Vol. VII.

LEAGUE OF NATIONS

REPORT

OF THE

GOLD DELEGATION

OF THE FINANCIAL COMMITTEE

GENEVA 1932

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[Distributed to the Council
and the Members of the League.]

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LEAGUE OF NATIONS

REPORT

OF THE

GOLD DELEGATION

OF THE FINANCIAL COMMITTEE

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VI. *The Functioning of the Gold Standard*, by Dr. Feliks Mlynarski. — Document F.979. (F. Gold /67(1)).

VII. *Report of the Gold Delegation of the Financial Committee.* — Document C. 502. M. 243. 1932. II. A.

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PREFACE BY THE FINANCIAL COMMITTEE.

The Gold Delegation was appointed in the summer of 1929 by the Financial Committee, with the approval of the Council of the League of Nations, to "examine into and report upon the causes of fluctuations in the purchasing power of gold and their effect upon the economic life of the nations".

The Delegation held its first meeting in August 1929, and has since held six further sessions, in June and November 1930, January and August 1931, January and May 1932.

It has issued two Interim Reports, the first dealing with the production of and the demand for gold, and the second with the distribution of gold reserves. In addition, it has issued three supplementary volumes containing a selection of the documents prepared by independent authorities for its consideration, and a fourth volume summarising the existing legislation governing the monetary uses of gold in different countries. [1]

The present Report sets out the final conclusions of the Delegation.

It should be emphasised that the Delegation was not constituted with the primary purpose of studying the present economic and financial depression. The Delegation was appointed before that depression made itself apparent. The considerations which led to its nomination are set out in the Report of the Financial Committee of May 1928. It will be observed from the following extract from that Report that its appointment was a logical development from the work of the Financial Conferences held at Brussels (1920) and Genoa (1922):

> "The attention of the Financial Committee has been called to the recommendation of the Economic Consultative Committee of May 19th last, with reference to the detrimental effect upon industry, agriculture and the conditions of employment of undue fluctuations in the purchasing power of gold. The Financial Committee recognises the great importance and interest of this subject. The financial resolutions of the Conference of Genoa were referred in 1922 to the Financial Committee by the Council, which invited the Committee to consider the methods best suited to foster monetary stability. These resolutions dealt not only with problems arising from currency fluctuations in relation to gold, but also with undue fluctuations in the purchasing power of gold itself. They contemplated, as a first stage, the stabilisation of currencies in relation to gold.
>
> "Very great progress has been made in this direction in the last few years, some countries stabilising by independent effort, others with the aid of international co-operation, whether through the League or not; and this first stage may now be regarded as nearing its conclusion. This gives special interest to the problems connected with undue fluctuations in the purchasing power of gold, and makes the moment opportune for a study of it. The Committee would be glad therefore, if the Council so desires, to consider to what extent and in what way the League, whose efforts have necessarily been concentrated hitherto on a contribution to the first stage of the world's post-war monetary problem, could now most usefully assist in the study and solution of the problem in this second stage." [2]

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[1] (i) *Interim Report of the Gold Delegation of the Financial Committee*, Geneva, September 8th, 1930 (document C.375.M.161.1930.II).

(ii) *Second Interim Report of the Gold Delegation of the Financial Committee*, Geneva, January 20th, 1931 (document C.75.M.31.1931.II).

(iii) *Selected Documents submitted to the Gold Delegation of the Financial Committee*, Geneva, September 8th, 1930 (document C.374.M.160.1930.II).

(iv) *Selected Documents on the Distribution of Gold submitted to the Gold Delegation of the Financial Committee*, Geneva, February 12th, 1931 (document C.102.M.38.1931.II).

(v) *Legislation on Gold*, Geneva, September 8th, 1930 (document C.373.M.159.1930.II).

(vi) *The Functioning of the Gold Standard*, by Dr. Feliks Mlynarski (document F.979 [F. Gold-67(1)]).

[2] Financial Committee: Report of 31st Session (May-June 1928) (document C.292.M.82.1928.II).

Since this was written, however, as is indicated in the opening sections of the Delegation's Report, the situation has radically changed. The currencies of many countries have become divorced from their par value ; those of others are being maintained at par (sometimes nominally) only by the most rigorous methods of exchange rationing and control. There are only some half-dozen countries in the world applying the gold standard without special restrictions. The Delegation has thus been forced to take into consideration the wider problems to which these circumstances have given rise.

LIST OF THE MEMBERS OF THE GOLD DELEGATION.

When drafting the present report, the Gold Delegation of the Financial Committee was composed of :

M. Albert Janssen *(Chairman)*,

Professor at the University of Louvain, Vice-President of the " Société belge de banque ", formerly Minister of Finance.

Professor M. J. Bonn,

of the Handelshochschule, Berlin.

Professor Gustav Cassel,

of the University of Stockholm.

Comte de Chalendar,

Managing Director of the " Compagnie d'Assurances générales sur la Vie ", formerly Financial Attaché to the French Embassy in London, formerly Inspector of Finance.

M. Guido Jung,

President of the " Istituto Nazionale per l'Esportazione ", Rome.

Sir Reginald Mant, K.C.I.E., C.S.I.,

Member of the Council of India, Member of the Royal Commission on Indian Currency and Finance 1925-26.

Dr. Feliks Mlynarski,

Professor of Banking at the Academy of Commerce in Warsaw, formerly Vice-Governor of the Bank of Poland.

Dr. Vilem Pospisil,

Governor of the National Bank of Czechoslovakia.

M. George E. Roberts,

Vice-President of the National City Bank of New York, replaced at the last session by his son :

M. George B. Roberts,

Economic Adviser of the National City Bank of New York.

Sir Henry Strakosch, G.B.E.,

Member of the Council of India;
Chairman of the Union Corporation, Ltd., London.

Dr. L. J. A. Trip,

Governor of the Nederlandsche Bank.

Also took part in the work of the first sessions :

Professor Alberto Beneduce,

President of the Credit Institute for Public Works, Rome.

Professor O. M. W. Sprague,

of the Bank of England, formerly Converse Professor of Banking and Finance at the Graduate School of Business Administration, Harvard University.

REPORT OF THE GOLD DELEGATION.

PART I. — THE GOLD STANDARD SINCE THE WAR.

I. Introductory.

1. The present Report sets out the final conclusions of the Gold Delegation. It is arranged in two parts, the first dealing with the practical problems that have arisen as a result of the recent abandonment of the gold standard by many countries ; the second with the more general problem of fluctuations in the purchasing power of gold.

2. When the Delegation began its work in the summer of 1929, the currencies of the great majority of countries in the world had been re-established on a gold basis after the immediate post-war period of inflation, the exchanges were being kept successfully within gold points and commodity prices in terms of gold had been relatively stable for a period of six or seven years. The task before it was to study the functioning of this restored gold standard. The Delegation had barely been constituted, however, before the instability of the economic situation began to be revealed. As the subsequent economic depression has proceeded, it has not merely afforded a sharp illustration of the importance of " fluctuations in the purchasing power of gold ", but has undermined the gold standard itself. At the moment of writing its final report the Gold Delegation is faced by a situation in which over the greater part of the globe the gold standard has ceased to function : the Argentine and Uruguay suspended gold payments in December 1929, and their exchanges were allowed to depreciate ; Canada introduced temporary restrictions at the end of 1929, and in 1930 the exchanges of Brazil, Chile, Venezuela, Paraguay, Peru, Australia and New Zealand fell and remained below export gold point. In September 1931, the United Kingdom abandoned the gold standard. Before the end of October, all the British Dominions excepting South Africa, the rest of the British Empire, and the three Scandinavian countries, as well as Portugal, Egypt, Bolivia and Finland had departed from gold. Japan followed in December 1931, Greece in April 1932, Siam and Peru in May 1932.

3. Meanwhile nearly all the countries of Central and Eastern Europe introduced restrictions on dealings in foreign exchange in the course of the summer and autumn of 1931 and the same course has been pursued by a number of countries in other continents.

4. In these circumstances the Delegation is faced at the outset of its final report with a broader problem than that originally submitted to it. Instead of formulating its considered conclusions concerning the causes of fluctuations of the purchasing power of gold, upon the assumption that the great majority of important trading countries are operating with currencies based on the gold standard, it must consider a situation in which the gold standard is effectively maintained in some half-dozen countries only.

5. The most immediate and practical question which presents itself, therefore, concerns the policy to be followed in the near future, not only by the countries which still maintain the gold standard, but also by those countries now on an inconvertible paper standard and by those which have maintained the nominal value of their currency by exchange restrictions.

