were conducive to inefficient service; and that they were injurious to the countries that paid them as well as to other maritime countries.

The American delegation had no instructions to lay before the Conference specific proposals with respect to subsidies. However, it was authorized to defend the existing policy and practice of the United States regarding aid to shipping, the principal feature of which may be said to be assistance rendered through certain mail contracts made by the Government with American ship owners. Such action was taken in so far as it seemed to be necessary during the course of the proceedings of the sub-commission.

When the various proposals were under consideration, it was pointed out orally by the American representative that it was of great importance that there should be certainty in connection with international acts - resolutions, declarations or covenants. The view was expressed that there was danger in multiplying international difficulties in dealing in general or vague terms with subjects that enter into

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international arrangements or problems which it is sought to make the subjects of international concern. It was observed by way of illustrations that undoubtedly there might be considerable differences of opinions with respect to such terms as "uneconomic subsidies" or "unnatural assistance" or "artificial hinderances to trade" or "economic disarmament" or "artificial conditions". Attention was called to legislation of the United States enacted in 1930 and in 1938, in which it was declared that it was necessary for the national defense and for the proper growth of the nation's foreign and domestic commerce that the United States should have a merchant marine of the best equipped and most suitable types of vessels. It was further pointed out that in enacting such legislation the Congress of the United States had in mind, in furtherance of these specific purposes, an equalization of the cost of constructing and operating American ships and such costs in respect of foreign ships, so that vessels of the United States could compete on substantially equal terms with vessels of other maritime nations. With reference to commercial treaties mentioned by the British delegate, it was observed that many years ago the Government of the United States initiated the conclusion of numerous treaties of this nature with other nations; that those treaties, varying of course in form and substance, contained provisions to prevent discrimination against vessels through the imposition of discriminatory duties on their cargoes; that there is no discrimination against vessels of countries which do not discriminate against ships of the United States.

A detailed analysis was also made of the British Government's memorandum, but due mainly to the fact that deliberations of the sub-committee were interrupted, that analysis was not in any way put into the records of the sub-commission.

Interruption of the Work of the Sub-commission.

The sub-commission was one of the bodies which ceased to function effectively shortly after the Italian and French representatives, acting of course under instructions, raised the so-called "monetary question", which they pleaded interfered with the continuation of most of the activities of the Conference. After hearing their declarations, the chairman requested the several representatives to state their opinions with respect to future action. The American representative expressed views to the effect that, while he would not insist that the French and Italian representatives should continue their participation if they desired to withdraw, he considered that the activities with which the sub-committee was charged were not affected by happenings in other bodies of the Conference, and that those activities should proceed without delay.

However, following the announcement of the position taken by these two delegations which was later supported by the German representative, a report from the sub-commission concerning its activities was called for by the chairman of the Economic Commission. The report was prepared by the chairman of the sub-commission and was approved in its entirety by all the other national representatives. It is limited mainly to synopses of the views of the representatives on the sub-commission, expressed orally or

in writing. No concrete acts nor recommendations were formulated by the sub-commission.

Deliberations of the sub-commission were conducted in a cordial spirit by all who participated in them.

ECONOMIC COMMISSION - SUB-COMMISSION III-B.

Sub-Commission III-B of the Economic Commission was created by the Commission for the purpose of considering "marks of origin, veterinary and phyto-pathological questions", and other subjects. The sub-commission agreed at its first meeting, held June 23, that its deliberations should be confined to "marks of origin, veterinary questions, phyto-pathological questions and other matters connected with indirect protection". The deliberations of this sub-commission well illustrate the well known and ever-prevailing obstacles to important international undertakings; conflicts of views and of national laws, policies and interests.

General Character of Subjects before the Sub-commission.

The secretariat was instructed to draw up a list of various forms of so-called "indirect protection". It produced a document containing a large number of subjects, which had been extensively studied by the Economic Committee of the League of Nations. This number was amplified by a more than equal number of subjects submitted by certain delegates on the sub-commission.

The term "indirect protection" is used to connote measures which, whatever may be their form and specific use; have the effect of "a reenforcement of protection", as it was expressed in the document laid before the sub-commission by the secretariat. Complaints have been made that they are barriers to the free flow of international trade, in that their application results in excluding or greatly obstructing imports, even though such regulations are not in terms measures of exclusion. A few illustrations

may

may be mentioned, such as requirements relative to marks of origin to identify foreign commodities; application of customs formalities with a view to economic protection; requirements with regard to expensive preparation of shipping documents; discriminatory practices in relation to "indirect imports"; application of veterinary and phyto-pathological regulations for purposes of protection.

The subjects put before the sub-commission may well be said to be labyrinthian in view of their number and ramifications. Concrete drafts of international acts in the form of resolutions or covenants were not submitted except in very few instances. Protracted discussions led to but relatively small concrete results. Reasonably satisfactory solutions of some of the problems presented undoubtedly would be conducive to an elimination of impediments and harassments of international trade.

Resolutions Relating to Scientific Investigations.

Some resolutions were passed, requesting the League of Nations to conduct scientific investigations, deemed to be in the interest of international trade. Proceedings were conducted in accordance with the general principle of unanimity of action. There seemed to be no reason why the American delegation should stand in the way of such action in these matters, when all other delegations considered the measures to be desirable. The original form of an instruction to the League to make investigations was changed to a request. This slight alteration in verbiage seemed to avoid any real or imaginary objection that might have been found to a concurrence in an instruction to an agency such as the League by a non-member. Action was taken looking to a possible future conference to deal with diseases of animals and with trade in animals and meat products.

Convention

Convention Relating to "Marks of Origin".

An attempt was made to formulate a draft convention in relation to "marks of origin". The undertaking seemed to be useful in the interest of international trade. There was considerable discussion by some representatives of complaints that governments create impediments to trade by unnecessary harassing legal requirements with respect to markings on imported commodities. The declared purpose of regulations of this nature is the identification of foreign goods in the interest of the domestic purchaser. It has been shown that regulations occasionally are applied beyond the necessities of that purpose; that compliance with them sometimes results in injuries to commodities; that they work in varying degrees to increase the cost of production.

Various drafts of conventions were submitted by delegates. One was prepared by the American representative on request of the chairman. But slight modification of the law of the United States would have been necessary to bring it into harmony with the proposed convention. No opposition was made to that draft except by the British delegation, which strongly opposed any substantial international action and asserted the purpose of the British Government to have complete freedom of action in the matters under consideration. The German and the Netherlands representatives emphatically urged the formulation of a convention. As a result of the positive attitude of the British delegation, the action of the sub-commission was limited to a report discussing the general subject, enumerating specific points of agreement or disagreement, and further indicating the possibility of future worthwhile action in view of "appreciable progress".

Equitable

"Equitable Treatment Clause."

Something that might be called a novelty, although it may not be entirely new, in connection with the formulation of commercial treaties came before the sub-commission for action. It was termed the "equitable treatment clause" and as originally laid before the sub-commission took the following form:

"Equitable treatment Clause.

"With the exception of Customs tariffs and all other questions specifically settled in other portions of the present treaty,

"It is agreed -

"That if, after the conclusion of the treaty, one of the contracting Parties introduces any measure whatever, even of an internal nature, which is liable materially to modify the de facto situation created by the said treaty to the detriment of the other Party, the first-named Party shall not refuse to examine in a friendly spirit any complaints or proposals the other Party might submit, nor shall it refuse to enter into negotiations with a view to seeking the most appropriate means of reestablishing the equilibrium which had thus been destroyed."

Provision was also made for a procedure respecting adjustment of disputes concerning complaints contemplated by the clause, but it was ultimately eliminated.

The vague and contradictory expression of purpose and the use of such terms as de facto and the figurative expression "equilibrium" are obviously objectionable in an international covenant, in which precision is peculiarly important. The purpose of the proposed clause evidently is to adjust situations in which the reciprocal benefits of a treaty may be destroyed or impaired, as a consequence of domestic measures, even though the terms of the treaty may not be infringed. Important, delicate questions are raised by this interesting proposal.

For this reason the American representative willingly furnished, on request, a more concise draft which was adopted. There can be no harm and may be considerable interest in drawing attention to the general subject under consideration by the very guarded recommendation adopted in the following language:

"The sub-committee proposes that the governments participating in the Conference consider the advisability of incorporating into future or existing treaties, wherever such action may be deemed to be suitable, a clause in the sense of the following:

"If, subsequent to the conclusion of the treaty, one of the Contracting Parties introduces any measure, which even though it does not result in an infringement of terms of the treaty, is considered by the other Party to be of such a nature as to have the effect of nullifying or impairing any object of the treaty, the former shall not refuse to enter into negotiations with the purpose either of an examination of proposals made by the latter or of the friendly adjustment of any complaint preferred by it."

Cessation of Work of the Sub-commission.

The work of this sub-commission which was carried on in a cordial spirit was not interrupted by objections which the Italian and the French representatives made in other places with respect to "monetary questions". It terminated with the general cessation of activities of the Conference.



DEPARTMENT OF STATE
OFFICE OF THE SECRETARY
WASHINGTON

July 25, 1933.

The Secretary of State encloses for the information of the President a copy of the telegram indicated below.

Enclosure:

Telegram No. 164, July 25, 6 p. m., London,
from Secretary Hull.

PSF
Economic Conf.
(1) (2)

E. Conf. 15-

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GRAY

London

Dated July 25, 1933.

Recd. 1:30 p. m.

Secretary of State,
Washington.

RUSH 164, July 25, 6 p. m. Sections one and two.

Following is the text of a speech which I propose to make at the plenary session of the Conference on Thursday, July 27th. Since the exact time of delivery has not as yet been determined upon please make no (repeat no) release until receipt of Associated Press flash "Hull speaking".

"The Conference is now entering the recess stage. The progress of its work has corresponded with the difficulties of its task. Human ingenuity could scarcely have devised a more complete jumble and chaos of business and general economic conditions than those facing the nations and the Conference when it convened and still challenging solution. A multiplicity of other circumstances has further impeded the progress of the Conference ~~such as the lack~~

164 from London Sections one and two.

-2-

of an international public opinion, the malignant opposition of those who blindly or selfishly oppose all international economic cooperation and the engrossment of many nations with the more or less temporary phases of their domestic programs for the emergency treatment of panic conditions.

It is inevitable in the light of these extremely complicated conditions that the Conference having reached a few important agreements and concluded a thorough appraisal and understanding of the problems presented would find it necessary to recess. Time must be afforded for some of these difficulties to be ironed out and for the nations further to broaden their economic plans and policies so as to coordinate them on a gradually increasing scale with the program of international cooperation which this Conference is undertaking to promulgate.

End sections one and two.

HULL

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GRAY

LONDON

Dated July 25, 1933

Rec'd 2:55 pm

Secretary of State

Washington

RUSH

164, July 25, 6 pm. (SECTIONS THREE AND FOUR)

The conditions which defined solution by individual state action and imperatively called for international treatment offered the compelling reason for this conference. Every rational person knows that since there were international causes of the depression there must be international remedies.

For those either pessimistically or wantonly inclined to attempt further to handicap the conference in its particular efforts to go forward is virtually to indict and discredit all forms of international cooperation however necessary to deal with international problems which vitally affect the welfare of peoples alike in every part of the world.

It is easy to say that this or that incident or complication or condition has caused a partial failure of the conference. This has been the experience of past conferences when struggling against many obstacles to solve complicated problems involving human life and human welfare.
The

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2- #164 from London

The very purpose of international cooperative effort is aggressively to override these and all other impediments to the fulfillment of its high mission. To impute failure is to impute the bankruptcy of world statesmanship in the face of unparalleled and universal economic distress and suffering.

Business and economic conditions in every part of the world remain dislocated and disorganized. At the beginning of the conference the delegates had no adequate conception of the complicated conditions in distant countries and of each other's varying viewpoints. Understanding is the chief basis of all international relationships; and its importance can scarcely be overestimated. Manifestly valuable seed has been sown here already in that we have come to a deeper and more sympathetic comprehension of our common problems.

There are after all only two ways of reaching international agreement. One is by imposing one's will by force - by war. The other is by persuasion - by conference. Even by the violent means of war - which we have all renounced - no one would expect agreement in six weeks. How can it then be said that the conference - this method which has killed no man - has already failed? Many actual wars of the past growing out of bitter trade controversies would have been averted had there been more peace time conferences.

My

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3- #164 from London

My judgment is that just now the world's statesmen cannot sit in conference too often or too long in earnest and patient consideration of all questions calculated to disturb friendly relations and clear understanding between nations and in determined effect to bring about their fair and peaceful adjustment.

Many of those not delegates here who criticize the conference for not going forward more expeditiously represent the economic leadership in numerous countries which has already failed in repeated attempts since 1929 to cure panic conditions. This group of critics includes the selfish but shortsighted beneficiaries of governmental favoritism and those mock patriots whose constant propaganda would make international finance and commerce almost criminal. These forces are potent in many parts of the world today. They will be very slow to lower a single excessive trade barrier until human distress becomes unbearable. It matters not to them that there ought to be forty billion dollars of additional commerce on the high seas this year thereby affording employment for labor and markets for surpluses.

In the past there have been spectacular races by nations in military armaments. Their wildest rivalry however scarcely exceeds in danger the present mad race between most nations to promote economic armaments which
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4- #164 from London

inflict colossal injuries on the masses of people every-
where. At this moment the world is

(END SECTIONS THREE AND FOUR)

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LONDON

Dated July 25, 1933

Rec'd 3:55 pm

Secretary of State

Washington

RUSH

164, July 25, 6 pm (SECTION FIVE)

still engaged in wild competition in economic armaments which constantly menace both peace and commerce.

The nations must make up their minds to pursue less extreme economic policies; they must discard artificial expedients to protect industries that are notoriously inefficient or are not justifiable on any practical economic or business grounds.

When some nations undertake to produce every commodity whatsoever at the cost for purposes of either peace or war other nations are driven to turn to the adoption of similar policies of unjustifiable production with the result that as in the case of military armaments the economic race neutralizes itself to the injury of all who are engaged in it.

I appeal to this conference and through it to peoples everywhere to demand an end to the ruinous races by nations in either military or economic armaments. It is the duty of statesmanship everywhere to lead the world away from these twin evils of this modern age.

Much

mam

2- #164 section five from London

Much has been said about the order in which the subjects on the agenda should be considered. I believe that the membership of the conference frankly recognizes that both the financial and economic difficulties as listed in the agenda must be visualized as one unified network of obstructions and impediments to international finance and commerce and attacked and dealt with as a whole. It would get nowhere to lower trade barriers without development of stable monetary facilities for the movements of commerce nor on the other hand would commerce move with the aid of complete monetary stabilization if existing insurmountable trade obstructions still continued intact. Substantial progress in dealing with either group depends on corresponding action dealing with the other

(END SECTION FIVE)

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London

Dated July 25, 1933

Received 5:25 PM

Secretary of State,
Washington.

Rush 164 July 25, 6 p.m. (Section six)

The object of this Conference is to substitute prosperity and good will for panic and trade strife. To relax our efforts in the face of the need and the duty pressing upon us would show an amazing indifference to human welfare. The average citizen must by this time be convinced that those who have opposed sane practical international economic cooperation have proven to be false prophets. Do the thirty millions of unemployed wage earners or the many millions of impoverished farmers and producers of raw materials need additional proof of the failure of such leadership? May I again remind you that the domestic economy of more than thirty important countries is primarily dependent upon international finance and commerce with direct repercussions upon the entire world. The practice of a too narrow policy has choked the entire trade of the world with disastrous effects upon home production and home prices and markets everywhere.

The processes

Page 2 No 164 from London (Sec Six)

The processes of exchange and distribution have broken down and their restoration presents the real world problem. Disastrous experience teaches the necessity for a broader economic social and political policy. Every country today should first have a comprehensive domestic program calculated most effectively to deal with the existing depression. The United States has launched a constructive program to this end. Indispensable and all important as domestic programs are they cannot by themselves restore business to the highest level of permanent recovery. A program of international cooperation is necessary for purposes of a broad basis on which to build the domestic economic structure, to give it stability and to make possible a substantially greater measure of sound and lasting business prosperity.

Let me say with reference to my own and other countries striving by every available domestic method, to extricate (end section six)

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London

Dated July 25, 1933

Received 5:09 PM

Secretary of State,
Washington.

Rush 164 July 25, 6 p.m. (Section seven)

themselves from panic conditions, that there is no logic in the theory that such domestic policies are irreconcilable with international cooperation. Each country undoubtedly should invoke every emergency method that would increase commodity prices so that they may gradually be coordinated with international economic action for the common purpose of business recovery. The development of both programs can be proceeded with on a substantial scale from the outset and to an increasing extent as emergency treatment of panic conditions diminishes.

In harmony with these views I have presented to the Conference a proposal for an agreement among the nations to reduce trade barriers gradually over a period of time to make the unconditional form of the favored nation doctrine with a reasonable exception in favor of broad international efforts for reduction of trade barriers the universal basis of commercial policy and to extend the life of the tariff truce to a reasonable period beyond the final adjournment of the Conference. This proposal offers a

Page 2 From London No 164 Sec seven)

offers a basis upon which a world program might be developed during the course of the recess and the meeting of the Conference to follow.

The American Government therefore hopes that every nation that may not have done so will launch a full domestic program of both ordinary and extraordinary methods and remedies calculated to raise prices, to increase employment, and to improve the business situation.

We must all agree that business conditions in most countries are still at or near a panic level and that their restoration imperatively calls for a program of fundamental policies and methods as outlined in the agenda of this Conference. We know that these conditions have not greatly improved and that the basic features of the Conference agenda remain virtually (End seven)

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LONDON

Dated July 25, 1933

Rec'd 7 pm

Secretary of State

Washington

RUSH

164, July 25, 6 pm. (SECTION EIGHT)

untouched and unawaited upon. We know too that the greatest single step the Conference can take is one that would inspire confidence; and this step can only be taken by a determination of this Conference resolutely to go forward to the solution of each vital problem listed on the agenda.

No nation has ever been able to live unto itself and not become backward and decadent. No people in the past have long remained highly civilized without the continuing benefits of the customs, learning and culture of other parts of the world and these are only within the reach of trading nations.