II. The Functioning of the Gold Standard.

6. The gold standard is not a fixed and rigid mechanism, but a system of monetary and credit policy which has gradually developed in the light of experience and has adapted itself to the needs of changing economic conditions. It may, perhaps, help to an understanding of

its working in recent years if we trace very briefly the major changes that it has undergone since its general adoption in the second half of the nineteenth century. But in tracing these changes or in describing the system as it existed at any moment of time, the picture which is presented — unless given in laboured detail — must necessarily simplify, and to that extent distort, the facts. For never in history has the gold standard been simultaneously applied in exactly the same manner in all the countries which are roughly classified as adhering to it. In practice, very different credit policies have been pursued. At no time have all countries been prepared to accept to a like extent all the responsibilities which devolve from an international monetary system. The account we give, therefore, in the following paragraphs is rather an abstract description of leading tendencies than an exact reflection of the complex and intricate evolution of events.

7. The normal features of the gold standard in its simplest form would be the acceptance of gold without limit by Governments at a fixed price for minting into coin, the free circulation of gold coin as full legal tender and the unrestricted import and export of gold.

8. Were gold the only medium of exchange, its movement from one country to another, whether in the original stages of distribution from the mines, or later as redistribution becomes necessary between trading countries, would in itself produce local changes in the quantity of money in circulation and hence would have a direct effect upon prices. The influences of gold movements in such circumstances may perhaps best be described by means of an imaginary illustration. We may imagine a country the value of whose exports, owing to an unusually abundant harvest, appreciably exceeded that of her imports. The excess of exports, we may assume, was paid for by an import of gold. This gold would then pass into circulation in the country receiving it, and conditions would be created likely to result in an increase in the total money income of the population of that country, and, in consequence, in the demand for (and the prices of) the goods upon which this income was expended. This increase in domestic prices would have made foreign goods, the prices of which had not risen proportionately, more attractive to buy, and the domestic goods less attractive to the foreigner. The commodity imports of the country would therefore tend to increase and its commodity exports to decrease. This process might continue until a new equilibrium between imports and exports was established. If it continued beyond that point, the excess of imports would have to be paid for (failing temporary loan accommodation) by an export of gold. The original gold influx would thus set in motion a train of events leading to a new equilibrium of values and to a reverse movement of gold.

9. Meanwhile, in the country from which the gold had been received a contrary sequence of events would have been started ; money incomes and prices would have been reduced, exports have been stimulated and imports checked. The influence of gold movements in such circumstances would thus be, not only automatic, but also reciprocal.

10. We give this illustration in the hope that it may help to an understanding of the fundamental forces at work. It is, however, as we have stated, imaginary and abstract. In fact, a primitive gold standard, under which gold was the only form of currency in use, has never existed among more advanced nations as an international system. In all countries which adopted gold as the basis for their currency during the nineteenth century, some system of banking was already in operation and some medium of payment other than metallic coin in use. But, although the existence of other means of payment and of an elaborate credit structure modifies the sequence of events and renders it at once more complex and more subject to deliberate control, it does not fundamentally alter the forces at work.

11. Actually, in almost all the gold-standard countries of the world before the war, payments could be effected either by means of coin or notes or cheques drawn against deposits in banks. The proportion in which these different classes of means of payment were actually employed differed greatly from country to country, but the amount of notes which could be issued was, in almost all cases, restricted by law in such a way as to link them, directly or indirectly, to the gold held in reserve by the note-issuing institutions. Similarly, a certain relationship was established between the volume of sight deposits and that of other media of exchange by the cash ratios which the commercial banks were in the habit of maintaining — by cash being understood either gold or notes or deposits with the Central Bank. In these circumstances, when gold was imported by any country, part of that gold might go directly into circulation, part into the reserves of

commercial banks and part into the reserves of the Central Bank. The influence which any addition to the gold stock could exercise on the total monetary circulation would then depend, in the first instance, on the manner in which it was divided between these various possible uses. If all the gold imported went straight into circulation and none into reserves, the addition to the circulation would be equal to the amount of that gold and no more. If, on the other hand, the gold went direct to a Central Bank, which was empowered to issue notes up to three times the amount of its gold reserve, and commercial banks, employing notes as cash, were in the habit of maintaining a cash reserve of, say, 15 per cent against their deposits, the maximum theoretical limit to the expansion of purchasing power was obviously a very wide one. In practice, this theoretical limit would, of course, not be reached, because, first, the Central Bank would, in all cases, require to keep some surplus reserve in excess of its legal minimum; secondly, the commercial banks, so long as gold was the legal tender mainly employed, would be compelled to keep part of their cash in coin ; and, finally, the public would expand their individual holdings of coin as total currency increased, though not necessarily in exact proportion to that increase.

12. The influence of any influx of gold on the available purchasing power of the community receiving it was thus not automatic and direct. It depended upon the amount which went into circulation, or into commercial or Central Bank reserves respectively, upon the law or custom which determined the cash ratios of commercial banks, the legal regulations determining the reserve systems of banks of issue, and, finally, the policy which these central institutions adopted at any moment in regard to the expansion or contraction of their reserves within the limits set by the law.

13. Secondly, the effect of an increase in money or bank credits (discounts, advances, etc.) on prices would not be automatic, but would depend upon the manner in which that credit was employed.

14. The effect of the introduction of additional purchasing power into any highly organised economic community will depend, therefore, not only on the action of the body responsible for its introduction, but also on the behaviour of the aggregate of individuals who go to make up the community's power of spending, of saving and of investment. That behaviour, moreover, may modify the velocity of the circulation and hence the amount of purchases which a given quantity of money may effect in a defined period.

15. In such circumstances, it is clear that neither the effect of an influx or efflux of gold upon the total media of payment, nor the effect of changes in that total upon prices, is automatic or inevitable. An influence may be exerted directly on the first of these effects and indirectly on the second by banking policy, and more especially by central banking policy. Before the war, the instrument of control generally employed by Central Banks — though some had others at their disposal — was their discount rate. By varying their rates, banks were able to exercise a potent influence, varying with circumstances, at once over the effects of inward and outward movements of gold on the domestic credit structure and on the volume of those movements themselves.

16. In countries (to take a simple example) where commercial banks normally increase their cash reserve by rediscounting paper at the Central Bank, a rise in bank rate would tend to increase market rates also, and thus raise the price of credit facilities and restrict demand. In this way, the total volume of loans and advances, and of the deposits in which those advances were duplicated, could be influenced.

If, in such circumstances, prices tend to fall, this is due to the effect which the higher rates exercise on the domestic demand for credit and ultimately for capital. On the one hand, they render saving more attractive by increasing the interest earned on such savings ; on the other hand, they tend to check the demand for capital and induce liquidation by increasing the cost of borrowing. Prices tend to fall, which renders the country a favourable market for foreign purchases and the balance of payments is affected in the manner described above. At the same time, the higher rates obtaining in the market where the rate had been raised would render it advantageous to lend in and thus attract short-term capital from abroad, and restrict loans made by it to foreign countries. This change in the relative attractiveness of home and foreign lending and borrowing would, moreover, result in an inflow of gold, which in its turn would increase the basis of credit and promote conditions favourable to a rise in prices. It was possible, therefore, for Central Banks by means of their discount rate to influence both the balance of commodity imports and exports and the balance of foreign lending and borrowing.

17. Before the war, there was a tendency for the changes in bank rate to be more or less automatically dependent on the changes which took place in gold reserves. The rate was raised when these reserves fell, through the export of gold, below a certain amount or certain percentage ratio to notes ; and the rate was lowered when they rose above a certain point. But, even so, this tendency towards automatic alterations of the bank rate was neither absolute nor universal ; nor did the majority of countries enforce the gold standard in such a way as to allow the free export of gold whenever their balance of commitments was such that it was cheaper to export gold than to buy foreign exchange. By the reservation of the right which some possessed to offer silver instead of gold in exchange for notes, or by other means, certain Central Banks frequently exercised a controlling influence over gold movements without having recourse to alterations in their rates. Others, again, kept reserves so large that they were able to suffer the loss of considerable quantities of gold before the necessity to change their discount rates arose. In such a case the effect of gold movements was largely one-sided.

18. But the general result of the system as it was actually applied was to allow gold, by its direct influence and its indirect influence through the bank rate, to act as a corrective to any disturbance in the international equilibrium.

19. Even in this simplest form, however, the gold standard was never in any country a self-contained and self-acting mechanism, but rather an integral part of the monetary, and indeed the whole economic, organisation. The use of banknotes and other forms of paper money was well established before the gold standard was widely adopted as the principal mechanism of international payments and valuation. It has always functioned in this setting ; and, as the historical discussions concerning its working amply demonstrate, recognition has always been given to the interaction of the monetary mechanism and non-monetary factors such as the volume and nature of production and the balance of commodity trade. The nature, direction and extent of international trade, credit, investment and monetary policies, rates of interest, levels of prices and the gold market must be regarded as interdependent and interacting factors functioning within the general framework of particular economic systems. The importance of this basic conception was perhaps less obvious, and the need for emphasising it less striking, in earlier periods, when free competition played a greater part in economic life than it now does. Before large-scale organisation, both of capitalist enterprise and of labour, and an increasing degree of governmental regulation and economic intervention rendered rigid large elements of the price structure, monetary forces could be relied upon to correct disequilibria either nationally or internationally more rapidly and effectively than to-day. It might well be argued that a regime of free competition is indispensable for the smoother and semi-automatic working of the gold standard in this simple form. The gradual stiffening of resistance to changes in certain ranges of commodity prices, in wage-rates, in social service costs and the increase in the charges on industry fixed by contract, place a strain upon the working of the gold standard, especially when, as periodically happens, the economic situation requires drastic measures of readjustment. On the other hand, the increasing complexity of the credit devices by means of which the gold standard functions, while adding much-needed elasticity and delicacy to its operation, has called for new qualities of understanding, insight and judgment in those to whom important decisions, not only of monetary, but also of investment and economic policy are committed. In proportion as the working of the gold standard has been extended and refined for the purposes of the more complex modern problems, has it become more difficult to manage.

III. Recent Changes in the Gold Standard.

20. The characteristic mechanism of the gold standard towards the end of the nineteenth century and in the early years of the twentieth century was one under which the aggregate means of payment consisted of gold coin, banknotes, and sight deposits, to which were added various forms of subsidiary coin. Gold drifted into and out of bank reserves from the free circulation. In their reserves, a number of countries held also minor quantities of silver and foreign exchange.

21. The more important changes which were effected before the recent breakdown of the system over large areas of the world may be enumerated as follows :

(*a*) In most countries gold coin had been effectively withdrawn from circulation, and monetary gold had been concentrated largely in the vaults of Central Banks.

(*b*) For the obligation of Central Banks to convert their notes into gold coin, there was substituted in most countries an obligation to convert them into either (i) gold bullion, or (ii) foreign gold exchange, or (iii) either the one or the other at their option.

(*c*) Banks empowered to convert their notes into sight claims on gold were allowed by the new banking laws to keep the whole or a part of their reserve in the form of such claims. There is no necessary connection between these two provisions. Some Central Banks which were obliged to redeem their notes in gold have the right to keep part of their reserves in foreign exchange.

(*d*) In consequence, banks enjoying this alternative were in the habit of holding in their reserves gold exchange on certain international monetary centres, principally New York and London, which collectively have amounted to very considerable sums.

(*e*) In most cases, whether such foreign gold exchange was allowed to constitute a part of the gold reserves or not, the total reserves required by the new legislation were expressed as a definite percentage of total notes outstanding or notes plus Central Bank sight liabilities. Although this percentage reserve system is by no means new, it became, in recent years, more generally adopted than before the war, and frequently in a more rigid form.

22. In addition to these changes, which resulted directly or indirectly from the new legislation introduced, the functioning of the gold standard was affected by certain changes in bank practice and in general financial conditions — such, for instance, as the development of open-market operations, more especially in London and New York, the growth of New York as a major lending centre and the narrowing of the gold points in certain cases.

23. The result of the collection of gold in Central Bank reserves and the withdrawal of gold coin from circulation was at once to effect an economy in its use and to increase the potential influences of any gold movement. Under this system, all accessions of gold may be made to exercise a maximum influence on the total volume of currency, for they inevitably accrue to the foundations of the whole credit structure — the reserves of banks of issue. At the same time, the power of Central Banks to influence the situation was enhanced, as they were no longer subject to the risk that gold might be absorbed into the internal circulation, though it has been withdrawn recently during periods of panic in the form of bullion for hoarding.

24. The holding of foreign gold exchange instead of gold for reserve purposes likewise rendered possible an economy in the use of gold, though not to the extent which is sometimes believed. To the country holding such assets the economy was absolute. But the country on which such gold exchange constituted a claim might well consider it necessary to maintain a larger gold reserve in order to meet possible demands resulting from the conversion of these claims into gold.

25. The generalisation of this so-called gold-exchange-standard system had other results of some importance. It somewhat complicated the mechanism of the international system by distorting, in certain cases, the reciprocal effect of the transference of Central Banking reserves. We have shown above that an export of gold from one country to another used to set in motion reverse sequences of events in the exporting and in the importing countries. If the reserve consists of foreign assets, however, such reciprocal changes need not necessarily take place at the same time. The exact effect of a transfer of the claims which such assets represent will depend on how those assets are held and between what countries the transfer takes place.

26. Thus, if a Central Bank keeps its foreign assets in the form of a sight deposit in a foreign commercial bank in a gold centre and sells its claims on that bank to a trader who has obligations to meet in that market, conditions will be created tending to compel it to curtail credit at home. But no reciprocal conditions will be created in the country in which the commercial bank is situated. The commercial bank may find that the only change in its position is a substitution of a domestic for a foreign depositor. Moreover, the Central Bank in this country

may have remained unaware of the transaction and be deprived therefore of the means of obtaining immediately information which might prove important for the conduct of its policy. If the deposit, on the other hand, has been held in the Central Bank of the country in question, the result might have been to change that Bank's foreign sight liability into a commercial bank " cash " deposit with it and thus to create conditions tending to a partial — though not equivalent — expansion of credit. In any case, it would have enabled that Central Bank to ascertain the facts on which its policy should be based.

27. The effects of such operations are again different if the transfer is made by the country holding foreign assets to any country other than that in which those assets are held. In such circumstances, if both parties hold assets in the same country and the transfer is made between their respective accounts, there is reciprocity of effect between them and no effect on the country in which those deposits are held. If the transfer is made by the conversion of those assets into gold and the shipment of that gold to the country to which payment is due, there is a triple influence which may bear no relationship to the actual balance of payments between the country in which the deposit is held and any other.

28. As we have already pointed out, gold-exchange methods, as outlined in the preceding paragraphs, did secure an important economy in the use of gold ; but, at the same time, the functioning of the gold standard was rendered more complicated, and an important element on which Central Bank authorities had to base their policy did not come immediately under their control.

29. In the post-war period, many more countries than formerly adopted the percentage reserve system in their Central Banking legislation. Moreover, in certain cases the gold reserve of the Central Bank has now to be calculated as a percentage, not merely of the note issue, but of other sight liabilities. In addition, there were a number of cases in which the legal minimum ratio was increased.

30. Central Banks operating under such legislation naturally desired to maintain a surplus of gold reserves above the legal minimum, in order to have a " cushion " against possible drains of gold. Without such a " cushion ", they might be faced with a drain reducing their reserve below the legal minimum, in which case a multiple contraction of the note circulation by a restriction of bank credit would become necessary. In consequence, banks working under this system have endeavoured to keep reserves substantially greater than the legal minimum which in many cases had, as we have pointed out in the preceding section, been raised. The demand for gold for Central Bank reserves was therefore considerably increased by the extension of this type of Central Banking legislation.

When the legislation permitted a part or the whole of the reserves to be maintained in the form of foreign assets, the strain thus caused on the world's gold resources was alleviated; but the need for a large safety margin in gold or foreign assets was not reduced.

31. Post-war legislative changes thus tended, in part, to economise gold and, in part, to enhance the demand for it. Certain of the means by which economy was achieved were such as to necessitate a more deliberate control on the part of Central Banks. Their powers had been increased by the withdrawal of gold from circulation and restricted by the practice of depositing foreign asset reserves with commercial banks. Their task had been rendered more difficult by certain of the changes in the monetary and banking situation not due to new legal stipulations. Thus, the narrowing, in certain cases, of the gold points rendered the monetary systems of the countries concerned more sensitive to international disequilibria, for a slighter change in the relative value of any two currencies than was formerly required (a smaller departure from international equilibrium) rendered a purchase or sale of gold profitable to those who have commitments abroad to meet.

32. On the other hand, in certain countries during the last few years the independence and power of commercial banks and other financial institutions tended to increase, so that control by the Central Banking authorities was rendered more difficult. In recent years, the quantity of liquid capital — that is, of savings which have not by investment been converted into permanent claims on fixed capital goods — has been abnormally large. Owing to the feeling of uncertainty which existed and still exists, money has remained in the liquid capital market instead of being absorbed as long-term capital.

33. This post-war system, more direct in some ways than that which functioned successfully earlier in the century, more sensitive in some ways, but complicated and partially rendered insensitive by the gold-exchange standard, has broken down. We trace the immediate causes of its failure in the next section and we return to them in a later section of this Report dealing with the effects of variations in the purchasing power of gold, but some reference should be made here to certain more specifically monetary causes related to the manner in which the gold standard has been operated in recent years.