International commerce conducted on a fair basis as our agenda proposes is the greatest peace maker in the experience of the human race. The promotion and preservation of the high ideals and high purposes of economic peace brought this great Conference together and its failure would be their failure. No governments within my time have faced a graver economic crisis or come together with a higher mission. It would be an unforgivable act if they, through

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GRAY

LONDON

Dated July 25, 1933

Rec'd 7:20 pm

Secretary of State

Washington

RUSH

164, July 25, 6 pm. (SECTION NINE)

labors so far. We came here beset by our individual problems compelled by the necessities of special circumstances arising from widely differing conditions in our various countries. We have come to a much clearer understanding of each other's viewpoints and special problems. We have not permitted immediate considerations no matter how urgent to divert us from the larger purposes to which we are all committed. We are unitedly resolved to move forward together in a common cause. It cannot fail to be gratifying to all who wish lasting success from this Conference that greater goodwill and mutual helpfulness, deeper comprehension and renewed determination have come from our deliberations.

The duty and responsibility of the Conference are well known to us as they are to every intelligent citizen on the planet. I pray that each of us may be given the light clearly to see and fully to understand. We cannot falter. We will not quit. We have begun and we will go on.

(END MESSAGE)

CSB

HULL

PSF London Econ Conf

Official No.: **Conf. M.E. 22**

London, 26th July, 1933

LEAGUE OF NATIONS

MONETARY AND ECONOMIC CONFERENCE

**REPORT OF THE BUREAU
TO THE CONFERENCE**

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REPORT OF THE BOARD OF DIRECTORS
TO THE STOCKHOLDERS

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REPORT BY THE BUREAU TO THE CONFERENCE

I. PREPARATION OF THE CONFERENCE

1. The Powers which participated in the Lausanne Conference, on the conclusion of their work, undertook to decide upon "the measures necessary to solve the other economic and financial difficulties which are responsible for, and may prolong, the present world crisis". Consequently they decided to request the League of Nations to convene a Monetary and Economic Conference for this purpose, the agenda for which was to be drawn up by a preparatory commission of qualified experts.

2. The Council of the League of Nations, having decided at its meeting on July 15th, 1932, to comply with this request, set up a small Committee (Committee for the Organisation of the Conference) under the chairmanship of Sir John Simon, which was instructed to consider what practical steps should be taken.

3. As the result of decisions taken at that same meeting by the Council of the League of Nations, and on October 6th, 1932, by the Council's Committee of Organisation, the Preparatory Commission of Experts was finally set up as follows:

(a) One financial and one economic expert from each of the following countries:

Germany, Belgium, United Kingdom, China, United States of America, France, India, Italy and Japan.

(b) Six experts appointed by the Council of the League of Nations, belonging to the following nations:

For financial questions: Poland, Switzerland, Finland;

For economic questions: Czechoslovakia, Hungary, Argentine Republic.

(c) Two experts appointed by the Bank for International Settlements.

(d) One expert representing the Rapporteur on financial questions to the Council of the League of Nations (Norway).

In addition, an invitation to take part in the work of the Preparatory Commission was issued to the International Labour Office, which appointed three delegates, and to the International Institute of Agriculture, which appointed one.

The participation of the United States of America was the outcome of a correspondence between the Government of the United Kingdom and the Government of the United States, in which it was stipulated that reparations, inter-governmental debts and specific tariff rates (as distinct from customs policy) should be excluded from the programme, whereas the problem of silver would be included among the monetary questions.

4. The Preparatory Commission of Experts met for the first time at Geneva from October 31st to November 7th, 1932, under the chairmanship of Dr. L. J. A. Trip, President of the Netherlands Bank and representative of the Bank for International Settlements. It met for the second time at the beginning of January, 1933. Its findings, embodied in a Draft Annotated Agenda which was to serve as the basis for the work of the Conference, were submitted on January 19th to the Chairman of the Committee of Organisation and forwarded a few days later in that form to the States invited to the Conference.

II. INAUGURATION OF THE WORK OF THE CONFERENCE

5. His Majesty the King opened the work of the Conference at an inaugural meeting held on June 12th, 1933, at 3 p.m.

The Right Honourable Ramsay MacDonald assumed the Presidency, in accordance with a resolution requesting him to do so which the Council of the League of Nations adopted at its meeting on January 25th, 1933.

Sixty-seven States were invited to take part in the work of the Conference. Sixty-four complied with the invitation and sent representatives. In addition the following are taking part in its work in an advisory capacity: the Economic Committee, the Financial Committee, the Organisation for Communications and Transit of the League of Nations, the International Labour Office, the International Institute of Agriculture and the Bank for International Settlements.

III. TARIFF TRUCE

6. Some weeks earlier the United States Government, at a meeting of the Committee of Organisation, had taken the initiative of proposing the institution of a tariff truce for the period of the Conference. At the time at which the Conference began its work, fourteen States had, subject to various reservations, acceded to that measure, thereby agreeing that they would not before June 12th, nor during the proceedings of the Conference, adopt any new

measures which might increase the many difficulties now adversely affecting international trade, subject to a right to withdraw from this agreement after 31st July on one month's previous notice. Forty-seven States afterwards acceded to the truce, making a total of sixty-one States, representing nearly 90 per cent. of the trade of the world.

IV. WORK OF THE CONFERENCE

7. At the first meeting, the Right Honourable Ramsay MacDonald, in assuming the Presidency of the Conference, outlined the general plan of the Conference's work on the basis of the Annotated Agenda drawn up by the Preparatory Commission of Experts.

His Excellency M. P. Hymans, delegate for Belgium, was appointed Vice-President by the Conference.

The Bureau of the Conference was set up and was composed of representatives of the following countries: Argentine Republic, the United Kingdom, Canada, China, Czechoslovakia, France, Germany, Hungary, Italy, Japan, Mexico, Netherlands, Spain, Sweden, Union of Soviet Socialist Republics, United States of America.

8. After seven plenary meetings, the general discussions closed on June 15th. The representatives of thirty-four States spoke, explaining the views of their country regarding the problems which the Conference was called upon to solve.

9. In order to pursue a method of work in consonance with the suggestions of the Preparatory Commission of Experts, the Conference set up two main Commissions, on each of which all the Nations were represented:

Monetary and Financial Commission:

President: The Honourable James M. Cox (United States of America); Vice-Presidents: H.E. M. G. Jung (Italy); Dr. Victor Kienböck (Austria); Rapporteur: H.E. M. Georges Bonnet (France).

Economic Commission:

President: H.E. M. H. Colijn (Netherlands); Vice-Presidents: M. C. V. Krogmann (Germany); H.E. M. Thomas Le Breton (Argentine Republic); Rapporteur: The Right Honourable Walter Runciman (United Kingdom).

10. After adopting at its first meeting, on June 16th, a programme of work, the Monetary and Financial Commission set up two Sub-Commissions:

(a) One to consider "*Immediate Measures of Financial Reconstruction*," with the following items on its agenda:

Credit Policy;
Price Levels;
Limitation of Monetary Fluctuations;
Exchange Control;
Indebtedness;
Resumption of International Lending.

(b) The other to consider "*Permanent Measures for the Re-establishment of an International Monetary Standard*", with the following items on its agenda:

Functions of Central Banks;
Co-ordination of their Policies;
Monetary Reserves;
Silver.

Whenever the need became apparent, each of these two Sub-Commissions appointed small sub-committees to study special problems or endeavour to harmonise divergent opinions with a view to framing draft resolutions to be submitted to it.

11. The Economic Commission divided up its programme of work as follows:

(a) *Commercial policy:*

Return to normal conditions of trade;
Progressive abolition of trade restrictions and foreign exchange control;
Tariff and treaty policy, including the régime of the most-favoured-nation clause.

(b) *Co-ordination of production and marketing:*

Wheat and other foodstuffs (sugar, wine, coffee, etc.); raw materials (coal, timber, etc.);
Industrial and agricultural agreements, etc.

(c) *Measures other than Customs duties and prohibitions:*

Various measures coming under the heading of indirect protectionism;
Marks of origin;
Veterinary and phyto-pathological questions.

(d) *Direct and indirect subsidies (especially shipping subsidies).*

(e) *Public works.*

Sub-Commissions were set up in course for the study of the items of this programme, as well as a number of small Sub-Committees. Parallel with the work of the organs of the Conference negotiations were carried on between countries producing wheat on a large scale and ultimately extended to importing countries. Similarly, certain private international organisations created for the study of the production and marketing of certain products and raw materials were asked to co-operate with the competent organs of the Conference.

12. On the whole field of work, the common aim of all delegations was to find solutions of the problems which would constitute the basis of international conventions and agreements. When the major issues before the Conference were approached in this spirit, the negotiations rapidly revealed their close interdependence. A temporary understanding during the present period of uncertainty regarding exchange ratios was found to be an essential condition for the continuance of the discussion of the full programme of the Conference by all the delegations. In the absence of such an understanding at the moment, it was recognised as desirable to reconsider the programme of work with a view to selecting those questions on which discussions might most usefully proceed, and to deferring for the time being those which could not be solved until a greater degree of monetary stability had been secured. The Bureau accordingly requested the Committees to study their agenda with this object in view.

13. On the proposals of the two main Commissions of the Conference, it was decided, on July 6th and 11th, that the organs mentioned below should proceed with the following work :

(1) *Monetary and Financial Commission :*

(a) Sub-Commission I (Immediate Measures), to proceed in the first instance to the discussion of the subject of indebtedness.

(b) Sub-Commission II (Permanent Measures), to take up the resolution already adopted by its Sub-Committees on the co-operation of Central Banks and on the creation of Central Banks in certain countries where they do not as yet exist, and to pursue through its Sub-Committees the examination of the question of silver and any other subject on its agenda which might by general agreement be considered suitable for discussion.

(2) *Economic Commission :*

The following Commissions to continue their work :

(a) The Sub-Commission on Co-ordination of Protection and Marketing and its various Sub-Committees (wheat, sugar, wine, timber, coal, etc.) ;

(b) The Sub-Commission on Indirect Protectionism.

With regard to the Sub-Commission on Commercial Policy and the Sub-Commission on Subsidies, it was decided that reports should be prepared showing the different views which had emerged during the discussions, and establishing the position from which future work should proceed.

14. The reports relating to the above work are annexed hereto. They will be submitted to the Conference by the rapporteurs on financial and economic questions.

The ground has to a large extent been cleared and the way prepared for further constructive action. These documents clearly show the importance of the discussions which have taken place and the initial results obtained. Certain of these results have been incorporated in the form of unanimous resolutions which should constitute the basis of the final convention and recommendations of the Conference.

It should be pointed out that wheat was not dealt with officially. Protracted discussions, however, took place first between the exporting countries and then between those countries and the importing countries and it is hoped that these conversations may before long lead to concrete agreements.

V. ARRANGEMENTS FOR THE FUTURE OF THE CONFERENCE

The Conference is recommended to entrust to its Bureau the task of organising the work to be carried out by the Committees in preparation for the resumption of the plenary meetings of the Conference and its main Commissions.

For this purpose the Bureau recommends the adoption of the following resolution :

The Conference,

Empowers the President, Vice-President and Bureau :

(1) To take whatever action they may consider likely to promote its success, whether by the convocation of any committee set up by the Conference or of representatives of States especially concerned in any particular problem or by the reference to experts for study of any special question ;

(2) To determine the date of the re-assembling of the Conference.

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ANNEX I

**REPORT OF THE MONETARY AND FINANCIAL
COMMISSION**

President : The Honourable James M. COX (United States of America)

Vice-Presidents : H.E. M. Guido JUNG (Italy)

Dr. V. KIENBOCK (Austria)

Rapporteur : H.E. M. Georges BONNET (France)

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REPORT OF THE JOINT AND SEVERAL



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(L 1721)

I. REPORT BY H.E. M. GEORGES BONNET (FRANCE)

1. The Monetary and Financial Commission began work under the Presidency of Governor Cox on June 18th. It decided at its first meeting to adopt the Draft Annotated Agenda drawn up by the Preparatory Commission of Experts as the basis of its programme.

With a view to systematic study of its programme, the Commission divided into two Sub-Commissions. The first on "Immediate Measures for Financial Reconstruction", with H.E. M. G. Jung as President, had the following subjects on its agenda:

- Credit Policy;
- Price Levels;
- Limitation of Monetary Fluctuations;
- Exchange Control;
- Indebtedness;
- Resumption of International Lending.

The second Sub-Commission on "Permanent Measures for the Re-establishment of an International Monetary Standard", with Dr. Kienböck as President, was charged with the study of the following points:

- Functions of Central Banks;
- Co-ordination of their Policies;
- Silver;
- Gold Exchange Standard and other Means of economising Gold;
- Distribution of Monetary Reserves.

All the countries represented at the Conference were entitled to take part in the work of the two Sub-Commissions, and representatives of the Financial Committee of the League of Nations and the President of the Bank for International Settlements were also invited to participate.

Further, each of the two Sub-Commissions entrusted the study of certain special problems and the drawing up of draft resolutions to small sub-committees as circumstances required.

2. A number of meetings were devoted by each of the Sub-Commissions to a detailed exchange of views on the general aspects of the questions forming their programme as outlined above. This initial work brought to light the inter-dependence of the majority of the problems involved, and the necessity for first settling certain fundamental questions which might pave the way to the agreements which it was the function of the Sub-Commissions to seek. It was, however, agreed after a full exchange of views that solutions of these fundamental problems on an international basis were for the moment impossible, and that in these circumstances it was better to postpone their discussion. The Sub-Commissions accordingly decided to concentrate on those points the discussion of which was likely to lead to immediate results, and in agreement with the Bureau of the Conference they modified their programme accordingly.

3. In these circumstances, they achieved the results which you will find embodied in the Reports they have prepared. These Reports have been adopted by the Monetary and Financial Commission and I, in my turn, have the honour to submit them to you for your approval (see Annexes 1 and 2).

4. The Sub-Commission I unanimously adopted the text of a resolution relating to indebtedness submitted to it by the Drafting Committee set up for the purpose. The adoption of this resolution was accompanied by interpretative explanations from the delegations of the Argentine Republic and the Dominican Republic.

The Sub-Commission I brings its Report to a close with the statement that the discussion of the other subjects on the Agenda did not proceed far enough to do more than outline the main problems to be solved. It adds that it will, however, be prepared to resume its task at a later stage.

5. The Sub-Commission II unanimously adopted the following five resolutions:

(a) A resolution relating to the return to monetary stability, the adoption of gold as an international monetary standard, its use for monetary requirements and the legal cover of Central Banks.

The Bulgarian delegation made a reservation with regard to this resolution.

(b) A resolution relating to the creation of Central Banks.

(c) A resolution relating to the need for close and continuous co-operation between Central Banks and to the part which might be played by the Bank for International Settlements in this connection.

(d) A resolution relating to the adaptation of the Central Banks of certain agricultural countries to the special economic conditions of those countries.

The Yugoslav delegation entered a reservation to this resolution.

(e) A resolution relating to silver, the adoption of which was accompanied by explanations from the Mexican delegation and an interpretation by the French delegation.

Sub-Commission II further mentions in its Report the communication made to it by one of its Sub-Committees regarding the general principles of the monetary policy of Central Banks. All the Governments represented on the Sub-Committee approved these principles, except the United States delegation, which considered discussion of the question at this time premature, it being understood that the Federal Reserve Banks would be glad to confer at an opportune time with other Central Banks on questions of this character to the extent that they were compatible with national policies.

With regard to the part of its agenda dealing with the gold exchange standard and other methods of economising gold, and the distribution of monetary reserves, Sub-Commission II was not able to complete its Report during the present session.

It took note, however, of a recommendation made to it by the Sub-Committee entrusted with the study of these questions, to the effect that the Bank for International Settlements would examine the problem of the gold exchange standard as soon as possible and would, in particular, consider how far it might be found possible to avoid some of the drawbacks which this system has revealed in the past. The Conference will certainly wish to endorse this recommendation.

6. The Conference will not fail to appreciate the importance of the results already obtained. It is, I think, reasonable to suppose that, when the future work of the Monetary and Financial Commission has led to the conclusion of wider agreements, these agreements will embody the principles which the resolutions adopted record.

Before concluding my report, I should like to draw the attention of the Conference to the extreme importance of the discussions which have taken place at the meetings of your Monetary and Financial Commission and of its various organs of enquiry and which could not be faithfully reflected in the resolutions submitted to you. The questions reserved for further study also gave rise to exhaustive discussions in which all those taking part were inspired by a sense of the grave nature of the task devolving upon this Conference and by a wish to reach solutions which would justify the hopes the whole world has set upon it. If your Commission has not on this occasion solved all the problems submitted to it, it feels sure that a way will soon be found to reconcile views which, differing as regards means, are identical as regards the ultimate aims. On the resumption of the general discussions, which the Bureau will be empowered to arrange for when the time comes, the real value of the substantial work done by your Monetary and Financial Commission at this first session will become fully apparent.

II APPENDICES

APPENDIX I

REPORT OF SUB-COMMISSION I: IMMEDIATE MEASURES FOR FINANCIAL RECONSTRUCTION

Chairman: H.E. M. Guido JUNG (Italy)

Following the appointment of the Sub-Commission on Immediate Measures for financial reconstruction by the Monetary and Financial Commission to consider the following questions—credit policy, price levels, limitation of currency fluctuations, exchange controls, problems of indebtedness, resumption of lending—the first meeting of your Sub-Commission was held on June 19th and five public sessions were held between June 19th and 21st, in which a general discussion took place on the questions of credit policy and price levels. A draft resolution was submitted by the United Kingdom delegation (document Conf. M.E./C.M.F.8) and a further resolution was proposed by the United States delegation (document Conf. M.E./C.M.F.14).

Four public sessions followed between June 22nd and 27th, in which a general discussion took place on the problems of indebtedness. Draft resolutions were submitted by the Hungarian and Roumanian delegations (documents Conf. M.E./C.M.F.13 and 15).

On June 27th, it was decided to appoint a Sub-Committee to make concrete proposals relating to the procedure to be adopted.

This Sub-Committee met the same day and decided to appoint two Drafting Committees to prepare resolutions, the first on the question of credit policy and the second on the problems of indebtedness.

The first Drafting Committee met on June 28th, and discussed a paper submitted by the United Kingdom delegation. However, the working of this Committee was deferred in view of certain events affecting the possibility of reaching, for the time being, full agreement on the terms of resolutions on the subject.