34. The successful operation of any banking system, whether Central or commercial banking, must depend upon the acceptance of certain common principles and conventions by all its members. Thus, if an important commercial bank decides suddenly to modify its average cash reserve ratios, it may force on the whole system an inflation or deflation of deposit currency proportionate to the extent of that change and to its own importance in the banking community. In Central Banking, the greatest influence is exercised by the banks of those countries which are large exporters of capital, for they are able to influence both the flow of funds to or from, and the rates of interest in, other money markets. In recent years, this power has rested mainly with the United States of America, the United Kingdom and France.

35. But the Central Banking institutions — although in many ways they have co-operated more closely than before the war, or, indeed, than was then possible — have enforced the gold standard on widely different principles.

36. Central Banking policy since the war may be divided into two main periods. In the first period, before the introduction of the German rentenmark in 1924-25 and the restoration, in 1925, of the British currency to its former gold parity, the United States was the only important commercial country on the gold standard. In this period, great quantities of gold were received by the United States which, in the early stages of the movement, were used largely by the member banks to help liquidate their indebtedness to the Reserve Banks, incurred in 1919-20. Thus, while the inflow of gold at this period did not result in an actual expansion of credit, it paved the way for later expansion by putting the banks in a more favourable position for extending advances to their customers. During the two years 1923 and 1924, the Federal Reserve Banks followed a policy of alternately minimising and enhancing the influence of gold imports, in keeping with the credit tendencies of those years which, in 1923, called for a firm money policy to restrain incipient over-expansion, and in 1924 an easy money policy to check a tendency towards recession.

Restoration of the gold standard in many countries brought with it opportunities for closer co-operation between Central Banks. Notable instances of such co-operation occurred in 1924 and 1927, when the cheap money policies adopted by the Federal Reserve Banks in those years were intended, not only to influence the domestic situation, but also to assist the European Central Banks first to restore and then to maintain the gold standard.

37. Early in 1928, however, it became evident that there was difficulty in reconciling the national and international factors in monetary policy. Great Britain had returned to gold parity under conditions which necessitated a fall in domestic price-levels. In fact, however, certain groups of prices and wages in Great Britain proved to be particularly rigid, so that, as commodity prices slowly declined in world markets, the export trade fell off and unemployment increased. British banking policy therefore was constantly on the economic defensive after 1925, and, unless interest rates were kept low abroad, there was always the possibility of a drain of gold depleting the comparatively small gold reserves of the Bank of England.

This possibility was enhanced by the policy pursued by Great Britain in lending freely abroad.

In the United States, on the other hand, the cheap-money policy initiated in 1927, partly to relieve the depression which had developed in the preceding year, partly to check the threatened drain of gold from Europe, led to a credit expansion which caused the Federal Reserve Banks to raise their rediscount rates in an endeavour to check the growing speculation in the security and real estate markets.

In France, the situation was different from that of the other two countries. For many reasons, particularly the habit of saving which has always been strongly marked in that country, France has always remained a creditor country. But, until the franc was stabilised, this surplus on the balance of payments was allowed to accumulate abroad instead of being used for the importation of gold. Since stabilisation, however, the balances on French account held abroad have been partially repatriated in the form of gold imports, which were particularly heavy in 1930 and 1931. Moreover, since the franc was stabilised at a comparatively low level and since security prices rose in France, the repatriation of capital was rapid during the years following stabilisation, when foreign lending was still hampered by fiscal policy.

The Bank of France has endeavoured to limit imports of gold, which were disturbing the equilibrium of certain foreign markets. It did not, like the Federal Reserve Bank of New York, have recourse to open-market operations which, owing to the special structure of the French market, would have had no appreciable effect upon the volume of credit and the level of prices. The only method of preventing this influx of gold would have been to increase French investments abroad. Many steps have been taken in that direction. The Bank of France has maintained its discount rate at a low level. It has taken other steps to favour short-term foreign investments — in particular, by encouraging the development of acceptance credits. The French Government, on the other hand, has considerably reduced taxation on foreign securities in order to encourage foreign issues in France.

But these measures — whose efficacy cannot be denied — have not been able to produce their full effect because of the break in confidence which has occurred throughout the world and has, since 1930, been paralysing international movements of capital. On the contrary, France has become a refuge for foreign capital, which greatly contributed to the entry of gold into France in 1930-31.

38. It is not our purpose in this Report, to criticise either the monetary policies pursued or the general functioning of the economic systems to which those policies were applied. But we wish to insist on the two fundamental facts which have emerged clearly from the history of recent years and recent months — namely, (i) that no international currency standard can work successfully for any protracted period if the principles on which it is conducted vary widely from one country to another ; and (ii) that, whenever the general level of prices in any country important to the whole system is either out of gear with world values or insensitive to monetary influences, there is a danger of a strain being placed on the international monetary standard which it may prove unable to support.

39. It is necessary also to insist upon the fact that it has proved extremely difficult to administer an international monetary mechanism when international trade is so hampered and restricted as it has been in recent years.

40. We would, indeed, go further and urge that a much greater degree of willingness to co-operate is essential in many other spheres of activity before there can be a reasonable prospect of success in the effort to re-create an effective international monetary mechanism.

IV. The Breakdown of the International Monetary System.

41. In a later section of this report we have defined the expression " purchasing power of gold " as being the purchasing power of " not simply the metal in its monetary use, but the whole currency of any countries employing the gold standard ".[1] This interpretation of our terms of reference is fundamental to the whole of the discussion which follows. The " purchasing power of gold " is affected by all the complex factors which act and interact upon the demand for its use in various ways, industrial and monetary, and upon the conditions of its supply. Since the various national currency systems, under a gold-standard regime, fix their monetary units in terms of stated quantities of gold, it follows that the purchasing power of gold is conditioned, *inter alia*, by monetary policy and practice. Any analysis of the demand and supply of the precious metal, therefore, leads inevitably to wider considerations of currency and credit policies, and of the economic activities which affect them and are affected by them.

42. This definition is important, not only in an explanation of the normal working of the gold-standard system, but equally in a survey of the events which have led to the abandonment

[1] See below, Section VI, paragraph 85.

of that system by so many countries at the present time. These events are traceable to causes which are partly monetary in the strict sense of the word, and partly of a financial, economic and political character. In the present section we draw attention to some of the major causes of economic maladjustment and instability in the post-war world, in order to recall the fact that the working of the restored gold-standard currencies encountered difficulties of much greater novelty and magnitude than had been known in the pre-war period.

43. Many of these difficulties are directly traceable to the economic consequences of the war of 1914-1918; others are of later origin. The war led to a serious inflation of many currencies, and to a reorganisation of economic life which left troublesome legacies of maladjustment throughout the economic system. The return to the gold standard after the war involved, in many countries, some measure of deflation, which failed, however, to affect certain classes of goods and services, and failed, therefore, to bring about a stable new equilibrium.

44. The first period of deflation after the close of the war was, moreover, succeeded by a renewed expansion of credit which culminated in a boom period of unusual strength and persistence. The breaking of this boom in October 1929 revealed the fact that the necessity for fundamental readjustments in the price-structure as well as in international financial commitments both public and private, had been not merely postponed but aggravated. An enormous strain was suddenly thrown upon the monetary mechanism at this time — a strain which in fact proved intolerable. Moreover, there remained (and remains) after the inflationary experiences of the war period a feeling of anxiety concerning monetary phenomena and monetary institutions. It was this widespread anxiety which was largely responsible both for many of the defects in the post-war system of industrial finance and for the nervousness which, at the threatened approach of a crisis, proved almost uncontrollable. No credit system could survive the wholesale sudden failure of confidence which the world has recently witnessed.

45. In the actual restoration of stable currencies, it had been extremely difficult to gauge accurately the level at which stabilisation should be effected. In considering this problem, many different and often conflicting factors had to be estimated. Any level which might have been chosen in a particular case involved some measure of subsequent readjustment of dependent economic factors. The relation of internal to external prices, the balance of commodity trade, the level of wages in relation to prices both retail and wholesale, were never exactly right at any stabilisation level. The choice actually made, in this country or in that, involved, therefore, the necessity of readjustments which in some cases have proved more difficult than was anticipated.

46. The war had, further, left almost all countries with a vastly increased accumulation of State debt. In certain cases this debt was greatly reduced as the result of inflation, though with offsetting losses in other directions. But there remained, when the inflationary period was over, a very much greater aggregate of debt in the world. In the subsequent reconstruction period further debt, both national and international, has been accumulated, the burden of which has inevitably and automatically increased as prices have fallen.

The great increase of international indebtedness (in which reparations and inter-governmental debts are included) demanded the ultimate transference of wealth from one country to another on an unprecedented scale, and in practice this has been one of the factors which have caused disturbing gold movements.

47. The losses arising from inflation and the adjustments necessitated by stabilisation, together with all those changes in the national distribution and relative importance of different classes of industry to which we allude below, led, in the first instance, to an unwillingness in many countries to save, and in the second to an unwillingness to venture the savings finally accumulated in equities or even in long-term investments. This has resulted, on the one hand, in an increase in the supplies of short-term money which could be moved — and has been moved — rapidly from country to country, and, on the other hand, in an increase in the fixed or quasi-fixed charges of industry, the burden of which became heavier as prices fell. As a result, the system, which in certain parts of Europe was already dangerously prevalent before the war, of financing industry by means, not of the issue of shares, but by the extension of

loans was greatly extended. One of the major defects in the economic organisation to-day is that debt has so largely taken the place of ownership. Further, the very lack of a sense of security and understanding to which this system was largely due has intensified its dangers. It has given rise to the rapid movement of funds — now attracted by a wave of speculative optimism, now taking flight from some alleged danger — which have necessitated large transfers of gold; and those gold transfers themselves have contributed to the fluctuations of the price-level and the risk of the weight of debt being augmented.

48. Never before have such large and frequent but irregular movements of gold been necessary in order to keep the exchanges level. The mechanism has had to work, not by gradual and orderly small rhythmic changes, but by violent fits and starts as the extra weight of these unusual factors has been thrown in one direction or another. In consequence, it has been necessary to provide as far as possible for wider margins of safety in the mechanism and, in particular, central bankers have felt it desirable to build up larger reserves than would otherwise have been needed. There would in any case have been very considerable gold movements as the various countries which, during the inflation, had lost their gold stocks endeavoured to build them up again; but this natural process has been rendered more difficult and its effects have been made more violent than might otherwise have been necessary.

49. The situation has been further complicated by the changes which have taken place in the international demand for capital and the sources of capital supply. The volume of foreign investments has grown and its direction has changed. Very large sums have been invested, not only in the development of countries whose natural resources were largely untapped, but also in European countries where financial reconstruction was necessary. Much of this investment was not carefully controlled. Debts both on short and on long term have been incurred which impose an undue burden, not only on the immediate debtors, but in their aggregate on the whole country in which those debtors reside.

Insufficient care has been taken by lenders to ensure that the credits extended should be employed productively and in a manner to increase the capacity of the borrower to repay. In many cases the examination preliminary to the granting of a credit has been too superficial to distinguish between the capacity of a borrower to repay in boom times, when prices and the demand for products are high, and in ordinary times, when prices and the movement of goods are on a more moderate scale. As a result, debts have been contracted the service of which was dependent upon the maintenance of conditions essentially abnormal. When prices and the volume of trade fell off, the margin of safety in many cases proved to be too slender for the borrowers, and difficulties were inevitable.

50. On the other hand, the flow of capital for foreign investment has become more irregular than it was before the war. Many factors have contributed to this result. The smooth working of foreign investment was greatly facilitated in pre-war days by the regularity and efficiency with which the London Money Market was able to work in a setting of free commodity trade, and by the confidence of French investors in certain types of long-term investment. In the post-war years, profound disturbances have taken place. Violent price changes have discouraged direct investments in productive enterprises of debtor countries; accordingly, a larger proportion of the new investments has been in the form of long- or short-term debts, the service of which has implied an increased actual burden upon debtor countries in times when the prices of their main products have been falling. Further, the instability of a number of currencies, which was a direct inheritance of the war, as well as their subsequent stabilisation at levels which did not correspond to the domestic price-levels in the countries concerned, gave rise to wide speculative movements of short-term capital which were not directly connected with the comparative levels of cost and interest rates in these countries. The share of British investors in the total international movement of capital in post-war years has been greatly reduced and, as the result of losses incurred, the French investor has shown a marked weakening of confidence in long-term investments abroad; the bulk of French capital exports in these years has therefore been in the form of short-term investment. The great amount of outstanding short-term credits, while stimulating economic activity in the borrowing countries, has been responsible for a lack of stability which has been felt particularly at critical moments. Foreign investments

by the United States have become an important factor in international financing, but so far they have proved to be irregular in volume ; in particular, they have been greatly influenced by variations in domestic business conditions in the United States. For some years, particularly after the Dawes settlement in 1924, a very considerable stream of American loans flowed to European and other borrowing countries ; but when the investment boom developed in the middle of 1928 in the United States, that stream was much reduced, as may be illustrated by the following figures for new capital issues for foreign account in the United States [1] :

	U. S. capital issues for the account of		
	European countries	Canada	Other foreign countries
		$ (000,000's)	
1927 : First half	244	154	283
Second half	333	78	244
1928 : First half	449	115	277
Second half	148	70	191
1929 : First half	101	167	204
Second half	59	124	135

The issues for the account of countries other than Canada, and particularly those for the account of European countries, fell off heavily from the middle of 1928 — that is, at the same time as a heavy reduction took place in French capital exports.

The irregularity in international capital movements which has thus characterised post-war years has had profoundly disturbing effects, not only on the economic development of borrowing countries, but also on the settlement of international balances. [2]

51. To these and similar financial factors were added many other factors causing disequilibrium. As examples we may cite the profound changes that have taken place in the structure and localisation of industries, both primary and manufacturing.

52. Thus the recovery of Europe after the war and the restoration of world trade threw the greatly extended wheat areas of North and South America and Australia into sharp competition with the peasant production of that continent. Beet sugar once again competed actively with cane ; the newly established cotton industry of the Far East met the restored exporting power of industrialised Europe ; the production of synthetic nitrates competed strongly with Chilian exports. Examples need not be multiplied in order to drive home the point that very considerable alterations in the geographical structure of industry were required if widespread and ruinous over-production of a large number of basic commodities was to be avoided. But these alterations were not easy to carry out, since they demanded drastic changes in national economy. Reluctance to face them, on the other hand, inevitably threw world trade and production out of balance, with results that are now only too apparent.

53. The geographical changes, however, constitute only one group of the many structural changes that have rendered the post-war economic world so complex and difficult. The industrial organisation has become more elaborate and more rigid ; the processes of manufacture have become more complex ; the success of a few in large-scale production has tempted many to

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[1] Source : *Handbook of American Underwriting of Foreign Securities.* The figures refer to the nominal value of the issues ; refunding issues are excluded.

[2] The following figures, quoted from the forthcoming issue of the League of Nations publication on balances of payments (*Balances of Payments, 1930*), show the net balance of capital exports or imports (capital imports are marked with a minus sign) of the United Kingdom and the United States, calculated indirectly from the trade in goods, services and gold. In the case of the United Kingdom, Government capital transactions have been grouped with services, and the balances accordingly reflect private capital operations only :

	1922	1923	1924	1925	1926	1927	1928	1929	1930	1931
					$ (000,000's)					
United States	236	— 104	590	642	173	580	1,099	206	196	*
United Kingdom	682	700	380	261	— 127	385	569	574	112	— 340

* Figures not yet available.

over-invest in the more highly mechanised industries, and that over-investment has rendered production more difficult of adjustment to changing demand. This well-recognised development is the more noteworthy because of the opposite fact that, with increasing productivity and wealth, consumers' demand has tended to be transferred to less essential commodities and services, so that demand tends to become more capricious.

54. But, in spite of the destruction and the maladjustment of productive equipment caused by the war, the post-war period has been one of very rapid economic progress. Part of that progress has been caused by the recovery of Europe from its war-stricken situation in 1919. In the years 1925 to 1929 there was a considerable credit inflation, which was superimposed upon the real measure of progress that had been achieved, and introduced many unsound elements into it. These structural problems of instability therefore are problems fundamentally of progress, arising from failure to adapt the mechanism of production and distribution with sufficient ease to the needs of a changing situation.

55. Industry itself has opposed obstacles to reorganisation. The cartellisation of industry and various forms of price control, pools and control boards of primary products, valorisation schemes and their like, have all tended to render the economic system unduly rigid. For the most part, in spite of temporary successes, they have struggled vainly against the tide of economic forces and have in the end been overwhelmed ; but not before they have encouraged the continuance, and even extension, of industries exposed to the risk of over-production. In so doing, they locked up large amounts of capital, much of which was ultimately lost.

56. Simultaneously with the growth of large-scale production and concerted control of product and of price, the wages of labour have become less flexible and the semi-fixed charges for unemployment benefits and for social services more costly. Thus the whole catena of prices has become more rigid and resistant. The charges contractually fixed have increased ; others have passed up the scale from readily variable to rigid or barely flexible. With this increasing rigidity there has been a loss of tensile strength, and when forces have come into play which have tended to drive down this or that category of values, the whole mechanism has failed to adapt itself, and, because of this failure, has been strained to or beyond breaking-point.