The general policy was reviewed by the Bureau of the Conference at its meeting on July 6th, when it requested each Sub-Commission to draw up as soon as possible a list of questions which, in the circumstances, could be usefully studied.

Your Sub-Commission held two public sessions on July 7th in connection with this request, and a proposal of the United Kingdom delegation that all the items on the agenda should be included in the list to be submitted to the Bureau was adopted by 25 votes to 15, with one abstention; 23 delegations were not present. Three of these subsequently expressed their adherence to the United Kingdom proposal.

On July 11th, the Bureau of the Conference decided to recommend that your Sub-Commission should proceed for the time being with the discussion on the problems of indebtedness. This task was confided to the second Drafting Committee appointed on June 27th, which held five private meetings between July 12th and 18th, and reported through the Chancellor of the Exchequer on July 20th to your Sub-Commission the following resolution, which was unanimously adopted:

1. The service of external debts is in different degrees an important item among the liabilities in the balance of payments of many countries and can only be assured if the debtor country can procure the necessary resources. The facility with which such resources can be procured in the present and in the future may depend on the revival of economic activity and credit. It would be assisted by a return to a reasonable degree of freedom in the movement of goods and services and the creditor countries in particular should co-operate to this end. It will also depend on the economic and financial policy adopted by the debtor country. In present conditions a solution of the problem of indebtedness may in certain cases be necessary for the re-establishment of equilibrium. It should not, however, be dealt with in such a way as to impair credit.

2. The conditions in the debtor countries vary considerably and it is not possible to lay down a uniform treatment applicable to all cases. But debtors should make every possible effort to meet the service of their debts and to fulfil their contracts. It is indispensable, indeed, for the restoration of credit that contracts should be respected in the absence of modifications agreed between the parties concerned.

3. When arrangements are recognised to be necessary care should be taken by all concerned to secure the maintenance of confidence. They should, therefore, be limited to those cases where they are unavoidable, be made directly between debtors and creditors and be based on the debtor's ability to pay. As regards State loans, it is in the interest of the creditors themselves to conclude arrangements of such a nature as will permit the adoption at the same time of a programme of economic and financial restoration by the debtor countries and its effective application.

4. It is desirable that in each of the countries concerned there should exist organisations in a position to represent the several classes of creditors in respect of foreign loans, including, in suitable cases, short as well as long term loans, and that such organisations should maintain such contact with one another as may be necessary to facilitate their proceedings. The Commission therefore recommends to the Governments of these countries that they should encourage the creation of and contact between organisations of this kind where they do not already exist, at such times and in such measure as action can in their view be usefully applied.

5. The question of intergovernmental debts lies entirely outside the field of discussion of this Conference.

The discussion of the other subjects on the agenda did not proceed far enough to do more than outline the main problems to be solved. Your Sub-Commission will however be prepared to resume in order that its task can be completed at a later stage.

APPENDIX 2

REPORT OF SUB-COMMISSION II: PERMANENT MEASURES FOR THE RE-ESTABLISHMENT OF AN INTERNATIONAL MONETARY STANDARD

Chairman: Dr. V. KIENBÖCK (Austria)

1. On June 19th, the Monetary and Financial Commission decided to divide its work between two Sub-Commissions. Sub-Commission II, with which this report deals, was set up to consider Permanent Measures for the Re-establishment of an International Monetary Standard. The agenda proposed for the Sub-Commission was:

The Functions of Central Banks;
The Co-ordination of their Policies;
Monetary Reserves;
Silver.

2. All the delegations at the Conference were invited to send representatives to the Sub-Commission. The representatives of the Financial Committee of the League of Nations and the President of the Bank for International Settlements were also invited to co-operate in its work.

Dr. V. Kienböck (Austria) was appointed President of the Sub-Commission.

3. At its first meeting (June 19th) the Sub-Commission took as the basis of its discussions a draft resolution submitted by the United States delegation (document Conf. M.E./C.M.F. 5), the second part of a proposal submitted by the Swiss delegation to Sub-Commission I (document Conf. M.E./C.M.F. 2), and the second part of proposals submitted by the Roumanian delegation on behalf of the Bulgarian, Latvian, Polish, Roumanian, Czechoslovak and Yugoslav delegations (document Conf. M.E./C.M.F. 4). It was decided to set up two Sub-Committees, one to deal with the question of silver and the second to deal with the technical monetary problems connected with the working of the gold standard. Senator Pittman presided over the former and Dr. Kienböck, and in his absence Mr. Postmus, over the latter.

4. At its second meeting on June 20th, the Sub-Commission unanimously adopted the following resolutions (document Conf. M.E./C.M.F.9) :

I. (a) That it is in the interests of all concerned that stability in the international monetary field be attained as quickly as practicable ;

(b) That gold should be re-established as the international measure of exchange values, time and parity being for each country to determine.

5. After private discussions and conversations among the delegations primarily concerned, the Sub-Commission, on July 20th, on the recommendation of the Sub-Committee on Silver, unanimously adopted the following draft resolution which was based on a draft submitted by the United States delegation :

Be it resolved to recommend to all the Governments Parties to this Conference

V. (a) That an agreement be sought between the chief silver producing countries and those countries which are the largest holders or users of silver, with a view to mitigating fluctuations in the price of silver ; and that the other nations not parties to such agreement should refrain from measures which could appreciably affect the silver market ;

(b) That Governments parties to this Conference shall refrain from new legislative measures which would involve further debasement of their silver coinage below a fineness of 800/1000.

(c) That they shall substitute silver coins for low value paper currency in so far as the budgetary and local conditions of each country will permit ;

(d) That all of the provisions of this Resolution are subject to the following exceptions and limitations :

The requirements of such provisions shall lapse on April 1st, 1934, if the agreement recommended in paragraph (a) does not come into force by that date, and in no case shall extend beyond January 1st, 1938 ;

Governments may take any action relative to their silver coinage that they may deem necessary to prevent the flight or destruction of their silver coinage by reason of a rise in the bullion price of the silver content of their coin above the nominal or parity value of such silver coin.

6. The Sub-Committee on Technical Monetary Problems began its work on June 21st, with a consideration of monetary gold reserves, taking as the basis of its discussion clauses (c), (d) and (e) of the draft resolution presented by the United States delegation (document Conf. M.E./C.M.F.5). Mr. Fraser, President of the Bank for International Settlements, was appointed rapporteur.

7. At the fourth meeting of the Sub-Commission held on June 28th, the following resolutions were presented (document Conf. M.E./C.M.F.19 (1)) :

I (c) That under modern conditions monetary gold is required not for internal circulation but as a reserve against Central Bank liabilities and primarily to meet external demands for payments caused by some disequilibrium on the foreign account. It is consequently undesirable to put gold coins or gold certificates into internal circulation.

(d) That in order to improve the working of a future gold standard greater elasticity should be given to Central Bank legal cover provisions ; for instance, in so far as the system of percentage gold cover is applied a minimum ratio of not more than twenty-five per cent. should be considered as sufficient ; similar elasticity should be achieved by appropriate measures where other systems are applied. However, such changes must not be taken as an excuse for unduly building up a larger superstructure of notes and credits ; in other words the effect of this resolution should be to increase the free reserve of Central Banks and thereby to strengthen their position.

These resolutions were unanimously adopted by the Sub-Commission with an amendment proposed by the Egyptian delegation that the word " minimum " should be inserted before " ratio " in draft resolution (d). The Bulgarian delegation while accepting the draft resolution (c) made the reservation that in present conditions its Government was unable to use its Central Bank's gold reserves to meet the disequilibrium on the foreign account because such a step would prove seriously prejudicial to public confidence in the note circulation.

The German delegation having proposed to insert the word "temporary" before "disequilibrium" in draft resolution (e), in order to make it clear that the resolution did not favour the use of Central Bank gold reserves to meet a permanent disequilibrium in the balance of payments, withdrew its proposal upon the Rapporteur explaining that the resolution did not mean that Central Banks of countries with a permanent deficit in their balance of accounts would have to be deprived of the whole of the gold in their possession and so compromise the internal note circulation.

8. The Sub-Committee on Technical Monetary Problems resumed consideration of the remaining items of its agenda on June 29th, dealing with co-operation among Central Banks. In this connection it took into consideration a proposal by the Roumanian delegation concerning the adaptation of the Central Banks of agricultural countries to the special conditions of those countries (document Conf. M.E./C.M.F.18).

9. On July 11th, the Bureau of the Conference adopted the following resolution that—

The Monetary and Financial Sub-Commission II should take up the resolutions, already adopted by its Sub-Committees, on Central Banking co-operation and on the creation of Central Banks in certain countries where they do not now exist, and should pursue, through its Sub-Committees, the examination of the question of silver and any other subject on its agenda which may by general agreement be considered suitable for discussion.

10. In pursuance of the Bureau's resolution, the Sub-Commission met on July 14th, and unanimously adopted the three following resolutions (documents Conf. M.E./C.M.F.20, 21(1), 22):

II. The Conference considers it to be essential, in order to provide an international gold standard with the necessary mechanism for satisfactory working, that independent Central Banks, with the requisite powers and freedom to carry out an appropriate currency and credit policy, should be created in such developed countries as have not at present an adequate Central Banking institution.

III. The Conference wish to reaffirm the declarations of previous conferences with regard to the great utility of close and continuous co-operation between Central Banks. The Bank for International Settlements should play an increasingly important part not only by improving contact, but also as an instrument for common action.

IV. The Sub-Committee has taken note of the suggestions of the Roumanian delegation with a view to securing the adaptation of the Central Banks of certain agricultural countries to the special economic conditions of these countries and of the views expressed in the discussion thereof. The Sub-Committee feels that the local conditions in each country will to a very large extent determine the solutions to be adopted in this matter and suggests that if any countries desire advice on these questions in view of their technical character they might appropriately be considered by the international organisations specially competent to advise on these matters.

The Yugoslav delegation made a declaration accepting resolution IV, at the same time stating that the legal minimum cover should not be diminished below the percentage recommended by the Sub-Commission in resolution I (d).

11. The Sub-Commission held its final meeting on Monetary Problems on July 20th. The following resolution (document Conf. M.E./C.M.F.23) was communicated to it:

The Sub-Committee approves the annexed statement of general principles of Central Banks monetary policy which was laid before it.

(1) The proper functioning of the gold standard requires in the first place the adoption by each individual Central Bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its country. Gold movements which reflect a lack of such an equilibrium constitute therefore an essential factor in determining Central Bank policy.

(2) Gold movements so far as they seem to be of a more permanent character should normally not be prevented from making their influence felt both in the country losing gold and in the country receiving gold.

(3) While gold should be allowed freely to flow out of and into the countries concerned, Central Banks should always be prepared to buy gold at a publicly announced fixed price expressed in their currency, and to sell gold at a publicly announced fixed price, expressed in their currency, the latter at least when exchange rates reach gold points.

(4) Central Banks should obtain from their markets the fullest possible information concerning the demands that might be made upon their reserves.

(5) Since as already stated under (1) the proper functioning of the gold standard requires in the first place the adoption by each individual Central Bank of a policy designed to maintain a fundamental equilibrium in the balance of payments of its

country, the discretion of each Central Bank in regulating the working of the gold standard in its own country should remain unimpaired. Central Banks should, however, recognise that in addition to their national task they have also to fulfil a task of international character. Their aim should be to co-ordinate the policy pursued in the various centres in order to contribute towards the satisfactory working of the international gold standard system.

Moreover, they should endeavour to adapt their measures of credit regulation, as far as their domestic position permits, to any tendency towards an undue change in the state of general business activity. An expansion of general business activity of a kind which clearly cannot be permanently maintained, should lead Central Banks to introduce a bias towards credit restriction into the credit policy which they think fit to adopt, having regard to internal conditions in their own countries. On the other hand, an undue decline in general business activity in the world at large should lead them to introduce a bias towards relaxation.

In pursuing such a policy the Central Banks will have done what is in their power to reduce fluctuations in business activity and thereby also undue fluctuations in the purchasing power of gold.

(6) With a view to arriving at an agreed interpretation of the data revealing the tendency of developments in general business activity, and at an agreed policy, Central Banks should consult together continuously, each Central Bank in case of difference of opinion, acting on its own judgment of the situation. The Bank for International Settlements constitutes an essential agency for Central Bank action designed to harmonise conflicting views and for joint consultation. This instrument should continue to be employed, as far as possible, for the realisation of the principles set forth in the present note. It should continuously examine the application of the principles of the working of the gold standard and study such modifications thereof as experience may prove desirable.

Agreement on the resolution was reached by all governments represented at the Sub-Committee on Technical Monetary Problems, except that of the United States of America, which considered discussion of the question at this time premature, it being understood that the Federal Reserve Banks would be glad to confer at an opportune time with other central banks on questions of this character to the extent that they are compatible with national policies.

The Sub-Commission further took note of a report from the Sub-Committee on Technical Monetary Problems concerning the remaining subjects on its agenda, including a draft resolution submitted by the Irish Free State delegation (document Conf. M.E./C.M.F.12). The report was as follows:

The Committee has not been able during the present session to complete its report on the section of the Annotated Agenda dealing with the gold exchange standard, with other methods of economising gold and with distribution of monetary reserves.

As regards the gold exchange standard, the Committee recommends that the Bank for International Settlements should as soon as possible proceed to a study of the question and particularly that it should examine to what extent it will prove possible to avoid certain of the defects which this system has revealed in the past.

12. The Sub-Commission was asked to clarify the permanent principles of monetary policy that ought to be pursued in future. It is satisfactory to note that it has achieved a measure of success in this task since it has proved possible to reach full agreement on certain important problems. This may be seen from the text of resolutions approved. The same unanimity was evident also in regard to the necessity of central bank co-operation. Finally it should be stated that the important task which the Bank for International Settlements must discharge in the future was fully recognised.

ANNEX II

REPORT OF THE ECONOMIC COMMISSION

President : H.E. M. H. COLIJN (Netherlands)

Vice-Presidents : M. C. V. KROGMANN (Germany) ; H.E. M. Thomas LE BRETON
(Argentine Republic)

Rapporteur : The Right Honourable Walter RUNCIMAN (United Kingdom)

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REPORT OF THE ECONOMIC COMMISSION

TABLE II

Production of the principal agricultural products in the United States, 1909-1914

Production of the principal agricultural products in the United States, 1909-1914

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I. REPORT BY THE RIGHT HONOURABLE WALTER RUNCIMAN (UNITED KINGDOM)

The work of the Economic Commission opened with a general discussion which revealed the necessity of dividing up the vast material with which the Commission had to deal into specific groups of questions as follows:

(a) *Commercial Policy*, including:

(1) Return to normal conditions of trade; gradual abolition of restrictions upon the exchange of goods and of foreign exchange control, etc.

(2) Tariff and treaty policy, including the régime of the most-favoured-nation clause.

(b) *Co-ordination of Production and Marketing*:

Wheat and other foodstuffs (sugar, wine, coffee, etc.); raw materials (coal, timber, etc.); industrial and agricultural agreements, etc.

(c) *Measures other than Customs Duties and Prohibitions*:

(1) Various measures grouped together under the designation of "indirect protectionism".

(2) Veterinary and phyto-pathological measures.

(3) Marks of origin.

(4) Direct and indirect bounties, in particular, shipping subsidies.

The Economic Commission set up three Sub-Commissions to study these three groups of questions.

(d) *Public Works*: The Commission itself dealt with the question of public works.

AD (a) COMMERCIAL POLICY

Chairman: M. C. V. KROGMANN (Germany)

As regards restrictions upon the importation of goods, the discussions of the Sub-Commission have shown that all delegations are prepared in principle to support the gradual abolition of these restrictions subject to the provisos mentioned in the Report (Annex I).

The debates on tariff policy have also shown that the various countries unanimously consider a lowering of the excessive tariffs as absolutely indispensable. Although the methods advocated by the various delegations in order to attain this end differ, the discussions have nevertheless made it clear that in all countries tariff disarmament is regarded as essential if international trade, which is contracting more and more is to be revived.

The régime of the most-favoured-nation clause was likewise the subject of very keen discussions. This régime has also been shaken by the effects of the economic depression; it is therefore not surprising that the traditional interpretation of this clause raises serious difficulties in the present crisis. In the Sub-Commission, several delegations voiced the desire that the rigidity of the clause should be relaxed by the recognition of certain new exceptions. There was not sufficient time, however, for the Sub-Commission to reach definite conclusions in this matter.¹

AD (b) CO-ORDINATION OF PRODUCTION AND MARKETING

Chairman: H.E. M. THOMAS LE BRETON (Argentine Republic)

This Sub-Commission had at first occupied a comparatively modest place among the great problems to be discussed; it developed, however, beyond even the limits originally contemplated. It was directed to meeting a deeply felt want, for one after another the delegations interested in certain important branches of production asked that the latter should form the subject of a special study. The Sub-Commission's task became increasingly complicated and more and more Sub-Committees were set up.

Naturally, they could not hope, in the short time that remained to them, to reach precise and definite agreements concerning the products under consideration. Thanks, however, to the goodwill of the members of the Sub-Commission, it has been possible in almost all cases to make satisfactory progress. In this list of products, including not only the principal agricultural commodities, but also some important raw materials, it was only possible to organise so vast and complicated an inquiry in so short a time owing to the obvious desire for such an inquiry of the producers themselves, represented by the delegations concerned.

There was, in short, an impression that this examination of possibilities of agreement would enable the evil to be attacked at the root and would prepare the ground for a useful resumption of the discussions on general problems which had been temporarily suspended.

But at the same time, it was recognised that there are serious difficulties in proceeding from the laying down of general principles to their practical application, especially as it was necessary to bring together the interests of producing and of consuming countries.

¹ At the last meeting of the Economic Commission, the United States delegation brought forward a suggestion for the further development, during the recess and later stages of the Conference, of a programme on Commercial Policy. The text is reproduced in Appendix 6.

Furthermore, opinion is divided as to whether, in normal times, the framing of agreements regulating production and trade is in principle desirable, but it seems obvious that the exceptional period through which we are passing may call for exceptional remedies. Consequently several delegations have insisted on the necessity of avoiding giving the impression that the adoption of measures to co-ordinate production can be defended except as a temporary expedient employed in abnormal circumstances.

In the existing situation of the Conference the progress which this Sub-Commission has achieved undoubtedly represents one of the most useful contributions which could be made to the scheme for economic recovery. M. Le Breton's report, with its numerous annexes concerning the different products studied, will give a precise idea of the work done.