57. Resistance to change has further been stiffened by the resort of threatened industries or other sectional interests to Government support and by economic nationalism. State aid and nationalistic isolation have resulted, perhaps inevitably, from the facts that, under the pressure of war necessity, industries grew up whose economic justification was later challenged, and that during the war industry served the State and depended upon Government support and direction. There can be no doubt, however, that in a great variety of ways they have hindered the wholesome processes of readjustment, prolonged and even aggravated the disequilibrium inherited from the war period, and in many cases operated directly as impediments to the free flow of world trade and investment. Tariffs, prohibitions, bounties, indirect measures of protection by official regulation, the control of foreign exchange dealings, subsidies — the whole apparatus of protectionism — have built up artificial barriers sufficiently comprehensive to balk much of the economic reorganisation that was really needed.

58. Of the remaining unstable elements of the post-war economy, it will suffice merely to select examples. We might follow the chain of causation which led, by way of budgetary troubles and high taxation and of higher wages and costs of production in a period of falling prices and capricious demand, to the squeezing down of business profits to the point where investment fell off and depression ensued. We might dwell on the changes of income distribution which were the result of the growth of indebtedness — changes that rendered vastly more important the effects of the fluctuations in the purchasing power of money which we trace in a later section ; or on the discrepancies which developed between price movements of important groups of commodities and between commodities at different stages of manufacture.

59. It is, however, not our purpose in this section to provide any complete analysis of the instability which was present in the post-war period, but merely to illustrate our point that there was instability arising from many-sided maladjustments of economic factors and processes. The war threw the complicated machinery of world production and trade out of gear, wrenching it from its primary economic purposes to serve the purpose of maximising military power. When

the attempt was made to revert to normal running, it was not surprising that it functioned less smoothly than before.

60. It is in this setting of an imperfectly restored world economy that we must consider the working of the post-war gold standard. The speedy restoration of that standard was part of the process by which it was expected that readjustment might be effected ; but other parts of the process, notably those calling for freer world trade, were not carried through and readjustment has proved more difficult than was hoped. It is hardly surprising, therefore, that the gold standard, though as it had functioned adequately before the war, was not equal to the strain imposed on it when the maladjustments of the economic system, prevented by artificial means from working out their own corrective remedies, imposed on it the strain of a financial crisis of unprecedented severity.

61. The events which led up to the final breakdown are sufficiently familiar and need only be recapitulated very briefly. The second period of post-war credit expansion, to which we have alluded above (paragraph 44), culminated in a great industrial and speculative boom, mainly, but not wholly, in the United States. Towards the end of that boom, especially in 1929, the supply of capital available for long-term investments, particularly in the raw-material-producing countries, fell away very considerably. Even before the boom ended, the difficulty of raising new loans placed many countries, particularly those which had borrowed too freely, in a precarious financial position, so that they endeavoured, by every means in their power, to mobilise an active export surplus with which to meet their international obligations. There was a marked increase in the production of raw materials and an accumulation of world stocks. The inevitable result was to create a heavy selling pressure which rendered the price-structure very unstable. Those European countries also which had borrowed heavily in the period of reconstruction after 1925 were affected adversely by the difficulty of raising fresh loans. In order to meet their greatly increased interest obligations, they endeavoured to cut down imports and consume their stocks, thus adding to the price instability.

62. The financial obligations referred to arose from three main sources. Reparation payments and war debts were important, for several reasons. The very large figures that were first discussed and the difficulty of arriving at any settlement led to great political and economic uncertainty. Attempts at settlement necessarily involved a succession of political conferences with all their attendant delays and difficulties ; and in many cases the apparent impossibility of meeting such payments without increased economic productivity led to fresh capital borrowing.

Added to these inter-governmental debts there was, in the second place, a constantly increasing accumulation of long-term loans contracted by Governments and other public bodies through private banks and bankers.

The third source consisted of commercial debts contracted during the boom period, the amount of which was also very considerable.

The service of these various obligations was rendered possible for some years by the inflow of new capital into the borrowing countries. When these new investments fell off suddenly in the later stages of the boom period the commitments could be met only in three ways — by the export of an increasing volume of goods, by the export of gold, or by obtaining short-term credits to tide over the emergency.

63. The financial stringency thus created in the borrowing countries was accentuated by the fact that in this period, and particularly after the stabilisation of the franc, there was a strong movement of short-term balances back to France. [1]

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[1] Full information concerning the movement of capital between France and other countries is not available; but the following data, quoted from the forthcoming issue of the League of Nations annual publication on balances of payments (*Balances of Payments, 1930*), reflect the trend of these movements since 1927. The figures are based upon studies by M. P. Meynial, originally published in the *Revue d'Economie politique*. They represent the net balance of capital movements, calculated indirectly from the trade in goods, services and gold. Reparation receipts and the amortisation of war debts are treated as services and are thus not included in the balances

64. The debtor countries in these circumstances used all three methods mentioned in paragraph 61. By dint of serious efforts and sacrifices, they created considerable export surpluses in their commodity trade, thus adding to the selling difficulties on the world's markets.

65. At the same time the pressure on their foreign exchanges forced them below the gold export point and there began a steady outflow of gold to France and the United States. This flow of gold soon assumed such proportions that the currency systems of many countries were imperilled by the loss of their gold reserves.

66. The third possible course of action was also pursued, particularly by the European debtor countries. As their situation became more difficult after the summer of 1929, they contracted large short-term loans to support the ircurrencies from depreciation. These short-term obligations later rendered them particularly vulnerable when the economic depression set in.

67. The collapse of the American stock-market boom in October 1929 greatly accentuated the fall in prices, which was particularly severe in the case of certain raw materials. Stocks had accumulated and in many cases controls had been established. When credit stringency and a marked drop in consuming power followed quickly on the collapse of the speculative boom, the pressure on the price-levels was too strong to be resisted. World markets were demoralised and controls collapsed. A fall of prices, unprecedented in its severity and its persistence, set in which completed the embarrassment of the borrowing countries. As will be seen from the list of countries quoted in paragraph 2 above, many raw-material-producing countries were forced off the effective gold standard as early as 1929 and 1930.

68. The situation became worse when the difficulties of a great Austrian bank, the Creditanstalt, were revealed in May 1931. In many Central and Eastern European countries, both agricultural and industrial developments had for some years been sustained by over-extended credit advances, based largely upon a continuous supply of foreign capital. The stoppage of foreign loans and the heavy fall in agricultural prices from 1929 onwards placed the banking institutions of these countries in a very difficult position. The troubles of the Creditanstalt, which in 1930 had taken over the embarrassed Boden Creditanstalt, signalised the collapse of the over-extended credit structure. The effect of the collapse spread rapidly to other countries, and was reinforced by fear, amounting to panic, for the safety, not only of short-term advances, but also of deposits. The storm-centre shifted rapidly from one country to another. Certain Berlin banks were in difficulties within a few weeks, and it was not long before the international financial relations of all the Central and Eastern European countries were affected.

69. By this time a large part of the world was in fact off the gold standard ; but the panic extended further in the following months. In August and September, doubts were raised of the financial position of Great Britain, which was known to be heavily involved in the short-term investments now locked up in Central Europe and to have serious budgetary difficulties. A heavy and increasing drain set in which rose to the dimensions of an international " run " on London. British securities were heavily sold and short-term balances held in London were drawn upon. Despite assistance from Paris and New York, Great Britain finally suspended the gold standard on September 21st. Almost immediately a large number of other countries also suspended the operation of the gold standard.

70. The panic did not stop even at this point. There were heavy withdrawals of funds from New York in the latter months of the year which caused a large outflow of gold.

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shown. The territory considered includes, besides France, her oversea territories with the exception of Indo-China :

	Net capital export	Net capital import
	$(000,000's)	
1927	504	—
1928	236	—
1929	—	20
1930	—	252

No division between long and short-term capital operations is made ; but it is known that the bulk of the capital exports during the years preceding 1929, as well as of capital imports from that year, has been in the form of short-term operations.

71. Although Japan was the only important country to cease gold payments later, a very important consequence of the shock to credit continued to be evident in the measures taken by many banking systems to liquidate a portion of their foreign balances and build up heavy gold reserves.

72. Outside the banking sphere also, this preference for gold has been paralleled, by private hoarding both of currency notes believed to be of unquestioned value and of actual gold.

73. The recital of these events by which the gold standard has been unable to function is sufficient in itself to indicate that the causes which provoked them lie deep in the economic, financial and monetary instability of the post-war period. In a previous interim report [1] the Delegation has dealt with one phase of the process that has just been sketched — the uneven distribution of gold reserves among the Central Banks of the world. This phenomenon has proved to be an intermediate stage in the development of the instability which had its roots in war and inflationary disturbances of the economic system, and which has finally caused the breakdown of the international monetary mechanism which the world had painfully constructed in the long period of relative peace before the world war.

V. Restoration of the Gold Standard.

74. In face of the situation which has just been outlined, it becomes necessary to consider the policies to be followed in the immediate future both by those countries which still maintain the gold standard and by those which have abandoned or restricted it. The present position is that, with only some six countries maintaining an unrestricted gold standard, the functioning of that standard as an international monetary mechanism has been greatly restricted. Side by side with it there now exists a variety of other currencies whose exchange relations with the gold countries and with each other are no longer kept in equilibrium by their common relationship to gold, but must be governed by other means. Some of these currencies are on an independent basis of inconvertible paper, a large group of them being maintained at parity with sterling ; others are maintained at nominal gold parity by the control of foreign payments and foreign trade.

75. The first effects of the abandonment of the gold standard were reflected in an alteration of the exchange parities. The results of such an alteration have still to work themselves out, but it is already clear that they involve important changes in the relative price-levels of the countries concerned, which, if maintained, will exert a far-reaching influence upon the course of international trade and international payments.

76. The restrictive measures by which many countries are at present maintaining the nominal gold parity of their currencies involve a heavy cost, since the cumulative effect of such restrictions has been to sacrifice a large part of the foreign commerce of the world. This heavy cost should be weighed against the risks of exchange fluctuations and, in some cases, the possibility of a breakdown of the currency system.

77. If a number of the most important commercial countries remain off the gold standard for a considerable period, the major problems of the functioning of that standard will present very different aspects from those which the Delegation was called upon to study at the outset of its work. It is conceivable that the complete process of restoration, if and when it is decided upon, will take a prolonged period to effect.

78. The Delegation, however, records its belief that, at the present stage of world economic development, the gold standard remains the best available monetary mechanism.

It is impressed by the practical difficulties and dangers of regulating currencies which are not on a common world basis, and by the very great desirability of agreement upon an

[1] Document C.75.M.31.1931.II.

internationally accepted standard in order to facilitate the free flow of world trade. Whatever the theoretical advantages that may be urged in favour of other monetary systems, their universal adoption presents very grave, if not insuperable, practical difficulties at the present time. The Delegation is, moreover, of the opinion that, granted the general acceptance of certain guiding principles, the gold standard is capable of functioning in such a way as to achieve most of the advantages of stability and justice claimed for alternative standards more broadly based on commodities other than gold.

79. The alternative to the restoration of the gold standard would appear to be a state of affairs under which many currencies are maintained upon a basis of inconvertible paper money, and fluctuate independently or by groups. In addition to the difficulties of management inherent in such a system, there would arise once again the continually varying foreign exchange rates which the Genoa Conference regarded as so serious an impediment to the restoration and extension of international trade. The virtual elimination of this exchange uncertainty was the main monetary achievement of the last decade. While some degree of exchange fluctuation, and possibly some extension of the area affected, may be inevitable in present circumstances, it would appear desirable to circumscribe that area and limit the duration of this period as much as possible, in order that steady progress towards exchange stability may be resumed at the earliest possible moment.

80. Although it is obvious that the time and level — as well as the particular form of restoration of the gold standard, should that be decided upon — can be determined only by the proper authorities in the countries concerned, the Delegation considers the return, within the shortest possible time, to the international gold-standard system of such vital importance for economic and financial development that it feels its obligation to consider the policy that should, in its view, be followed in order to facilitate the achievement of that aim. That policy depends upon all those measures which can be taken by international co-operation and by national efforts to restore equilibrium in the economic and financial structure of the countries that, for the present, have lost that equilibrium.

81. Among the measures of an international character we mention, in the first place, the restoration of a reasonable degree of freedom in the movement of goods and services. The fulfilment of this condition is essential for the restoration and the maintenance of the gold standard on an international scale. As long as the countries concerned suffer from the narrowing of world markets so that they cannot pay their debts in goods and services, they will be prevented from improving their economic situation sufficiently to enable them to return to the gold standard.

A satisfactory solution for the problem of reparation payments and war debts forms the second desideratum. Although we are not of the opinion that this problem is the main cause of the difficulties with which the world is now faced, we consider its final solution, at the earliest possible moment, an essential factor for a return of the lost confidence in the sphere of international finance. The gradual and cautious resumption of international credit and capital movements, which seems to us of vital importance for the working of the gold standard, cannot be expected before this problem is solved.

In the third place, certain guiding principles in respect of the working of the gold-standard system should be adopted by the Central Banks adhering to that system. The most important of these principles is that, as a general rule, gold movements should not be prevented from making their influence felt both in the country losing gold and in the country receiving gold. Not only should these movements not be prevented from exercising their influence, but their working should be reinforced by other means — especially by changes in the discount rates and by open-market operations — when the disequilibria of which the gold movements give evidence cannot be removed merely by the effects of those movements.

82. In addition to these measures of an international character, we consider it essential that in each individual country the necessary steps shall be taken to restore and to maintain equilibrium in the national economy. This means that the budgets of the State and other public bodies must be balanced on sound principles, and also that the national economic system as a whole, and especially costs of production and costs of living, should be adjusted to the international economic and financial position, so as to enable the country to restore or to maintain the equilibrium of its balance of international payments.

83. It is for the Governments and the Central Banks, in national and international co-operation, to take these measures and to fulfil the requirements and conditions explained in the foregoing paragraphs. The earlier they do so, the sooner the international gold standard will spread its beneficial working over a gradually extending area, and the sooner will be removed the monetary instability which has been so deplorable an effect of the disequilibria we described set out in Section IV and which has now become one of the major causes of further economic deterioration.

PART II. — THE PURCHASING POWER OF GOLD.

84. In the first part of this Report we have examined the situation created by the abandonment of the gold standard on the part of so many countries during the depression. But, after due consideration of this situation, we have concluded that the restoration of the gold standard is desirable. The second analytical part of our Report proceeds, therefore, upon the assumption that the gold standard will be restored and that it is desirable now to ascertain the causes and effects of the variations in the purchasing power of gold, and the conditions under which this standard may be expected to function more adequately in the future than it has in the recent past.

VI. Meaning of " the Purchasing Power of Gold ".

85. The Delegation was appointed to " examine into and report upon the causes of fluctuations in the purchasing power of gold and their effect upon the economic life of nations ".

It is desirable therefore to define what is meant by the term purchasing power of gold. The word gold is employed in this context to embrace, not simply the metal in its monetary use, but the whole currency of any countries employing the gold standard. The importance of this definition has already been stressed in Section IV, paragraph 41, and the relationship between gold and the banking and credit structure based on it has been explained in Sections II and III.

86. The reverse of the purchasing power of any currency is the price-level expressed in terms of that currency. The term variations in the purchasing power of gold is therefore synonymous with the term variations in the levels of prices in countries on the gold standard. The levels of prices referred to are national levels reflecting the purchasing power of the different national currencies. There is no precise meaning that can be attached to the term international level of prices ; but, under the gold standard, the various national levels, being each based on gold, are kept in equilibrium one with another.

87. The commodity gold is used partly for industrial purposes, partly as a store of value in certain countries and partly as a foundation for elaborate monetary systems. The value of a unit of gold is, under the gold standard, fixed at a specific price in terms of the various national currencies, and these currencies are kept in close relationship with one another by the operations of foreign exchange. In order to discover the purchasing power of gold, therefore, we must first ascertain the purchasing power of these currencies in terms of actual commodities and services. In other words, the obverse, and only practical manifestation, of the purchasing power of gold is to be found in the prices of commodities and services.

88. Round the various meanings that may be attributed to the conception of the purchasing power of gold much discussion has centred : we do not think it is necessary for us to enter into these controversies. For our purpose, it is sufficient to state that the term purchasing power of money is used in different senses, of which the principal are its purchasing power over :

(*a*) All objects of purchase and sale ;
(*b*) All goods and services ;
(*c*) Intermediate goods at various stages of manufacture ;
(*d*) Consumption goods and services.

89. The term purchasing power of money is popularly regarded as meaning the purchasing power of money income as finally expended — that is, its power to buy the goods and services on which final income is spent. For measuring changes in such purchasing power,

an index of consumption goods and services is required. But the particular sense in which the term is employed must depend upon the particular problem that it is proposed to study.[1]

90. After a careful consideration of the various possible implications of our terms of reference, we have selected certain aspects of the problem to which we have thought it desirable to pay special attention. These aspects, as the subsequent discussion will indicate, are not mutually exclusive but are rather cross-classifications. They are :

(*a*) The relationship between changes in purchasing power and the distribution of income, leading inevitably to a consideration of the effect of these changes on production ;

(*b*) The relationship between changes in purchasing power and economic booms and depressions ;

(*c*) The significance and importance of changes in the long-term trend of prices.