AD (c) (1 to 3) MEASURES OTHER THAN CUSTOMS DUTIES AND PROHIBITIONS

Chairman: M. SUTENS (Belgium)

1. *Various measures grouped under the heading of indirect protectionism.*

The term indirect protectionism covers the most diverse and variable measures. For several years, a very large number of cases have been exhaustively studied by the Economic Committee of the League of Nations with the co-operation of the national administrations and of qualified experts.

As regards this extremely complicated and elusive question, the Sub-Commission considered that it was more practical to direct its efforts towards finding a general formula to be embodied in commercial treaties. It is of opinion that the adoption of an equitable treatment clause would form the simplest and most effective means of meeting the difficulties constantly arising in the sphere of indirect protectionism.

Finally, the Sub-Commission recommends the convening of a special Conference at an appropriate date on the basis of the work already accomplished by the Economic Committee of the League of Nations, in respect of certain customs formalities.

2. *Veterinary and phyto-pathological measures.*

As regards *veterinary* measures, the Sub-Commission recommends that the draft conventions prepared by the Economic Committee of the League of Nations should be submitted to an international diplomatic conference and that the work being carried out under the auspices of that Committee, in particular that relating to the trade in meat and livestock, should be continued and extended.

In regard to *phyto-pathological* questions, and especially the problems raised by the control of the importation and exportation of plants and vegetable products, the Sub-Commission requests the International Institute of Agriculture to undertake certain work.

It also provides for the adoption of certain principles designed to ensure better international co-operation in these two fields.

3. *Marks of Origin.*

Although on this important question the efforts of the Sub-Commission did not lead to the establishment of a draft agreement which could be unanimously accepted, it is nevertheless satisfactory to note that the Sub-Commission considers it possible to achieve substantial progress by means of an international agreement. Agreement was reached on a number of important points and the Sub-Commission asks the Bureau of the Conference to provide for the continuation of its work.

AD (c) (4) BOUNTIES AND SUBSIDIES

Chairman: Dr. E. L. BURGIN (United Kingdom)

The influence which many categories of bounties and subsidies may exercise on international economic relations was not contested in the Sub-Commission. Among such measures shipping subsidies were subjected to a particularly close study on account of their effect upon the organisation of maritime shipping and the freight market.

Several delegations belonging to countries which are of special importance from the point of view of maritime shipping were of opinion that a discussion regarding the possibility of regulating this matter could only be usefully pursued when the special circumstances which had led to the adjournment of part of the Conference's work had disappeared.

In these circumstances, the Sub-Commission has decided merely to submit a summary of its work, which will serve as a useful basis for subsequent discussions.

AD (d) PUBLIC WORKS

An examination of this question by the Economic Commission had to be postponed at the express request of the representatives of the International Labour Office, who were kept at Geneva until the end of June by the International Labour Conference.

As the problem of public works has both economic and financial aspects, it had been understood from the beginning of the Conference that it was to be considered by a sub-committee to be set up by the Economic Commission and the Monetary and Financial Commission.

The Economic Commission examined this question in the presence of representatives of the International Labour Organisation and the Organisation for Communications and Transit of the League of Nations. It has not been able, however, to set up a sub-committee for this purpose since the Monetary and Financial Commission has for its part not yet been able to consider this problem.

The Economic Commission recommends that the Bureau of the Conference appoint this sub-committee, which should be composed in such a way that due regard would be had both to the economic and social and to the financial aspects of the matter and convene it as soon as circumstances permit (see letter of the President of the Commission to the President of the Conference, Appendix 5).

In addition, the American delegation submitted a proposal to the Economic Commission advocating a reduction of hours of work and the introduction of a scale of wages rising in proportion to the increase in production. The Commission proposes to refer this question to the sub-committee, the appointment of which it is recommending to the Bureau, in order to consider the problem of public works and other means of reducing unemployment.

II. REPORT BY H.E. M. THOMAS LE BRETON (ARGENTINE REPUBLIC) ON THE WORK RELATING TO THE CO-ORDINATION OF PRODUCTION AND MARKETING

A

The Sub-Commission had before it a proposal by the French delegation (document Conf. M.E./C.E.18) which had asked the Conference to examine the possibility of agreements between Governments on certain products for which the intervention of the latter appeared to be necessary.

It was therefore confronted with a vast plan of action and, in order to prepare the ground, it was anxious to begin by a discussion of the general principles which should govern the agreements to be concluded with a view to a readjustment of supply and demand. Extreme caution is necessary in regard to such matters: any mistake in application might bring about the opposite results to those desired.

A plan submitted by the United Kingdom delegation (document Conf. M.E./C.E.17) defined the conditions which all schemes of this nature should fulfil, all of them resting on the fundamental idea of the necessity of obtaining a carefully balanced proportion. It was exhaustively discussed and the Sub-Commission, taking into account the observations made by various delegations, arrived at the following test, which in view of its importance I here reproduce in full (document Conf. M.E./C.E.33):

1. In order to assist in the restoration of world prosperity, it is essential to increase the purchasing power of the producers of primary products by raising the wholesale prices of such products to a reasonable level.

2. In the exceptional conditions of the present world crisis, concerted action is required for this purpose. Apart from any other measures that may be taken to restore the purchasing power of producers and consumers and thus to increase demand, it is desirable that plans should be adopted for co-ordinating the production and marketing of certain commodities.

3. Any agreements to give effect to such plans should conform generally to the following conditions:

(a) The commodity must be one of great importance for international trade in which there is such an excess of production or stocks as to call for special concerted action.

(b) The agreement should be comprehensive as regards the commodities to be regulated, that is, it should not be so narrowly drawn as to exclude related or substitute products, if their inclusion is necessary or desirable to ensure the success of the plan.

(c) It should be comprehensive as regards producers, that is:

(i) it should in the first instance command a general measure of assent amongst exporting countries, and within these countries a substantial majority of the producers themselves:

(ii) where necessary or desirable for the success of the plan, it should provide for the co-operation of non-exporting countries whose production is considerable.

(d) It should be fair to all parties, both producers and consumers, it should be designed to secure and maintain a fair and remunerative price level, it should not aim at discriminating against a particular country, and it should as far as possible be worked with the willing co-operation of consuming interests in importing countries who are equally concerned with producers in the maintenance of regular supplies at fair and stable prices.

(e) It should be administratively practicable, that is, the machinery established for its administration must be workable, and the individual Governments concerned must have the power and the will to enforce it in their respective territories.

(f) It should be of adequate duration, that is, it should contain provisions for its continuance for such a period as to give assurance to all concerned that its objects can be achieved.

(g) It should be flexible, that is, the plan should be such as to permit of and provide for the prompt and orderly expansion of supply to meet improvement in demand.

(h) Due regard should be had in each country to the desirability of encouraging efficient production.

B

The details of the agreements to be concluded could obviously be settled only by the countries concerned. The Sub-Commission considers, however, that it has facilitated the conclusion of such agreements by unanimously approving the principles on which they should be based. Although, however, these principles have received unanimous support, I would point out that several delegations have strongly emphasised the necessity of not prejudicing the future of the consuming countries, and in particular those which lack raw materials.

Moreover, the discussions of the Sub-Commission have given prominence to two ideas to which attention should be drawn:

The attempts made hitherto to organise certain special branches of production have rarely been successful, but it was observed that such attempts were isolated and remained within the ambit of a single category of producers and consequently were completely at the mercy of the opposing interests concerned.

Within this Conference, on the other hand, such attempts are considered as so many parts of a concerted scheme intended to give fresh impetus to economic life. It follows that, while taking most careful account of the opinion of those directly concerned, without whose sincere co-operation it is very difficult to operate schemes of this kind satisfactorily, the Governments seem called upon to consider these schemes.

It has been pointed out that their direct intervention may even, in certain cases be necessary, provided always that it may, and perhaps should, have a purely temporary character.

C

The choice of products towards which the first effort at organisation was directed, was to depend on two conditions:

(1) The greatest possible number of producers were to be included;

(2) The product must lend itself as much as possible to international regulation.

The French delegation proposed to examine and conclude Government agreements on the best way of regulating the production of and trade in the following products: *Wheat, Wine, Timber, Cotton, Wool, Coal, Copper, Silver*.

The list of these products was supplemented by *Sugar* at the request of Cuba and the Netherlands, *Coffee* at the request of the Brazilian delegation, *Cocoa* at the request of the delegates of Ecuador and Venezuela, *Tobacco* at the request of the delegates of Bulgaria, Greece and Turkey, *Dates* at the request of the delegation of Iraq, *Tin* at the request of the United Kingdom delegation and the delegation of the Netherlands. *Silver* was placed on the agenda of a special Sub-Committee of the Monetary Commission.

A memorandum explaining the agreement recently reached on *Tea* has also been laid before the Sub-Committee.

In the case of *Wool* there was no question of any measures affecting production, but only of a lowering of customs tariffs, and it seemed that in these circumstances the question came within the terms of reference of the Sub-Commission on Commercial Policy.

The same applied to *Dates*.

As regards *Tobacco*, the demands of the tobacco producing countries also refer mainly to the question of customs duties. At Geneva, meetings organised by the Commission of Enquiry for European Union had already considered the problem of tobacco grown by Greece, Turkey and Bulgaria. The Sub-Commission for the Co-ordination of Production, to which no definite proposals had been submitted, was not able to examine the possibility of an agreement between European and extra-European producers.

For lack of time the question of cotton was not touched upon.

The Sub-Commission proceeded to examine each of the other products on the list. In many cases it set up special smaller Sub-Committees to deal with a particular article. The countries specially concerned with that article were represented on the Sub-Committee together with other countries which represented the consumer's interests.

The results obtained by the Sub-Commission for each of the products under consideration, are enumerated below:

(a) FOODSTUFFS

1. *Dairy Products*

The International Institute of Agriculture has been requested to make a preliminary study of the question in agreement with the International Agricultural Commission, the International Dairy Federation, and the Economic Committee of the League of Nations.

2. *Sugar*

The Bureau of the Conference has been requested to keep in touch with the International Sugar Council and with the countries concerned and to summon, when it thinks it expedient, a further meeting in order to bring about the conclusion of a general agreement.

3. *Wine*

The International Wine Office is instructed to follow in co-operation with the Economic Committee of the League of Nations and the International Institute of Agriculture, the various points of the plan drawn up by the Sub-Committee.

4. *Coffee*

Suggestions and proposals of the exporting countries with a view to the co-operation of production and marketing, and possibly for the organisation of some international body, to be submitted to the Secretary-General of the Conference.

5. *Cocoa*

The chief cocoa-producing countries have been invited to submit to the Secretary-General of the Conference their opinions and proposals with a view to summoning a subsequent meeting.

(b) RAW MATERIALS

1. *Timber*

As useful negotiations are in progress discussion has been adjourned until the beginning of October, 1933, when a further meeting may be arranged.

2. *Coal*

The competent organisation of the League of Nations will follow this work and ensure that all interests have been safeguarded. The Council of the League of Nations is requested to call a Conference of the principal producing and consuming countries to examine the measures to be taken if this effort has not within six months given the desired results.

3. *Copper*

The Governments of the copper-producing countries are invited to submit before September 15th to the Secretary-General of the Conference their views and proposals concerning the organisation of the production and international trade in copper with a view to the summoning of a meeting to examine whether it is desirable and possible to conclude an agreement.

4. *Tin*

It has been recommended that the countries which are not members of the International Tin Commission, should enter into negotiations with that Commission.

III. APPENDICES

APPENDIX 1

REPORT OF SUB-COMMISSION I: COMMERCIAL POLICY

(Revised text taking into consideration the observations of the Belgian, Estonian, Hungarian, Latvian, Lithuanian, Persian, Polish and Union of Soviet Socialist Republics delegations.)

The terms of reference conferred upon the Drafting Committee of Sub-Commission I by the Bureau of the Conference are worded as follows:

"In order not to lose the benefit of all the discussions which have taken place up to now in this Sub-Commission we suggest that a Drafting Committee of this Sub-Commission should be appointed to embody in a report the different ideas and different points of view which have manifested themselves during the debates. This document will form a valuable basis when the discussion can be resumed."

In accordance with these terms the Drafting Committee has prepared the following report:

I

GENERAL OBSERVATIONS

1. The Sub-Commission set up to study the problem of Commercial Policy has, in the course of its discussions, considered two fundamental questions:

(a) Abolition and reduction of quantitative restrictions to the exchange of goods and progressive restoration of normal exchange;

(b) Tariff policy and the most-favoured-nation clause.

2. It should be stressed at the outset that the hypothesis on which the whole work of the Sub-Commission was based was the stabilisation, or at any rate the *de facto* stability, of currencies. When events showed that this hypothesis could not be realised, at any rate at the moment, several countries, in view of the fluctuations in the exchanges, deemed it necessary to reserve full liberty of action in the matter either of quantitative restrictions, or foreign exchange control or customs tariffs.

Other delegations were of opinion that it would be expedient to endeavour to draw up a positive and constructive programme, indicating the measures which they were prepared to take in the sphere of commercial policy when stability had been achieved. This divergence of opinion made unanimous agreement impossible.

II

QUANTITATIVE RESTRICTIONS TO THE EXCHANGE OF GOODS

All the delegations are agreed that these restrictions, whether direct or indirect, must disappear as soon as possible. Reservations have, however, been made by some delegations in regard to the maintenance of quotas for agricultural products until such time as sufficient progress has been made in the international co-ordination of production. In this connection, other delegations representing agricultural countries declared that their countries could not abolish the import prohibitions imposed on manufactured articles so long as other countries found it necessary to maintain restrictive measures on the import of agricultural produce.

Certain delegations have expressed the opinion that the maintenance or introduction of certain restrictions may be necessary as a means of carrying out concerted programmes for the co-ordination of production and marketing.¹

Various proposals have been submitted:

1. The unconditional and complete abolition within the shortest possible time of all import prohibitions and quotas and of any other arbitrary restrictions;
2. The concurrent abolition of import quotas and exchange control by the simultaneous conclusion of two general conventions so framed as to establish a progressive parallelism between their effects;
3. The conclusion of a convention based on the text of the 1927 Convention for the Abolition of Prohibitions and Restrictions of Imports and Exports, so modified as to adapt it to present circumstances (in particular, a transitional system and a 100 per cent. quota system would be introduced);
4. The conclusion of an immediate truce to restrictive measures was also advocated.

¹ The Persian delegation would like to draw attention to the observations reproduced in document Conf. M.E./C.E.16. In this document, the Persian delegation stated that in view of the various circumstances and especially in view of the economic régime which prevails in one of the neighbouring countries with which Persia has important commercial relations, the Persian Government has been forced to take adequate measures for the protection and development of its new industries and for the safeguarding of the vital interests of the country.

The Sub-Commission began the study of a draft agreement of principle for the Return to Normal Conditions of Trade which was prepared on the basis of the discussions on this question. Consideration of this draft did not, however, go beyond the Preamble, and the General Undertaking, the final text of which has not yet been determined (document Conf. M.E./C.E./Comité de Rédaction I and Addenda 1, 2 and 3) since certain delegations made their undertaking contingent not only upon the *de facto* stability of currencies, but also on the progress made in the restoration of the monetary and financial situation, and with regard to exchange control, the organisation of the production of certain commodities, excessive tariffs and indirect protectionism in its various forms.

III

TARIFF POLICY AND THE MOST-FAVOURLED-NATION CLAUSE

A. *Tariff Policy*

The problem of tariff policy has been discussed by the Sub-Commission.

The need and urgency of reducing excessive customs tariffs were unanimously admitted. Views differed, however, as to the best means of effecting this tariff disarmament.

It should be noted that some delegations held that before tariffs are reduced, the present customs truce should be prolonged, but made stricter; that is to say, it should not be subject to the reservations which make it almost inoperative. Other delegations were opposed to this suggestion, being of the opinion that the truce favours countries which have hedged themselves round with a policy of exclusive nationalism.

With regard to the actual means by which the problem of tariff demobilisation should be attacked, three different points of views have been voiced in the Sub-Commission.

- (1) A collective or general convention could alone attain the desired result;
- (2) Customs duties could only be lowered by the conclusion of bilateral treaties;
- (3) No method should be excluded; that of a general convention and that of bilateral treaties might be adopted concurrently.

Among the countries which are in favour of a collective or general convention, some consider that tariffs should be gradually reduced by uniform annual percentages (principle embodied in the Ouchy Convention).

Those delegations which recommend bilateral treaties, on the other hand, argue that a horizontal reduction of customs tariffs would not be equitable since it would penalise countries with moderate tariffs and would take no account of the special situation of each country. It would also disturb the balance of the general system of customs tariffs.

B. *The Most-favoured-Nation Clause*

This problem has also been studied by the Sub-Commission especially from the point of view of the exceptions that might be allowed in order to make its application more elastic and better suited to present conditions.

There was a general opinion in favour of the maintenance of the most-favoured-nation clause, in its unconditional and unrestricted form—naturally with the usually recognised exceptions—stressing the points that it represents the basis of all liberal commercial policy; and that any general and substantial reduction of tariffs by the method of bilateral treaties is only possible if the clause is unrestricted, and that this method would avoid the constant resumption of negotiations.

However, certain delegations manifested a strong tendency in favour of allowing new exceptions in addition to those hitherto unanimously admitted, on the ground that, although the unconditional and unrestricted most-favoured-nation clause does, under normal conditions, secure for trade the indispensable minimum of guarantees and prevents arbitrary and discriminatory treatment, if insisted upon with too great rigidity, it may obstruct its own purposes in a period of crisis and difficulty such as we are now passing through.

As regards the nature of these exceptions, opinions differed very widely, and the following recommendations were made:

An exception in favour of collective conventions for the reduction of economic barriers, open to all countries.

An exception in favour of agricultural products;

An exception in favour of agreements arising out of historic ties between certain countries, subject to a favourable opinion by the Council of the League of Nations;

An exception in favour of agreements binding only those countries which undertake to accept a certain regime and to maintain a certain standard of living for their population;

An exception in favour of the agreements contemplated at Stresa and in favour of regional and collective agreements concluded under the auspices of the League of Nations;

An exception based on reciprocity and equitable treatment.

A request was also made to examine the possibility of special temporary agreements between creditor and debtor States in order that the latter might be enabled to discharge their debt services in goods.

The Sub-Commission has not had time to ascertain the views of the different delegations in regard to the above proposed exceptions.

Specific proposals on tariff policy have been submitted by the Cuban delegation (bases of a convention with a view to preventing tariff wars, document Conf. M.E.6) and by the Roumanian delegation (document Conf. M.E./C.E.57). Further, a draft Economic Charter submitted personally and in his own name by M. Clavier, a member of the Persian delegation, has been distributed to the Conference at the request of the Persian delegation (document Conf. M.E.12).

IV

OTHER PROPOSALS

The Soviet delegation has submitted two proposals, the first for a *Pact of Economic Non-Aggression* (document Conf. M.E./C.E.15) and the second regarding the question of *extending the import possibilities of various countries and of the conditions on which such extension would be possible* (document Conf. M.E.16).

The Economic Commission took note of these proposals and decided to place them on its agenda when the time came for the resumption of the work of the Monetary and Economic Conference.

The Czechoslovak delegation has proposed that the question of an international Customs agreement on wool should be examined and that the delegation of Iraq has raised the question of the Customs treatment of dates (document Conf. M.E./C.E.72), and that the Estonian, Latvian and Lithuanian delegations have submitted to the Conference a draft resolution concerning the quantitative restrictions imposed on the import of agricultural produce (document Conf. M.E./C.E.107).

These two points have not yet been submitted to the Sub-Commission's consideration.

APPENDIX 2

REPORTS RELATING TO THE CO-ORDINATION OF PRODUCTION AND MARKETING OF THE FOLLOWING PRODUCTS:

- | | |
|----------------------|--------------|
| (a) Dairy Products ; | (f) Timber ; |
| (b) Sugar ; | (g) Coal ; |
| (c) Wine ; | (h) Copper ; |
| (d) Coffee ; | (i) Tin. |
| (e) Cocoa | |

(a) DAIRY PRODUCTS: RESOLUTION ADOPTED BY THE SUB-COMMISSION II ON JULY 18TH, 1933

The Conference,

Considering the great importance of the production and exportation of dairy products in agricultural economy and universal economy ;

Considering the extremely serious situation of this branch of production ;

Considering that for the above reasons the delegations of several countries deem it necessary for the Governments to constitute without delay an "International Dairy Council" for the purpose of reducing competition between the countries exporting butter and other dairy products by co-ordinating production and marketing ;

Considering, moreover, that although certain institutions have already dealt and are dealing with this question, several delegations are nevertheless of opinion that it has not yet been sufficiently studied to allow of definite conclusions being drawn and, in particular, of an immediate solution of the problem being realised ;

Requests the International Institute of Agriculture, in agreement with the International Agricultural Commission, the International Dairy Federation and the Economic Committee of the League of Nations to make a preliminary study of the question ;

And invites the Governments of the various countries to send to the Secretariat of the League of Nations, before September 10th next, all the data at their disposal on this question, and in particular to inform it of their views on the constitution of an "International Dairy Council", in order that the questions may be definitely settled at the next Session of the Conference.

(b) SUGAR: RESOLUTION ADOPTED BY THE SUB-COMMISSION

The Sub-Committee on Sugar, after taking note of the report submitted to it by the International Sugar Council on the results of the negotiations pursued up to the present with the various exporters and importers of sugar, thanks the Council for that report and expresses the opinion that these results make it possible to contemplate the conclusion of a general agreement on the production and marketing of sugar.

It requests the Bureau of the Conference to keep in touch with the International Sugar Council and to take the steps necessary for the continuation of negotiations with the countries concerned, in particular with a view to obtaining replies, as soon as possible, from the countries whose attitude it has not so far been possible to ascertain.

It will be for the Bureau of the Conference, when it thinks it expedient, to summon a further meeting of the countries concerned in order to bring about the conclusion of a general agreement.

(c) WINE: RESOLUTION ADOPTED BY THE SUB-COMMISSION

While some members hold that the recommendations and resolutions embodied in the Memorandum of the International Wine Office should be carried into effect as soon as possible, especially those concerning the reduction of excessive customs duties and of internal taxes and dues levied on wine, the abolition of obstacles in the way of international trade in wine, the extension of credit facilities for wine production, the protection of appellations of origin and the development of the distillation of surplus wine.

The Sub-Commission agrees that in the present state of affairs it is essential that its field of action should be limited to measures capable of immediate realisation.

I

The Sub-Commission notes with interest that it is the intention of wine-growing countries, in order to encourage the consumption of wine and grapes throughout the world, to organise propaganda first in the producing countries to increase national consumption, and then in countries which have hitherto consumed little or no wine, more particularly by showing the nutritive health and medicinal value of wine and grapes, by promoting the consumption of fresh and dried grapes, juices, syrups, grape-sugar and concentrated must in Moslem countries and by preparing for the opening of new markets, chiefly in Africa and Asia. These are measures well adapted for private initiative, and wine-growers and dealers are invited to make the necessary efforts in this direction.

The Sub-Commission also notes with interest the efforts made in this direction in wine-growing countries by governmental action and particularly by the creation in those countries of national wine propaganda committees.

Similarly, the extension of the consumption of dessert grapes is contemplated and the establishment of an annual international grape festival in the Autumn is advocated as well as the creation in every country of grape centres or grape cure resorts.

II

Other measures are matters for the initiative of Governments. Thus it is for each country to put a stop to the excessive expansion of vineyards throughout the world, resulting since the beginning of the century in an increase of the world's vineyards by 600,000 hectares and in a production exceeding that of 1900 by 32 million hectolitres.

All Governments are invited to take within their own frontiers any steps that may be necessary, having regard to the extent to which their national vineyards have unduly increased and taking into account the wealth already built up in districts where the extension of the vine zone has not assumed dangerous proportions. For this purpose, Governments should embody in their laws measures for the establishment of official statistics showing the area of their vineyards and the yield of the annual harvest of wine and grapes and, finally, should require producers to submit an official and compulsory statement of their harvests.

The Sub-Commission is of opinion that it is for the different Governments of the countries concerned to encourage viticultural co-operation as an effective means of enabling wine-growers to improve their wine and ensure its preservation.

It is also recommended that measures should be enacted by each wine growing country to improve the quality of the wine produced, both by the selection of vines and by the establishment of a fairly high minimum for the alcoholic strength of wine.

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It will be for the Bureau of the Conference, when it thinks it expedient, to summon a further meeting of the countries concerned in order to bring about the conclusion of a general agreement.

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The Sub-Commission agrees that in the present state of affairs it is essential that its field of action should be limited to measures capable of immediate realisation.

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Similarly, the extension of the consumption of dessert grapes is contemplated and the establishment of an annual international grape festival in the Autumn is advocated as well as the creation in every country of grape centres or grape cure resorts.

II

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All Governments are invited to take within their own frontiers any steps that may be necessary, having regard to the extent to which their national vineyards have unduly increased and taking into account the wealth-already built up in districts where the extension of the vine zone has not assumed dangerous proportions. For this purpose, Governments should embody in their laws measures for the establishment of official statistics showing the area of their vineyards and the yield of the annual harvest of wine and grapes and, finally, should require producers to submit an official and compulsory statement of their harvests.

The Sub-Commission is of opinion that it is for the different Governments of the countries concerned to encourage viticultural co-operation as an effective means of enabling wine-growers to improve their wine and ensure its preservation.

It is also recommended that measures should be enacted by each wine growing country to improve the quality of the wine produced, both by the selection of vines and by the establishment of a fairly high minimum for the alcoholic strength of wine.

III

Lastly, and this is a point the Sub-Commission desires to stress, some of the resolutions in the memorandum of the International Wine Office could be given immediate concrete effect, because they are such as to be capable of acceptance by the Governments represented at the London Conference.

To this end it submits to the Governments the following proposals :

A. *Uniform Presentation of the Results of Analyses of Wines.*

The Sub-Commission recommends that an International Commission be summoned, on which each of the countries concerned should be represented by two qualified wine chemists who would jointly prepare a complete and definitive text for notation and the determination of the methods to be employed in order to show both falsifications and the quality of wine.

B. *International Convention for the Protection of Wines.*

The Sub-Commission recommends the conclusions of an international convention whereby the interested States would undertake to supplement, insofar as they have not already done so, their internal legislation for the purpose of ensuring joint and effective action against fraud in the matter of wines.

Such legislation should deal, in particular, with (1) The prohibition of watering and the use of false descriptions of wine; (2) Regulation of sweetening; (3) Compulsory declaration of harvests; (4) Supervision of the production, circulation, sale of and the trade in wines, which must fulfil conditions laid down by law; (5) Measures to be taken in the event of infringement of the regulations enacted.

C. *International Convention concerning the Institution of Annual Inquiries into the Composition of Wines and the Constitution of Wine Indexes.*

The Sub-Commission recommends the conclusion of an international convention whereby the interested Governments would undertake (1) To protect producers of wine which is natural but abnormal in its composition, from unjustifiable prosecution by affording them means of demonstrating their good faith by producing authentic records; (2) To set up as complete analytical records as possible which, while giving chemists and laboratories entrusted with the suppression of fraud reliable bases for establishing their conclusions, shall also constitute valuable material which may be available to oenologists of all countries.

D. *International Conventions upon Customs Nomenclature.*

The Sub-Commission invites States represented at the London Conference, to whom the draft unification of Customs Nomenclature prepared by a Committee of experts appointed by the Economic Committee of the League of Nations has been submitted to expedite the consideration of the articles of this Nomenclature which deal with wine.

IV

With a view to enabling the above resolutions to be eventually put into effect, the Sub-Commission proposes that the International Wine Office be asked to follow, with the co-operation of the Economic Committee of the League of Nations and the International Institute of Agriculture, the various points of the programme drawn up, in order to make it possible, if necessary, to co-ordinate the work done with the various Governments.

(d) COFFEE : RESOLUTION ADOPTED BY THE SUB-COMMISSION

The Sub-Committee on Coffee of the Monetary and Economic Conference, having studied the proposals submitted by the Brazilian delegation on the co-ordination of production and marketing of coffee, and

(a) Considering that coffee is one of the commodities of great importance for international trade;

(b) Considering also that its production has in recent years been greatly in excess of consumption, as revealed by the present position of world stocks and level of prices:

Is of opinion that coffee is one of the commodities as regards the production and marketing of which the desirability and practicability of concerted international action, in the terms of the decision taken (document Conf. M.E./C.E.33) ought to be further considered;

And for this purpose, recommends that the exporting countries should examine the possibility and the practical manner of regulating their production and supply as well as the possibility and the practical manner of approaching the importing countries in order to obtain greater facilities for the stimulation of its consumption by the removal or attenuation of present restrictions or commercial barriers of any kind.

In view of the impossibility of further examination of the subject during the present stage of the Conference, and in order to provide the basis for future discussion, it is proposed that any suggestions or proposals of coffee exporting countries for the co-ordination of production and marketing of coffee and possibly for the organisation of some international body, should be submitted to the Secretary-General of the Monetary and Economic Conference for distribution among, and examination by, the other exporting countries.

(e) COCOA : RESOLUTION ADOPTED BY THE SUB-COMMISSION

The Sub-Committee expresses the desire that the situation of the cocoa market should be duly studied, taking into account the present production and consumption and the existing stocks of the various qualities, which it is impossible to do before the early adjournment of the Conference.

The Sub-Committee, therefore, invites the chief cocoa producing countries to study this question and to submit to the Secretary-General of the Monetary and Economic Conference, as soon as possible, their views and proposals with a view to the summoning of a meeting of experts qualified to study the organisation of the production of the international trade in raw cocoa.

Further, it invites the States interested to take the necessary measures to study the means of combating diseases of the cocoa plant in collaboration with the International Institute of Agriculture in Rome.

(f) TIMBER : RESOLUTION ADOPTED BY THE SUB-COMMISSION

The Sub-Committee on Timber,

Recognising the importance of maintaining a balance between supply and demand on the timber market ;

Desirous of encouraging international collaboration with a view to improving the conditions of the timber market ;

Taking note of the declarations formulated on this subject by the delegations of the different countries represented at the Conference ;

Being of opinion that the efforts made to bring about collaboration between the chief timber exporting countries by the formation of groups and by agreements between groups should be pursued and supplemented, by agreements with the importing countries which would take account of all the interests involved ;

And noting that negotiations are now proceeding in regard to such agreements for the export of soft wood, sawn or planed :

Decides to postpone its discussions until the beginning of October 1933, so as to allow the different countries to study the possibility of framing and possibly concluding such agreements, and in the meantime to collect the whole of the statistical information required, through the International Timber Committee.

The Sub-Committee is further of opinion that each country, acting in concert with the League of Nations and the International Institute of Agriculture, should organise rational statistics of the production of, and international trade in, timber.

(g) COAL : RESOLUTION ADOPTED BY THE SUB-COMMISSION

In view of the importance of the coal problem for world economy, the Conference invites :

(1) The principal producers to endeavour to organise coal production on an international basis, on the understanding that the agreements to be reached shall be followed and supplemented, if necessary, by agreements with the importing countries ;

(2) The competent organisations of the League of Nations to follow the above efforts and to ensure that all interests involved shall be safeguarded, in particular those of the importing and consuming countries. For this purpose, the Sub-Committee entrusted by the Economic Committee of the League of Nations with the study of the coal problem might again be convened ;

(3) The Council of the League of Nations to convene a conference of the principal producing and consuming countries to study what measures should be taken if the results referred to in paragraphs (1) or (2) above have not been achieved within a time-limit of six months.

(h) COPPER : RESOLUTION ADOPTED BY THE SUB-COMMISSION

The delegation of the United States of America calls attention to the desirability of considering plans for the co-ordination by international agreement of the production and marketing of copper, which was included among the products mentioned in the proposal made by the French delegation on June 19th (document Conf. M.E./C.E.S.). In order to provide the basis for the future discussion of plans for the co-ordination of production and marketing of copper, further preliminary studies should be made. Accordingly, it is proposed that the Governments of

the copper producing countries submit to the Secretary-General of the Monetary and Economic Conference, before September 15th, 1933, their views and proposals concerning the organisation of the production of copper and of the international trade in this product, with a view to the summoning of a suitable meeting to examine whether it is possible and expedient to conclude an agreement.

(i) TIN: REPORT ADOPTED BY THE SUB-COMMISSION

1. The Sub-Committee has examined the existing international scheme for the control of tin, to which it is suggested that such countries as now produce the metal in appreciable quantities, and are not at present participants in the scheme, should adhere. Discussion did not elicit any substantive criticisms of that scheme; no suggestions were made for its amendment; no alternative methods of control were proposed.

2. The Sub-Committee consider that the existing scheme of control is framed upon sound lines; that it is in accord with the principles which have been accepted by this Conference as those which should govern the framing of plans for the co-ordination of production and consumption; that it has worked smoothly in actual practice for a period of over two years; and that it has been largely successful in achieving its main objectives.

3. In the course of the discussion, the Chairman of the International Tin Committee which has been responsible for the working of the scheme (under the direction of the Governments signatory of it) emphasised that it had been consistently mindful of the interests of the consuming countries. It was no part of the Tin Committee's policy or the policy of the Governments they represent, to force up the price of tin unduly. The scheme does not attempt to regulate or control prices, except indirectly by adjusting production to demand, and by making a reasonable provision for the reduction of admittedly excessive stocks. The International Committee have, however, at hand two most powerful weapons which can be used to prevent prices from rising unduly. The first is the International Tin Pool, which works in close *liaison* with the International Tin Committee, and which held on July 1st a stock of 20,000 tons of tin (as compared with a total visible supply of tin of approximately 47,000 tons). Tin is released from this pool in accordance with a sliding scale of quantities and prices. This scale has been settled in accord with the signatory Governments, and cannot be changed except by agreement between the pool and these Governments. Releases of the quantities fixed by this scale, at the varying price levels, are obligatory.

The second weapon is the power which the International Committee possesses, in agreement with the signatory Governments, of raising the quotas of production, as may appear from time to time necessary. The Committee has, it is understood, hitherto based its recommendations as to the suitable production quota at any given period solely with reference to the balance between production and consumption, and to the extent to which stocks were being drawn upon. But the Sub-Committee understand that the International Committee would be prepared to recommend an increase of the quotas, even where this was not justified by the considerations stated above, if they were of opinion that this was necessary in order to prevent an undesirable price rise. The Sub-Committee appreciate the force of the contention that pool releases, until the pool is liquidated and thereafter the power to adjust the quotas, provide a machinery which is adequate to protect the interests of consumers.

They are satisfied, from statements made by the Chairman of the International Committee, that that Committee is fully aware of the undesirability of permitting the price to rise unduly, and that the signatory Governments are also in accord on this point. Moreover, it is the interest of the producing countries to increase their production quotas whenever the situation permits.

4. The existing control scheme, in which the Governments of Bolivia, Nigeria, the Netherlands East Indies, Siam and the Federated Malay States participate, will probably terminate towards the end of 1933, and will, in any event, end early in August 1934. Negotiations for the conclusion of a new three year agreement, generally similar to that in force, are now taking place.

5. One of the major factors in determining whether such an agreement can be effected will be the attitude of the countries which produce tin, but do not participate in the existing agreement. The Sub-Committee are impressed by the argument, advanced by the International Tin Committee, (a) that it is equitable that all producing countries should join in the scheme of control, inasmuch as all benefit from the operation of that scheme and (b) that the break-down of the control scheme would, in existing conditions, involve the very gravest difficulties, and might easily mean disaster for the industry, the potential producing capacity of which is at present roughly double the recent rate of consumption. All tin-producing countries are vitally interested in the continuance of the scheme of control until such time as consumption approximates closely to the potential production now in sight. Their adhesion to the scheme is desirable, not only in order to ensure the conclusion of the new agreement for three years, but also to prevent the imminent possibility that, owing to the probable effect of the recent rise of price in stimulating production in areas not now under control, the new agreement, even if concluded, may have to be abandoned owing to production in the non-controlled areas exceeding twenty-five

per cent. of the estimated world production. A clause, on these lines, will, it is understood, be inserted in the new agreement which may be arrived at. When the uncontrolled production reaches that limit, any Government may abandon the scheme; and the other signatories may at once follow suit.

6. In view of the preceding consideration, the Sub-Committee are of opinion that all the countries which now produce the metal in appreciable quantities not at present participating in the control scheme should be asked to enter into negotiations with the International Tin Committee in order to secure, if possible, the adherence to the scheme on the basis of a flat rate quota, fixed with due regard to the special circumstances of each country. They suggest that, during these negotiations, the following broad general directives should be kept in view:

(a) In determining the initial flat rate, the basis of negotiation should normally be the level of production attained during the year 1932. It is recognised, however, that owing to special circumstances such a rate may operate inequitably, as for example, where the production in recent years has been steadily increasing, or where production has only begun recently, or where equipment has recently been installed which would result in a material increase in the output. In such cases, the flat rate would have to be increased, to some point to be determined by negotiation.

(b) Provision should be made for the increase of the original flat rate, from time to time, so as to correspond reasonably with such quota increases as may be agreed upon by the signatory countries to the control scheme.

(c) As a basis upon which to regulate such increases over the original flat rate, a standard tonnage should be fixed, for each country. The fixation of this tonnage will clearly be a matter for negotiation. It is suggested that the standard tonnage should not normally exceed the maximum production attained in any one year during the past ten years; but it is recognised that, in the class of cases mentioned in paragraph (a) above, this condition would be unsuitable, and a standard tonnage in excess of this would have to be adopted.

(d) It is suggested that when the initial flat rate has been fixed, the country should remain on that rate until the rate bore the same proportion to the standard tonnage as the then existing quotas for the signatory countries bore to their standard tonnages. Thereafter, with increases of the quotas for the latter, the rate for the adhering country would move up, relative to the standard tonnage, *pari passu* with that of the signatory countries.

7. The Sub-Committee recommends that, in order to facilitate the discussions referred to in paragraph 3 above, the Governments of the Union of South Africa, Australia, Belgium, the United Kingdom, China, France, India, Japan, Mexico and Portugal, should be requested to nominate a representative who would be authorised to enter into negotiations with the International Tin Committee, or with the Chairman of that Committee, with the object of determining a suitable initial flat rate, a standard tonnage, and a method for the variation of the initial flat rate corresponding to quota increases in the signatory countries.

8. The Sub-Committee attach great importance to very early action being taken in this matter. The negotiations for the new three-year control agreement, upon the successful conclusion of which the future of the industry in all tin-producing countries so essentially depends, cannot be completed until the signatory countries are aware of the measure of support which they will receive from those Governments which do not at present participate in the scheme. On the other hand, the circumstances are such that any new agreement must be arrived at before the close of the current year. The matter is therefore urgent; and the Sub-Committee trust that each delegation will do all that lies in their power to expedite a rapid decision, in so far as their respective Governments are concerned.

APPENDIX 3

REPORTS RELATING TO MEASURES OTHER THAN CUSTOMS DUTIES AND PROHIBITIONS

- | | |
|--|-----------------------------------|
| (a) Indirect Protectionism in General; | (c) Phyto-Pathological Questions; |
| (b) Veterinary Questions; | (d) Marks of Origin. |

(a) REPORT BY THE SUB-COMMISSION III B: INDIRECT PROTECTIONISM IN GENERAL

I

The Sub-Commission submits the following resolution for adoption by the Conference:

With a view to the general application of the principle of equitable treatment and friendly co-operation, which, in the opinion of the Conference, constitutes the best means of overcoming the constant difficulties arising out of indirect protectionism:

The Sub-Commission proposes that the Governments participating in the Conference consider the advisability of incorporating into future or existing treaties, wherever such action may be deemed to be suitable, a clause in the sense of the following :

" If, subsequent to the conclusion of the present treaty, one of the Contracting Parties introduces any measure, which even though it does not result in an infringement of terms of the treaty, is considered by the other Party to be of such a nature as to have the effect of nullifying or impairing any object of the treaty, the former shall not refuse to enter into negotiations with the purpose either of an examination of proposals made by the latter or of the friendly adjustment of any complaint preferred by it."

It shall be understood that the obligation provided for in the previous paragraph does not apply to customs tariffs nor to questions specifically settled in other parts of the treaties in operation.

II

In order to facilitate the application of the above provision, the Sub-Commission further recommends that the Conference should draw the attention of States parties to the Convention of November 3rd, 1923, concerning the simplification of customs formalities, to the need of strictly observing the provisions contained in Articles 4 to 6 of that Convention and that it should invite States not parties to that Convention to conform to the principles embodied in those articles, the text of which is annexed to the present report.

III

Lastly, the Sub-Commission is of opinion that, a regards certain questions relating to indirect protectionism, especially questions of customs formalities (see documents Conf. M.E./C.E.28, 32 and 54), the work of the Economic Committee of the League of Nations is sufficiently advanced to allow of the convening of a special conference on these matters at an appropriate date.

Sub-Appendix

TEXT OF ARTICLES 4 TO 6 OF THE INTERNATIONAL CONVENTION RELATING TO THE SIMPLIFICATION OF CUSTOMS FORMALITIES, CONCLUDED AT GENEVA ON NOVEMBER 3RD, 1923.¹

" Article 4

" The Contracting States shall publish promptly all regulations relating to Customs and similar formalities and all modifications therein, which have not been already published, in such a manner as to enable persons concerned to become acquainted with them and to avoid the prejudice which might result from the application of Customs formalities of which they are ignorant.

" The Contracting States agree that no Customs regulations shall be enforced before such regulations have been published, either in the *Official Journal* of the country concerned or through some other suitable official or private channel of publicity.

" This obligation to publish in advance extends to all matters affecting tariffs and import and export prohibitions or restrictions.

" In cases, however, of an exceptional nature, when previous publication would be likely to injure the essential interests of the country, the provisions of the second and third paragraphs of this Article will lose their obligatory force. In such cases, however, publication shall, so far as possible, take place simultaneously with the enforcement of the measure in question.

" Article 5

" Every Contracting State whose tariff has been modified by successive additions and alterations affecting a considerable number of articles shall publish a complete statement, in an easily accessible form, of all the duties levied as a result of all the measures in force.

" For this purpose all duties levied by the Customs authorities by reason of importation or exportation shall be methodically stated, whether they are Customs duties, supplementary charges, taxes on consumption or circulation, charges for handling goods or similar charges, and in general all charges of any description, it being understood that the above obligation is limited to duties or charges which are levied on imported or exported goods on behalf of the State and by reason of clearing goods through the Customs.

" The charges to which goods are liable being thus clearly stated, a clear indication shall be given, in the case of taxes on consumption and other taxes levied on behalf of the State by reason of clearing goods through the Customs, whether foreign goods are subject to a special tax owing to the fact that as an exceptional measure, goods of the country of importation are not or are only partially liable to such taxes.

" The Contracting States undertake to take the necessary steps to enable traders to procure official information in regard to Customs tariffs, particularly as to the amount of the charges to which any given class of goods is liable.

¹ The text of this Convention is reproduced in document C.878(I).M.241(I).1924.II.

" Article 6

" In order to enable Contracting States and their nationals to become acquainted as quickly as possible with all the measures referred to in Articles 4 and 5 which affect their trade, each Contracting State undertakes to communicate to the diplomatic representative of each other State, or such other representative residing in its territory as may be designated for the purpose, all publications issued in accordance with the said Articles. Such communication will be made in duplicate and so soon as publication is effected. If no such diplomatic or other representative exists, the communication will be made to the State concerned through such channel as it may designate for the purpose.

" Further, each Contracting State undertakes to forward to the Secretariat of the League of Nations, as soon as they appear, ten copies of all publications issued in accordance with Articles 4 and 5.

" Each Contracting State also undertakes to communicate, as soon as they appear, to the " International Office for the Publication of Customs Tariffs " at Brussels, which is entrusted by the International Convention of July 5th, 1890, with the translation and publication of such tariffs, ten copies of all Customs tariffs or modifications therein which it may establish."

(b) VETERINARY AND PHYTO-PATHOLOGICAL QUESTIONS: RESOLUTIONS ADOPTED BY SUB-COMMISSION III B

I. The Sub-Commission is of the opinion:

(1) That a resolution should be adopted affirming the desire of all the countries represented at the Conference, that, in accordance with the opinion of a number of Governments and with a Resolution of the Assembly of the League of Nations, there be convened as soon as possible an international diplomatic conference of all the importing and exporting countries concerned, which would take as the basis of its work the three draft International Conventions relating respectively to the combating of contagious diseases of animals, the transit of animals, meat and other animal products and, finally, the exportation and importation of animal products other than meat, etc., and that the Council of the League of Nations be requested to fix the date of the said Conference at its next Session;

(2) That it is desirable to request the Economic Committee of the League of Nations to examine, with the co-operation of a body of special experts and taking into account the conclusions of the International Institute of Agriculture at Rome (1928) and the " Institut international du Froid " (1932), the whole series of problems relating to the importation and exportation of fresh and preserved or prepared meat;

(3) That the veterinary work in connection with the export and import of cattle should be continued on the basis of the General Report of the Sub-Committee of Experts on Veterinary Police Measures and that the necessary supplementary studies should be begun with a view to laying down the principles for a better regulation of the trade in cattle and to arriving, if possible, at an international agreement on this subject.

II. (a) The Sub-Commission considers that it is desirable to ask the International Institute of Agriculture at Rome:

To study with the collaboration of the Economic Committee of the League of Nations the scientific and technical questions involved in the control of the importation and exportation of plants and other vegetable products;

To procure the assistance for that purpose of specially qualified experts representing importing countries as well as exporting countries;

And lastly to submit for the consideration of Governments the general principles, worked out in the course of the study, by which they should be guided in drafting the regulations to be enforced.

(b) The Sub-Commission considers that it would be desirable to ask the International Institute of Agriculture at Rome to devote special attention to and stimulate research into the means for the prevention and cure of cocoa diseases, if possible, on the spot in territories where such diseases are rife.

III.¹ The Sub-Commission is of opinion that it is desirable that the Governments represented at the Conference should declare that they are prepared:

(1) To consult, whenever practicable, the Governments of the countries concerned before applying new sanitary measures of control or supervision in the international trade in cattle and in animal or vegetable agricultural products;

(2) To enter into discussions at any time, at the request of an interested Government, with regard to the administration of existing measures.

¹ Note.—The German delegation, whilst recognising the desirability of adopting the principles enumerated under paragraph III, declares, however, that Germany could not conform to these principles in general so long as no permanent and satisfactory measures against contagious diseases of animals and plants are guaranteed either by collective conventions or by bilateral agreements.

(c) MARKS OF ORIGIN: REPORT ADOPTED BY THE SUB-COMMISSION III B

The increasing number of measures providing for the imposition of marks of origin upon imported goods has given rise to many complaints. For this reason the Economic Committee of the League of Nations, after convening in April, 1931, a Committee of Experts, submitted a report and conclusions (document C.427.M.177.1931.II.B), designed to remove so far as possible grounds for such complaints; the report and conclusions were approved by the Council and communicated to all members of the League of Nations with a recommendation to comply therewith.

Later, the Preparatory Commission of Experts included the question of marks of origin in the draft Agenda of the Conference (document C.48.M.18.1933.II, page 26).

The question was directly brought before Sub-Commission III B by a proposal of the German delegation supported by the Belgian, Netherlands and Czechoslovak delegations (document Conf.M.E./C.E.18). The essential object of this proposal was threefold: a truce in the sense of an agreement not to introduce new provisions, mitigation of existing provisions, gradual abolition of laws concerning marks of origin. In order to facilitate discussion the question was dealt with in a note by the Secretariat (document Conf. M.E./C.E.27), which was distributed by the Commission at the request of several delegations.

It is this last note that was taken as the basis of its work by the Drafting Committee which was set up on June 27th, 1933; this Committee consisted of M. Suetens (Belgium), Chairman, and members of the German, United Kingdom, French, Netherlands and United States delegations. Its terms of reference were to prepare a draft agreement. In the course of its work a proposal was submitted to it by the Belgian and Netherlands delegations, supported by the German delegation. Its effect was essentially to convert into a draft agreement, involving obligations for the Contracting Parties, the conclusion of the report of the League of Nations Economic Committee to which reference has already been made. Draft agreements by the United Kingdom, French and United States delegations were also submitted to the Drafting Committee. Observations from the Chinese and Japanese delegations (documents Conf. M.E./C.E.76 and Conf. M.E./C.E.91) were similarly received. Moreover, the Italian delegation also took occasion to bring its views to the knowledge of the Drafting Committee.

Although it is not in a position to submit a unanimously accepted text, the Drafting Committee unanimously agrees that the laws and regulations on the marking of goods should not be of such severity as to hamper trade and considers that the appreciable progress in the matter could be made by means of an international agreement.

Although the Committee was unable to reach complete agreement on all the points referred to it for examination, unanimity was nevertheless arrived at with respect to a certain number of questions, and the discussions on the other problems encouraged the hope that further agreement might be reached at a later stage.

The Drafting Committee feels that the above considerations afford substantial grounds for requesting the Bureau of the Conference to ensure the continuation of its work on marks of origin in such manner as it may deem appropriate.

For purposes of information the points upon which the Committee is agreed are stated below:

- (1) In the application of their laws and regulations on marks of origin, States must refrain from any discrimination as between the goods of one foreign country and another.
- (2) The laws and regulations on the marking of goods must not have the effect of damaging the goods.
- (3) Effective publicity must be given to all provisions relating to the marking of goods. So far as possible, reasonable time must be allowed to those concerned prior to the putting into force of any new measures.
- (4) It must always be possible for persons deeming themselves injured by the action of the authorities responsible for the application of the laws and regulations relative to the marking of goods to institute proceedings for redress.
- (5) It is desirable to explore the practicability of a simplified and uniform nomenclature for the indication of the country of origin.

The Committee did not discuss the text of the clauses embodying the above principles. As already stated, various drafts had been prepared. They were deposited with the League Secretariat and may serve as a basis of future discussion.

On the other hand, no agreement has been reached on the following points:

- (1) Stage at which the mark of origin shall be required.
Some countries are of opinion that, in principle, the mark should only be required when the goods are offered for sale; others consider that it should be required at the time of importation.
- (2) Procedure to be followed when new marking requirements are being proposed.
- (3) Penalties for infringement of any law regarding marks of origin.

(4) Adjustment of disputes regarding the interpretation of conventional stipulations relating to marks of origin.

(5) Truce in regard to marks of origin and gradual abolition of existing measures.

(6) Provision for exemption from marking requirements as regards certain categories of goods.

Nevertheless certain delegations agreed in principle as to exemption from marking requirements in the following cases :

(1) Goods in transit ;

(2) Goods in bond ;

(3) Samples ;

(4) Wrapping when the goods themselves are marked and are normally sold unwrapped ; or the goods themselves when they are normally sold in their wrappings and when the latter are already marked according to the law ;

(5) *Objets d'art*, valuable or fragile articles ;

(6) Goods intended for the personal use of the importer, his factory or business and not intended for sale ;

(7) Packing material, containers, spools, boards, bottles, labels, etc., and in general all imported articles used exclusively for packing, containing, wrapping, etc., the products of the importing country ;

(8) Raw material to be used for industrial purposes or to be manufactured or finished in the importing country.

APPENDIX 4

SUBSIDIES AND BOUNTIES : REPORT ADOPTED BY SUB-COMMISSION III A

1. This Sub-Commission was appointed by the Economic Commission on June 22nd for the purpose of considering bounties and direct and indirect subsidies, and in particular, shipping subsidies.

2. The following countries were represented on the Sub-Commission : Germany, United Kingdom, United States of America, France, Finland, Greece, Irish Free State, Italy, Japan, Norway, Netherlands, Switzerland, Czechoslovakia.

3. The Sub-Commission has held five meetings.

4. It was decided at the outset of the Sub-Commission's deliberations that agricultural subsidies could not be excluded from its scope.

5. For the purpose of discussion at the Sub-Commission's second meeting the *Italian* delegation submitted a list of subjects (enumerated in document Conf. M.E./C.E.30), and in presenting the list stressed particularly its view that any useful examination of the subject was subordinate to monetary stabilisation.

6. The *French* delegation also stressed the fact that, in their view, the restoration of monetary stability was an essential condition precedent to any practical reduction in the amount of bounties and subsidies.

7. The *United Kingdom* delegation submitted as their contribution to the list of subjects to be discussed, " financial assistance, direct or indirect, given by Governments for ship construction and ship operation " ; and it was decided at a subsequent meeting of the Sub-Commission that shipping subsidies should be the first subject to be considered.

8. Several delegations emphasised the inter-dependence of all forms of State assistance and consequently the importance of a general discussion of the whole problem. The *Italian* delegation in particular stressed the need of a simultaneous study of all forms of subsidy embraced in State assistance since in its view subsidies were not the cause but a consequence of the crisis.

9. It was agreed that, at any rate, at the outset subsidies from *other than Government sources* should be excluded from the Agenda and that delegations should define more precisely the subjects they wished to discuss.

10. As a result of the above decisions the proposals submitted by the different delegations fell under two heads : (a) those dealing with the general question of bounties and subsidies, and (b) those dealing more particularly with shipping subsidies.

A. SUBSIDIES IN GENERAL

11. The *German* delegation drew attention to the admitted fact that, unless normal conditions are re-established in the international circulation of goods and capital, no country could be expected to abolish measures which it had taken for the defence of vital interests. It was, therefore, only natural for a State to take the measures which it thought necessary for the maintenance and restoration of economic life within its borders, such measures being necessary mainly to protect its agriculture and with a view to reinstating the unemployed in industry and production. These measures are moreover in the interests of other countries since they are directed towards increasing purchasing power.

The Sub-Commission must, therefore, exclude from its deliberations all measures which without directly affecting the interests of other countries, sub-serve the *natural* reconstruction of the national economic system, and should only consider measures of support which give to production an *artificial and unnatural* advantage at the expense of foreign competitors.

The German delegation, which on this point associated itself with the view expressed by the Italian delegation, considered that subsidies were only a kind of protectionism and that their abolition could only form part of the economic and financial action necessary for the revival of world economy.

Accordingly, the German attitude depends upon how far other countries are prepared and in a position to abolish for their part the measures which they have taken. It is necessary to examine what measures taken by one country have produced counter-action in another country and only after such examination would it perhaps be possible to conclude that the abolition of these subsidies in all the countries concerned was a proper subject of international agreement (see document Conf. M.E./C.E.38, June 28th, 1933).

12. The *French* delegation declared that it attached the greatest importance to the study of measures to be taken for the *abolition or restriction of Government subsidies and bounties* to trade and commerce. It was, in its view, essential to enforce equitable conditions in commercial transactions at the earliest possible date.

In view of the difficulty of prohibiting particular forms of Government subsidies, the best prospect of success lay in attacking the causes of the depression directly and not its effects.

The French delegation held that a distinction must be drawn between bounties and subsidies for *production* on the one hand and bounties and subsidies for *export* on the other. The former might be justified by the need of obviating the dangerous social consequences which the disappearance or stoppage of particular industries or undertakings might bring about. In so far as they affected the national economy only, they could not properly form the subject of international agreements.

It was, on the other hand, right for the Conference to take cognisance of export bounties and subsidies.

On this point the French delegation considers that the ideas set forth in the Secretariat's Note (document Conf. M.E./C.E.28) deserve close attention. It is prepared, in the event of the Conference failing to arrive at any satisfactory *general formula* to consider, within narrower limits, the possibility of including *model clauses*, on the lines suggested by the Secretariat, in bilateral or multilateral agreements, with a view to eliminating in practice export bounties and subsidies. It is further prepared to examine any *arbitration* procedure which may tend to establish between all countries equitable treatment in commercial relations (see document Conf. M.E./C.E.43 of June 29th, 1933).

13. The *Finnish* delegation (document Conf. M.E./C.E.38) observed with regard to the subjects included in the Italian list that, while the abolition of export bounties was one of the conditions for the regularisation of international trade, reservations had to be made in the case of drawbacks of duty on goods exported, export credits and railway rates for export.

14. The delegation of the *Irish Free State* considered that any international agreement which aimed at the reduction or abolition of subsidies should not apply to subsidies paid with a view to off-setting the effects of discriminatory tariffs, prohibitions or restrictions imposed on the products of a particular country, and that, in the framing of such an agreement provision should be made to take account of the position of States which are still at an early stage of their industrial evolution (see document Conf. M.E./C.E.38 of June 28th, 1933).

B. SHIPPING SUBSIDIES

15. The delegations of *Norway* and the *Netherlands* submitted a joint memorandum (document Conf. M.E./C.E.60), which contains the proposal that a definite agreement be concluded providing for the abolition, at the earliest moment, of all shipbuilding and shipping subsidies other than such as may be necessary to a State for the maintenance of its sea communications on particular routes and the promotion of particular trades in which the State has special interests.

The two delegations based their arguments, in support of this proposal on the following general grounds:

- (a) Conditions in the shipping industry cannot be sound, so long as an uneconomic policy of Government subsidies continues.
- (b) International trade requires ocean transport supplied by shipping and shipbuilding industries working on an economic basis.
- (c) In view of the disastrous loss of equilibrium between world tonnage and world traffic which has resulted from the policy of subsidies, the only alternative to the re-establishment of the industries on an economic basis, must, in the view of these delegations, be the grant of further subsidies under all flags, until ocean transport ceases to be competitive.

(d) Non-competitive services could not satisfy the varying demands of international trade and would be a heavy burden on the national exchequers. They would create a formidable barrier to international trade.

The Norwegian delegate stated that *Denmark* and *Sweden* supported the above proposals in principle.

16. The *French* delegation was of opinion that special cases exist in which national protection of a mercantile marine may be justified and must be regarded as legitimate but that it cannot be justifiable to practise a policy of uneconomic bounties and subsidies. It proposed that the Conference :

- (1) Should explore the ways and means of regulating the practice of granting bounties, subsidies or indirect advantages, whether open or concealed, to shipping ;
- (2) Should draft an international convention.

The French delegation observed further that on the great international steamship routes there had sprung up a ruinous and futile struggle between national flags which took the form of a constantly increasing competition in tonnage and speed and of a dangerous rate war which was a menace to the budgets of both shipowners and States.

It proposed that the Conference :

- (1) Should advise States urgently to invite the shipowners of the countries concerned to conclude international agreements for the operation of the great ocean routes under multilateral contract and to limit the tonnage of future construction, the Governments reserving the right to supervise the execution of such agreements ;
- (2) Should suggest the joint operation, subject to the retention of the national flags, of the vessels mentioned in the agreements and the determination of routes, time-tables and international rates, regard being had to the tonnage, speed and comfort of the boats named in the contract ;
- (3) Should point out that the best practical method of control was to introduce a joint account covering the whole of the working receipts and expenses.

17. The *Finnish* delegation (document Conf. M.E./C.E.38) supported the Norwegian and Netherlands proposals, since they considered it to be of the utmost importance for international maritime traffic that the equilibrium between supply and demand, which had been disturbed by measures taken by States to assist shipping, should be re-established.

18. The *Greek* delegation proposed that the following points should be discussed as constituting indirect advantages in some cases :

- (1) Flag discrimination on the premiums charged for cargo insurance ;
- (2) Flag discrimination on the freight market.

They also proposed that there should be international agreement as to the age limit of ships and the reduction of tonnage by laying up or scrapping.

19. The *United Kingdom* delegation submitted a memorandum, which is reproduced in full in the Annex. They stressed the importance of reducing trade barriers to international commerce such as tariffs, import restrictions, subsidies, etc., the vital need of economic disarmament in relation to the exchange of goods and services being at least as great in the case of shipping as in the case of other services. International trade and commerce needs for its development the most efficient and cheapest sea transport it can get, and this need was met for many years before the War by the policy of maritime nations, which was in general such as to secure a freight market open to ships of all flags and free from artificial measures intended to promote the interests of vessels under particular flags. Since the War, the practice of subsidising shipping on competitive routes has altered those conditions.

The effect of uneconomic shipping subsidies, if continued, will, in the opinion of the United Kingdom delegation, deprive international trade of the most efficient and cheapest sea transport, since private enterprise in shipping cannot exist in competition with shipping heavily subsidised by Governments.

Countries which do not at present subsidise will, the United Kingdom delegation fear, have to resort either to protection for their shipping or to subsidise. The result will be the substitution of State shipping for shipping built and operated on ordinary economic lines. The effects will be gravely detrimental to world trade.

The evil effects of subsidies fall on all countries, including those which subsidise. For the effect of subsidies is to increase the amount of tonnage afloat without reference to world trade requirements. Excess of tonnage reduces the freight earnings of all ships; reduced earnings call for larger subsidies; the ordinary action of reduced freights in reducing tonnage is prevented; and the consequences to all nations in the industry are heavy losses. It is true to say that the subsidising nations are suffering with those which do not subsidise, and perhaps more, as they are loading their budgets and are impoverishing their customers.

The effect of subsidies to shipping on the maritime countries which do not subsidise, is to prevent them from earning those revenues which assist to maintain the balance of trade and which enable them to pay for imports. The grant of subsidies on competitive routes, in the view of the United Kingdom delegation, amounts to a dumping of shipping services and defeats the intention of international engagements such as those contained in the Maritime Ports Convention.

The United Kingdom delegation submit:

(1) That State subsidies for the construction of shipping for, or its maintenance on, competitive routes is uneconomic, can only lead to the granting of similar subsidies by other countries and/or to protective measures in respect of shipping, which would deprive world trade of the economic and efficient sea transport it has so far enjoyed, disorganise the world freight market, increase the burdens on national budgets and lessen the power of maritime countries to pay in services for imports and loans.

(2) In these circumstances the countries concerned should move as rapidly as possible towards the diminution and ultimate abolition of State assistance to shipbuilding and ship operation on competitive routes.

20. The *Greek* delegates supported the declaration made by the United Kingdom delegate, subject to an exception being considered as regards passenger transport.

21. The *Norwegian* delegate strongly supported the United Kingdom view, as also did the delegate of the *Netherlands*, who further drew attention to the similarity of the subject matter of the United Kingdom memorandum and that which had previously been submitted by the *Norwegian* and *Netherlands* delegations.

22. The *Italian* delegate repeated the view stated in paragraph (5).

23. The delegate of the *United States of America*, in a speech which is appended in full, drew attention, among other matters, to the difficulty of defining an uneconomic subsidy and of determining what constituted an uneconomic policy within the meaning of the Memorandum submitted by the *Norwegian* and *Netherlands* delegations. He suggested, indeed, that the present state of shipping was due to a number of phenomena, some of which were before the Conference, and not to subsidies alone. There was no flag discrimination in United States ports against vessels of countries which did not discriminate against American ships. The Government of the United States was determined to obtain equality for its vessels in other respects also and especially to equalise the costs of construction and operation as between American and foreign ships. "The United States", he said, "intends to have a merchant marine. It desires conditions of parity for its vessels and nothing more."

24. The discussions in the Sub-Commission showed that there were two distinct currents of opinion, some delegations holding that it was desirable to deal specially with shipping subsidies as being of international concern, since they injured trade and tended to deprive international trade of the services essential to it; other delegations, on the other hand, holding that all subsidies were inter-related and merely constituted different examples of State assistance to industry.

25. It was generally agreed, however, that the fundamental basis of discussion was the effect of subsidies on international trade.

26. The memorandum submitted by the United Kingdom delegation would clearly have evoked contributions to the problem from the delegations of other countries had not the labours of the Sub-Commission been cut short by the decision of the Bureau that a Drafting Committee should be set up to report progress.

Sub-Appendix I

MEMORANDUM OF THE UNITED KINGDOM DELEGATION

1. The severity of the crisis in world trade is known to everyone, and one of the main objects of this Conference is to promote the flow of world trade by reducing the barriers to international commerce such as tariffs, import restrictions, exchange control, subsidies, and the like, which have so disastrously affected the trade of the world.

2. This Sub-Commission is to deal with those barriers to trade which fall under the head of "Bonuses and Direct and Indirect Subsidies, in particular Shipping Subsidies".

3. This question is part of the general problem of reduction in, and removal of, artificial hindrances to trade, and is considered from that point of view by the United Kingdom delegation. The vital need of economic disarmament in relation to the exchange of goods and services emphasised by the Preparatory Commission for this Conference applies with at least as much force to shipping as to other services. To free international shipping from artificial conditions which if continued will deprive world trade of the most efficient and cheapest ocean transport is part of the problems of this Conference.

4. So far as concerns subsidies, direct and indirect, to shipping, the position to-day is worse than it has ever been.

5. A few figures will show clearly the expansion that has taken place in shipping as compared with the decline of international trade. At the outbreak of war, in 1914, the gross tonnage of the world's steam and motor shipping (omitting vessels of less than 100 tons but including vessels on the Great Lakes of the United States) amounted to 45.4 million tons. To-day (notwithstanding a decline of over 2 million tons in the past two years) the total still amounts to 66.6 million tons. The increase in the world's steam and motor tonnage therefore amounts to 21.2 million tons, or nearly 47 per cent. The increase in foreign-going tonnage (ships of 2,000 tons gross and upwards) is probably at least as great. The volume of the world's trade which, in 1929, was about 30 per cent. above that of 1913, had declined in 1933 to below that level. Even if no account be taken of the increased efficiency through greater speed, etc., of many of the newer ships, the tonnage available is out of all proportion to the demand for it.

6. State subsidies to shipping in this connection is not meant to refer to those cases where it is necessary for a State to maintain certain mail and passenger services which would not be provided for without action by the State. The subsidies which hamper world trade are those which place and maintain tonnage on what, for brevity, may be described as the competitive routes, that is, those routes on which sea carriage is performed in competition by the maritime nations of the world.

7. The World Economic Conference of 1927 made the following reference to the subject in its Report (Section "Commerce", Paragraph IV (i)):

"Subsidies, Direct or Indirect"

"During the years which followed the War, a marked extension of tariff barriers took place in various countries, accompanied by an increasing tendency to introduce State subsidies. This was done more particularly in an indirect way, by granting credits or guarantees which aimed at assisting the home industries and their export trade for a more or less protracted period, in view of the abnormal economic conditions prevailing throughout the world.

"The fact that subsidies are in certain circumstances held to interfere less with the liberty of trading than Customs tariffs does not make it any the less necessary to lay stress on the hidden dangers inherent in this means of encouraging production and exportation. The greater the number of countries which have recourse to this practice, the more difficult will it be for other countries to refrain from following their example. Thus the attempt to restore foreign trade to normal conditions meets with a real obstacle in the shape of subsidies.

"The Conference draws the attention of the various Governments to the true nature of direct or indirect subsidies, which are merely a palliative, and

"Expresses the hope that Governments will, so far as possible, refrain from having recourse to them."

8. Since then, the position in this respect, as in respect of many other factors hampering world trade, has got worse instead of better, and unless a determined and successful effort is made to reduce and ultimately abolish such bonuses and subsidies the consequences adumbrated by the World Economic Conference of 1927 must follow as they have already followed to some extent.

9. International trade and commerce needs for its development the most efficient and cheapest sea transport it can get. This can only be secured in a freight market open to ships under all flags and free from artificial measures intended to promote the interests of vessels under particular flags.

10. For many years before the War, the general policy of maritime nations was such as to secure an open freight market, the provision of international ocean services being left, generally speaking, to individual enterprise. The result was that world requirements were satisfactorily met during a time of great developments without in the main throwing any burden on national revenues.

11. Since the War, there has spread the policy of building and running ships, in part or whole at the cost of the State, to compete with and displace in international trade ships of other flags. This has produced and maintained tonnage not called for by economic conditions, and has tended to make impossible the operation of the freight market on an economic basis. In conjunction with the decline in world trade, it has disastrously affected the shipbuilding and shipowning interests under all flags. The great excess of sea-carrying power over the quantity of cargo to be carried is in part due to this policy.

12. The effect of uneconomic shipping subsidies if continued will be to deprive international commerce of the most efficient and cheapest sea transport. For, as shipowners in various countries have pointed out, private enterprise in shipping cannot for ever exist in competition with shipping heavily subsidised by Governments. Countries which do not at present subsidise will have to resort either to protection of their shipping or to subsidies and the result will be the substitution of State shipping for shipping built and operated on ordinary economic lines, and the loss by international commerce of the efficient and cheap machine it has employed for so many years.

13. In a memorandum to the United Kingdom Government from the Association of British Chambers of Commerce, the Federation of British Industries, and the Chamber of Shipping, the following view is expressed :

" We are convinced that if the present policy of excessive Government intervention in shipping is continued much longer there will be no alternative to retaliation and to universal subsidisation of ships at the expense of the taxpayer and the converting of what was a source of prosperity into a heavy burden. Such conditions would effectively deprive trade and commerce of the transport facilities which they need and must still further dislocate world trade already paralysed by innumerable trade barriers.

" In our view, therefore, agreement among the Governments represented at the Conference to abolish or at least restrict the present policy of uneconomic subsidisation of shipping and shipbuilding is one of the most urgent and vital problems before the Conference."

This is a repetition of similar views expressed by the various organisations concerned in other maritime countries.

14. The evil effects of subsidies fall on all countries, including those which subsidise. For the effect of subsidies is to increase the amount of tonnage afloat without reference to world trade requirements. Excess of tonnage reduces the freight earnings of all ships; reduced earnings call for larger subsidies; the ordinary action of reduced freights in reducing tonnage is prevented; and the consequences to all nations in the industry are heavy losses. It is true to say that the subsidising nations are suffering with those which do not subsidise, and perhaps more, as they are loading their budgets and are impoverishing their customers.

15. The effect of subsidised shipping upon the maritime countries which do not subsidise is to prevent them from earning those revenues which assist to maintain the balance of trade and which enable them to pay for imports. The loss of that source of revenue can only contribute further to the reduction of imports in maritime countries and lessen their ability to discharge their obligations. Population on the present scale can only be maintained, for example, in these islands if we are in a position to import large quantities of foodstuffs and raw materials. Since these imports must be paid for by exports, and since our visible exports are not sufficient in themselves to pay for imports, world trade is diminished by any diminution of the chief means of adjusting the balance, namely, the employment of British shipping in world trade. Similar considerations to a greater or less extent apply to other maritime countries. As was stated by the Chancellor of the Exchequer on June 14th, creditor countries, wishing to obtain payment for their claims on foreign countries must accept goods and services in settlement of those claims. Thus, refusal to accept the services of foreign shipping prevents the settlement of international obligations and restricts international trade. To remove such restrictions is a necessity which is admitted by all if the flow of international trade is to be restored.

16. Under Treaties of Commerce and Navigation, to which most countries are parties, there is laid down the most definite national treatment for shipping. Shipping subsidies in their present form constitute a kind of protection which was not contemplated when the present form of these treaties was elaborated. The older methods of flag discrimination are practically non-existent to-day, but the grant of subsidies on competitive routes really amounts to a dumping of shipping services which tends to render nugatory the navigation provisions of Treaties. It is also contrary to the spirit of the Maritime Ports Convention.

17. The history of the last few years has shown marked extension of the policy of subsidising shipping. The continuance of the present methods can only result in increasing the uneconomic condition of world shipping with disastrous consequences to all concerned.

18. The United Kingdom delegation submit, therefore, in pursuance of the objects of this Conference—*i.e.* economic disarmament in relation to the exchange of goods and services, and the increase in the flow of international trade by the reduction of artificial barriers and hindrances to that trade—the Sub-Commission should endeavour to reach agreement on the following lines of action in regard to Shipping Subsidies:

(1) That State subsidies for the construction of shipping for, or its maintenance on, competitive routes is uneconomic, can only lead to the granting of similar subsidies by other countries and/or protective measures in respect of shipping, which would deprive world trade of the economic and efficient sea transport it has so far enjoyed, disorganise the world freight market, increase the burdens on national budgets and lessen the power of maritime countries to pay in services for imports and loans.

(2) In these circumstances the countries concerned should move as rapidly as possible towards the diminution and ultimate abolition of State assistance to ship-building and ship operation on competitive routes.

Sub-Appendix II

SUMMARY OF REMARKS OF MR. FRED. K. NIELSEN, UNITED STATES REPRESENTATIVE,
MADE ON JULY 5TH, 1933

I am sure we have all been glad to listen to the interesting memorandum read by the British delegate. After he has distributed copies to us, which he said he would do, I shall probably desire to make some reply.

I have a cardinal principle with respect to international arrangements. In my opinion, it is of the utmost importance that there should be certainty in connection with international acts: resolutions, declarations or covenants. There is danger of multiplying international difficulties in dealing in general or uncertain terms with subjects that enter into international arrangements or problems which it is sought to make the subject of international concern.

Reference has been made to "uneconomic subsidies". I feel certain that very considerable differences of opinion might arise with regard to the interpretation of any resolution or covenant condemning uneconomic subsidies. It is my recollection that the Chairman defined such subsidies as a form of "unnatural assistance". Even though we take the definition as something more concise than the term defined, I think that there might still be considerable divergence of views as to the meaning of any prohibition or condemnation of unnatural assistance. The same, I think, may be said with respect to some form of outlawing "excessive nationalistic policies", which, as I recollect, were mentioned a little while ago.

Some of the proposals laid before the Sub-Committee contain some interesting general declarations. I do not think that it is necessary for me to discuss them in detail. However, from the fact that I have not referred to them during the course of the discussion which has taken place, it should not be inferred that I agree with everything that is said in the proposals.

In that of Norway and of the Netherlands, agreement is expressed with regard to the conclusion of the Preparatory Commission of Experts, that it is impossible to return to "sound conditions in the shipping industry so long as an uneconomic policy of Government subsidies continues". Undoubtedly, there may be considerable differences of opinion as to what constitutes "an uneconomic policy".

In paragraph (c) of the same proposal, there is a reference to "the disastrous loss of equilibrium between world tonnage and traffic" and this, it is said, "has resulted from the policy of 'excessive intervention' to which the experts direct the attention of the Conference". That is a sweeping conclusion with respect to the effect of what is termed "excessive intervention". If the lack of international traffic for vessels is due to excessive intervention rather than to a myriad of phenomena, some of which the Conference is attempting to deal with, then there would seemingly be nothing before the Conference but the question of ship subsidies.

That situation being postulated, there is submitted further on in paragraph (c) the conclusion that under certain conditions a final alternative "must be the granting, under all flags of still further subsidies until the ocean transport system of international trade as a whole ceases to be competitive". That is an interesting speculation with respect to something that has not happened. It seems to be a declaration to the effect that nations will have a merchant marine, even if they must grant subsidies in order to have it. Now, on the other hand, in the proposals of the French delegation it is said that there has "sprung up a ruinous and futile struggle between national flags, which took the form of a constantly increasing competition in tonnage and speed and of a dangerous rates war".

I presume that it is a general rule in all lines of activities that the greater the amount of services offered, the keener the competition. And so I should presume that, if tonnage increases, competition correspondingly increases, unless ship owners in some way contrive to control rates of service.

Reference has been made to what has been called "flag discriminations". The United Kingdom delegate has just referred to provisions of certain treaties. I understood him to express the view that they were inadequate to meet conditions which he discussed. Many years ago, the Government of the United States initiated the conclusion of numerous so-called Commercial Treaties with other nations. These treaties, varying of course in form and substance, contain provisions to prevent discrimination against vessels through the imposition of discriminatory duties on their cargoes. With respect to such matters, therefore, every foreign merchant ship comes into the harbours of the United States on terms of equality with American vessels and with vessels of all other countries. There is no discrimination against vessels of countries that do not discriminate against American ships. These treaties have been regarded as valuable agreements.

The Government of the United States has undertaken to obtain equality for its vessels in other respects. No criticism has been specifically directed here against measures which it has employed. In the preamble of a law enacted by the Congress of the United States in 1928 it is declared that "it is necessary for the national defense and for the proper growth of its foreign and domestic commerce that the United States shall have a merchant marine of the best equipped and most suitable types of vessels". That law re-affirms a policy expressed in a previous piece of legislation which came into force in 1920.

In enacting these laws, the Congress had in mind, in furtherance of the specific purposes which I have just mentioned, an equalisation of the costs of constructing and operating American ships and such costs in respect of foreign ships, so that vessels in the United States can compete for both cargo and passengers on substantially equal terms with other maritime nations. In earlier days of the Republic, its shipping flourished and then became decadent. I will not now discuss historical forces that have operated with such disastrous effects on American commerce when the Nation has been at war or when it has been neutral, and other nations have been belligerent. The United States intends to have a merchant marine. It desires conditions of parity for its vessels and nothing more.

APPENDIX 5

PUBLIC WORKS

LETTER TO THE PRESIDENT OF THE CONFERENCE BY THE PRESIDENT OF THE ECONOMIC COMMISSION

The Rt. Hon. J. Ramsay MacDonald,
President of the Monetary and
Economic Conference.

July 14th, 1933.

I have the honour to inform you that the Economic Commission which met yesterday in order to discuss the question of public works, was not in a position to appoint a Sub-Committee, the Monetary and Financial Commission not having yet been able to discuss the problem. The Economic Commission therefore decided to recommend the Bureau of the Conference to appoint a Sub-Committee to study the problem of public works and other means for reducing unemployment. This Sub-Committee, which, in accordance with the Bureau's previous decisions was to include representatives of both the Economic and the Monetary and Financial Commissions, would be composed, in accordance with the decisions to be taken by the Bureau in such a way that due regard would be had both to the economic and social, and to the financial aspects of the matter. The Sub-Committee would be convened as soon as the Bureau considered it possible to do so.

(Signed) H. COLIJN

President of the Economic Commission.

APPENDIX 6

**COMMUNICATION BY MR. CORDELL HULL (UNITED STATES OF AMERICA) TO
THE PRESIDENT OF THE ECONOMIC COMMISSION**

Although the chief portion of its work is uncompleted, the Conference is about to enter upon a recess. During and following this recess, it is to be hoped that the interested Governments will bring forward, through diplomatic or other channels, substantial proposals aimed to carry out ultimately the fundamental purpose for which the Conference was called. I herewith forward a document which I hope will, along with others of a similar character that may come from other sources, receive the attention of those who have the duty of planning the continuation of the work of the Conference.

This document contains the outline of a possible agreement for a protracted truce against measures restrictive of international trade. I contemplate that this truce agreement might be carried into effect when and as the Conference truce—which, I understand, remains in effect among the adhering States during the recess—may end. This further truce may carry through the longer period required for the carrying out of the general aim of reducing existing barriers. The terms suggested are more precise than those of the Conference truce. Other Governments may quite possibly feel that their national necessities would require them to add various points even to the substantial list of reservations and exceptions proposed. A continuing truce should serve to restrict new barriers to such instances of evident and unusual necessity as may arise, even while general governmental policy was aimed in the other direction.

It will be seen that in this document, the American Government indicates the precise test of necessity which it expects to observe before introducing any new restrictions that may seem imperative for the success of the domestic programme of recovery upon which it is engaged. American policy will in general seek to further international commerce to the fullest possible extent compatible with the essential aims of this programme.

The document advocates, furthermore, the immediate undertaking of reductions of the existing barriers by the encouragement of bilateral and of practical multilateral agreements. It does not attempt to put into legal form of agreement the terms of possible action; the difficulties of this require further discussion among governments. But it does attempt to limit with some degree of precision the exceptions and reservations which may be necessary.

It also sets forth the present American attitude towards other matters involved in commercial treaty negotiations, such as the most-favoured-nation principle and the possible special exceptions from that principle that might be allowed by Governments to facilitate agreements for the lowering of trade barriers.

I trust that these proposals will turn out to be a useful contribution to the long term plan of attack upon existing trade obstacles. Despite their limitations and imperfections, I am confident that their acceptance in substance would mark an important advance towards the restoration of international commerce.

The American Government reserves the liberty in the course of any future discussion that may take place of modifying its attitude on details. Other Governments will no doubt find that their approach to this question, as dictated by their own national situations, is somewhat different and may have modifications and additions to present. However, it is my hope that the Governments will be able to adjust their national interests and necessities and devise the means for achieving the general purpose upon which we have all agreed.

(Signed) Cordell HULL.

Sub-Appendix

AMERICAN SUGGESTION FOR THE FURTHER DEVELOPMENT, DURING THE RECESS AND LATER STAGES OF THE CONFERENCE, OF A PROGRAMME ON COMMERCIAL POLICY

The Governments represented at the Monetary and Economic Conference, being desirous of abandoning economic conflict and collaborating in seeking general economic improvement through the mutually profitable exchange of goods, undertake to reach agreement, first in the negative way of ceasing to erect new barriers, and then in the positive way of progressive reduction of existing barriers;

Section 1

Are resolved, as a first step in carrying out this programme, to endeavour to reach agreement, at the earliest moment favourable to such action, along the following lines:

The participating Governments agree not to introduce any new obstacles, direct or indirect, to the movements of international commerce, whether such obstacles are embodied in new legislation or brought into existence by the exercise of administrative or executive power under existing legislation. This truce against new barriers is to become effective as between the countries participating in it but will not, subject to treaty obligations, bind participating Governments towards those Governments which do not participate.

The preceding agreement shall be subject to the following reservations and exceptions:

(a) The exceptions generally admitted in existing treaties, for purposes of safety, sanitation, plant and animal protection, morals, et cetera (such as are enumerated in Article 4 of the Geneva Convention of 1927 and reproduced as annex to document Conf. M.E./C.E.24, and that for the purpose of exclusion of products of convict or forced labour).

(b) Duties or taxes imposed on imported products merely to offset internal excise taxes on competing domestic products.

(c) Arrangements, whether of duties, quotas, or other forms, applied in connection with multilateral agreements for the regulation of production and/or marketing of natural products, provided such agreements conform to principles which have received general approval.

(d) Additional duties imposed upon goods found to be "dumped", in the strict sense of having been sold for exportation for less than for consumption at home, or benefiting directly or indirectly from governmental or other bounties (such additional duties being limited to the difference in the prices or to the amount of the bounties as nearly as may be ascertainable).

(e) Additional duties imposed on products of particular countries which refuse to accord equality of treatment.

(f) New or additional duties or restrictions necessitated by governmental measures of an emergency character which—by raising wages, shortening hours and improving conditions of labour—have resulted in increased costs and prices.

Any new or additional duties or restrictions authorised under the above circumstances shall be imposed only for the purpose of preventing an excessive influx of imports of particular commodities.¹ They should not be more than sufficient to meet the emergency and should continue in force only for the period of the emergency. They should not reduce foreign trade in the commodities affected below the level of a pre-determined period, and should be used only to prevent drastic increases of imports above the level of such period. They should not be imposed or applied in such manner as to discriminate against the trade in the products concerned of any country participating in the truce.

Before exercising the right conferred in this reservation, Governments are to give preliminary notice to the principal foreign countries supplying their imports of the particular commodity, and to allow reasonable opportunity for representation of the viewpoints of such Governments with regard to such duties or restrictions, each Government having the right, in the case of an unsatisfactory result of such consultations, to denounce the agreement with reference to the products of the country availing itself of this safeguarding provision.

This agreement would be open to adhesion by all governments, and would come into force when accepted by Governments representing (say) 50 per cent. of the world's international commerce. It is to be of indefinite duration, but one year after coming into force it may be subject to denunciation upon one month's notice.

Section 2

Are further resolved forthwith to initiate bilateral (or plurilateral) negotiations for the removal of prohibitions and restrictions and for the reduction of tariff rates; and they declare

¹ As a practical basis for discussion, the following limits of action might be considered:

"New or additional duties or restrictions authorised under the above circumstances shall not be imposed on any commodity unless, during a period of (say) two months, the imports of the commodity shall have exceeded (say) five per cent. of the estimated domestic consumption, and unless they shall have exceeded the average imports during the corresponding months of the three-year period 1930, 1931 and 1932:

"(1) By at least (say) ten per cent. in the case of any article of which the imports during the two months period have either exceeded (say) twenty per cent. of domestic consumption, or have constituted a materially larger proportion of domestic consumption than during normal years preceding 1930.

"(2) By at least (say) 25 per cent. in the case of any article of which the imports during the two months period have exceeded (say) 10 per cent. of domestic consumption but have been less than 20 per cent. thereof.

"(3) By at least (say) 50 per cent. in the case of any article of which the imports during the two months period have not exceeded (say) 10 per cent. of domestic consumption."

that their aim in these treaties is substantial reduction of basic trade barriers, and not merely the removal of temporary and abnormal restrictions and increments imposed for bargaining purposes.

In shaping its policy and in executing its obligations under any agreements, each Government should direct its first and greatest efforts towards eliminating restrictions and reducing duties which most clearly lack economic justification, particularly :

- (a) Duties or restrictions which now completely or almost completely exclude foreign competition, such as those which restrict importation of particular commodities to less than 5 per cent. of the domestic consumption thereof ;
- (b) Duties or restrictions on articles the imports of which have been substantially curtailed since 1929 as compared with domestic consumption ;
- (c) Protective duties or restrictions which have been in effect a considerable period of time without bringing about a substantial domestic production of the protected commodities (say equal to 15 per cent. of the total domestic consumption thereof).

Such agreements should have incorporated in them the most-favoured-nation principle in its unconditional and unrestricted form—to be applied to all forms and methods of control of imports, and not only to import duties—subject only to such limited or temporary exceptions as have been recognised in the past or may gain general assent.

Such agreements shall not introduce discriminatory features which, while providing an immediate advantage to the contracting parties, will react disadvantageously upon world trade as a whole.

The Governments declare that the most-favoured-nation principle enjoins upon every power making use of the quota system or other systems for limiting imports, to apply these systems so as to derange as little as possible the natural relative competitive positions of the various countries supplying the imports of articles affected.

The participating Governments urge the general acceptance of the principle that the rule of equality shall not require the generalisation to non-participants of the reduction of tariff rates or import restrictions made in conformity with plurilateral agreements that give reasonable promise of bringing about such general economic strengthening of the trade area involved as to prove of benefit to the nations generally ; provided such agreements :

- (a) Include a trade area of substantial size ;
- (b) Call for reductions that are made by uniform percentages of all tariff rates or by some other formula of equally broad applicability ;
- (c) Are open to the accession of all countries ;
- (d) Give the benefit of the reductions to all countries which in fact make the concessions stipulated ; and
- (e) When the countries party to the plurilateral agreement do not, during the term of the plurilateral treaty, materially increase trade barriers against imports from countries outside of such agreement.

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Confidential from Moley
to ~~Bush~~ Phillips
and President. No department
distribution.

The following is ^{draft} statement
which I told you
I am explaining its origin in a
separate telegram.

Sent

ASF
London Miss to attend
E. Coats

INTERNATIONAL MONETARY AND ECONOMIC
CONFERENCE

AMERICAN DELEGATION

DELEGATES

The Honorable Cordell Hull, Secretary of State, Chairman.
The Honorable James M. Cox, Vice Chairman. ✓
The Honorable Key Pittman, Senator from Nevada.
The Honorable James Couzens, Senator from Michigan.
The Honorable Samuel D. McReynolds, Congressman from
Tennessee.
The Honorable Ralph T. Morrison, of Texas. m

EXECUTIVE OFFICER

Mr. William C. Bullitt. Personal

FINANCIAL ADVISER

Mr. James P. Warburg.

LEGAL ADVISER

Mr. Fred K. Nielsen.

CHIEF TECHNICAL ADVISER

Mr. Herbert Feis. See Staff & F

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Mr. Henry Morgenthau, Sr. ✓
Mr. Frederick E. Murphy. ✓
Mr. Charles William Taussig. ✓
Mr. Rexford G. Tugwell. ✓
Mr. Benjamin B. Wallace. ✓
Mr. Leslie A. Wheeler. ✓
Mr. James Wilson. ✓

SECRETARY

Mr. James C. Dunn.

N. B. This list is still incomplete.

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POST-CONFERENCE

POLICY MEMORANDUM NO. 1

July 31, 1933.

Objectives of the Commercial Policy
of the Administration:

1. To protect, to restore, and to expand the export trade of the United States;
 - a. by preventing new trade barriers through maintenance and extension of the tariff truce;
 - b. by securing the restoration of barriers to international trade to the 1929 basis;
 - c. by securing further reductions in tariffs below the 1929 level.
2. To break the hold of the difference-in-cost fallacy, to establish objective criteria for limiting tariff bounties, and to diminish the dominance of local interests over Congress by making tariff policy subject to general rules and national considerations under Presidential leadership and responsibility.
3. To increase the prosperity of the United States (a) by guiding the expansion of our industry into the most effective and most productive lines and away from the hot-house industries which are maintained

only

only by high tariff bounties, and (b) by a slow and cautious deflation of the least desirable of our hot-house industries.

Of these objectives the second will receive no support except among a few interested in the organization and operation of the Government and the third will not be susceptible of measurement and will make no general appeal - will in fact rouse more opposition than support.

Consequently, all stages of the program must rely for Congressional and public support upon the prospects which they hold out of increasing American export trade, and the later stages may fail if the first stages have not in fact yielded a material increase in export trade. Of course, the program will receive some partisan support and some support from the vague feeling that the American tariff is "too high"; but, on the other hand, any lowering of the tariff through international cooperation will encounter jingoistic prejudices.

Bow.
H.H.



Personal.

London Economic Conf.

*Ex
156*

10, Downing Street,
Whitehall.

5th August, 1933.

My dear President Roosevelt,

I was very happy indeed to have your message just before the International Conference adjourned and, quite apart from its personal gratification, it did a great deal to secure a finish that was not at all unhopeful. Although the end gave our enemies great cause for sneering and blaspheming, the spirit of helpfulness, which was so manifest after the first day of pessimism was over, and which drove the Conference at a pace I have never known an international conference to show, lasted right to the end; and as soon as I have had a few more days for recuperation here I am going to take the work up again from where it was left off.

You will have had full reports from Mr. Cordell Hull and Governor Cox, so I need not try to add anything to what you know. If we could come to an agreement on the new conditions of things before much is done to continue the work of the Conference, it would be a great gain, as I am as opposed as ever to a mere European bloc. In the course of this month
perhaps /

perhaps the outlook of the United States will be a bit clearer, and it will be more possible to come to certain understandings which will prevent a rigid attitude of the gold bloc stopping big international agreements. If we cannot open out a way for the latter, we shall have to face a world economic war, which will do more damage to human idealism and international peace than the late conflict fought out on battlefields.

I am up here once more in my own home and amongst my own people. I hope that Mrs. Roosevelt and you keep fit to face the great struggle in which you are engaged, and that, so far as it has gone, it increases the good heart in which you entered it. Ishbel does not come up until the end of the month, or she would join me in sending very best wishes.

Yours most sincerely,

Mansel Macdonald

The Hon. Franklin D. Roosevelt.

*You will see that Hitlerism
in Germany is causing
us some concern.*