91. Our reasons for selecting these particular problems for study are :

(*a*) That we consider that the most serious ill-effects of price changes arise in connection with their influence on the distribution of income and consequently on production ;

(*b*) That the most violent movements are those that arise in connection with the recurrence of periods of economic boom and depression ;

(*c*) That the long-term trends of prices are dominantly influenced by factors which are largely independent of those which lead immediately to these periods of boom and depression. In this connection, we refer to the facts cited in Section VIII, which are important enough to deserve separate consideration even though it is impossible, except in theory, to separate such long-term tendencies from the shorter-term fluctuations out of which they emerge, while, on the other hand, the shorter-term fluctuations may be greatly influenced by the secular trend of the period in which they occur.

92. In order to measure the influence of changes of purchasing power on the distribution of the national income it is necessary to consider the prices of those goods and services on which the shares in that income are expended. It is necessary, therefore, to employ an index of consumption goods and personal services.

93. In a stable society in which the national income and the relative contributions to that income by the different factors of production remain unchanged, alterations in the prices of goods and services caused by monetary disturbances involve automatically alterations in the monetary value of the national income and in the share of each factor of production in that income. Under these conditions, stabilisation of the monetary factors would result in stabilisation both of total income and of income distribution. When, however, the national income is increasing or decreasing, as a result of increased or decreased productivity of the factors of production, stabilisation of those prices will result in a change in the distribution of income. This is obvious for the following reason. Under increasing productivity the quantity of goods (and services) produced rises. If the prices of that greater quantity of goods are prevented from changing, the share of the factors of production in the national income is affected. In such circumstances, a given sum of money will continue to buy the same quantity of goods, but the total quantity of goods constituting the national income has increased. Therefore all persons with fixed incomes will obtain a smaller proportionate share of the total, and the portion falling to those having variable incomes will rise.

94. If, therefore, the purchasing power of money over consumption goods and services is stable when the productivity of the factors of production is increasing, the price-level of goods must fall. If, on the other hand, the prices of goods are stable when productivity is increasing, variable incomes must rise, and, since fixed incomes are unchanged, the distribution of income is affected.

95. These fundamental facts make it evident that the effects of fluctuations in purchasing power will vary widely according to the conception of the term employed.

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[1] See the different meanings attached to the term as set out in a paper by Dr. Gottfried Haberler prepared for the Delegation: "Die Kaufkraft des Geldes und die Stabilisierung der Wirtschaft", Schmoller's Jahrbuch, 55. Jahrgang, Heft 6. 1931, Seite 33-63.

We propose, in considering the international aspects of price movements, to employ the term as relating to the purchasing power of gold-standard money over goods sold wholesale (see below, Section XIV). The absence of variation in purchasing power so defined is, it should be remembered, compatible with changes in the distribution of income.

It should be recognised also that such an index fails to take account of many elements of the national price-structures — such as prices of real estate, securities, and so forth — which are of importance in determining domestic credit policies and to which reference is made in Section VII.

96. Our reasons for adopting the definition given above are three : First, an index of wholesale prices measures those fluctuations of the purchasing power of money which, when there is a reasonable degree of freedom of trade, are common to all countries and have a direct international influence. This influence is, in such conditions, exerted by the fact that all countries participate in international trade, and the prices of the commodities which enter international trade not only form a significant part of the domestic price-structures, but, through their effect upon the foreign exchange rates, exert a profound influence upon the volume of credit and therefore upon the level of domestic prices. The only index which measures the price-fluctuations of the commodities which enter into international trade is an index of commodity prices at wholesale. Secondly, the construction of an index of wholesale prices involves less serious technical difficulties than that of any other form of price-index.

97. To the extent to which the problem of the meaning of the term " purchasing power of gold " is considered, not simply for purposes of economic analysis, but in connection with the objective of monetary policy, is there a third and determinant reason for employing it in the sense that we have chosen. Changes in the distribution of national income take place under conditions of stable wholesale prices, as we have already indicated, when the productivity of the factors of production changes. An attempt by any country to avoid such changes would be theoretically possible only if (*a*) the increase or decrease in the productivity of its factors coincided with those of other countries, or (*b*) it was prepared to abandon the international monetary standard to which it belonged. This theoretical difficulty — we are not at the moment concerned with the practical issues — may perhaps best be explained by means of an illustration.

98. If two gold standard countries, *A* and *B*, both attempted to stabilise, not the prices of goods, but the prices of the factors of production, which is the same as preventing a change in the distribution of income, and in *A* productivity rapidly diminished while in *B* it remained constant, then prices of goods in *A* would rise. This rise in prices in *A* would lead to an export of goods from *B* to *A* and an export of gold from *A* to *B*. Were *A*, in spite of this exodus of gold, to attempt to maintain unchanged the price of the factors of production (*e.g.*, the level of wages), then the export of gold would be continued until ultimately she was forced off the gold standard.

99. The international stability of the prices of goods, so long as those goods are, broadly speaking, such as enter into international trade, does not involve any such paradox. If, however, such stability is the object of monetary policy, a number of theoretical and practical problems in connection with the measurement of prices do arise. With certain of those problems we deal in Section XIV. Here we merely desire to repeat the main conclusions arising out of this preliminary discussion of the fundamental issues (*a*) that, for the measurement of purchasing power of gold in the popular conception, an index of consumption goods and services is required, but (*b*) that, if any attempt is made to stabilise purchasing power internationally, efforts must be confined to purchasing power, not over such goods, but over intermediate products, for which purpose a wholesale price-index is necessary, and (*c*) that by gold we mean the monetary systems based on gold.

VII. The Measurement of Fluctuations in Purchasing Power.

100. The conception of a price-level, or general level of prices, usually conceived as an average measured by some form of index-number, is the subject of much discussion among economists at the present time.

The various instruments of measure now in use for ascertaining changes in the general level of prices are all constructed on national rather than international bases. They are measures of the purchasing power of different national currencies. The only conceivable international index that might be constructed would be a wholesale price index-number of those comparatively few commodities, mainly raw materials and foodstuffs, which enter largely and steadily into international trade. The technical difficulties of constructing such an index-number would be very great. The commodities which enter into international trade vary from time to time as shifts in prices enlarge or contract the market areas of the commodities concerned, bringing marginal commodities into or excluding them from international trade. Differences in price quotations in different areas are the reason for trading. Selection of specific quotations and, still more, of appropriate weights would be difficult. If such an index were compiled, it would be difficult to know what exactly it measured, since the range of commodities included must be limited. Moreover, since any modification of price-levels can be achieved only through national monetary conditions, there is additional reason for concentrating upon the measurement of variations in national price-levels. Under the normal working of the gold standard, it could safely be assumed that foreign exchange operations would keep the national purchasing power of different countries, not indeed equal, but in equilibrium.

101. The original purpose for which index-numbers of the wholesale prices of commodities were constructed was limited to illustrating, by approximate statistical measurements after the event, the long-term movements in the general level or average of prices. The first index-numbers, constructed in England, showed a fair degree of identity of movement in spite of considerable divergence in their methods of construction, and this fact contributed a good deal to the belief that there was a general level of prices, movements in which, however measured, showed great regularity, being due, in fact, to changes in monetary conditions and especially in the supply of gold. All of these index-numbers, however, were constructed by means of the same sort of wholesale commodity prices, and their identity was most marked when the correlation was between long series of yearly quotations. While such measurements undoubtedly indicate the direction of long-term trends in the general purchasing power of money, they can hardly be taken as measuring with any exactitude the magnitude of these changes, since there are many commodity prices and prices of important services which do not change as rapidly as the wholesale prices of the sort of commodities usually chosen.

102. In recent years, a good deal of attention has been directed by economic statisticians towards devising a measure for changes in general purchasing power. The ideal of such a measure, considered merely as a reflection of changes in the value of money, would obviously be an index of all transactions involving the use of money, including, not only the exchange of commodities, but also such factors as wage-payments, investment in capital goods or real estate. Such an ideal being obviously impossible, efforts have been made to build up a sample index by combining already existing indices, such as those for different sorts of commodity prices, for shipping and railroad freights, wages, etc.

103. If wholesale price-indices are applied to shorter-term movements, technical differences arising from such factors as the different commodities selected, the weights, base period and kind of average used in their construction cause considerable divergences from time to time. In other words, their usefulness in indicating broadly the long-term drifts in average prices is much greater than their precision even in indicating, and still less in measuring, short-period fluctuations of purchasing power as a whole.

104. As economic and statistical knowledge has increased and more abundant data have become available, there has been a notable tendency, not only towards the refinement and broadening of the original instruments of measure, but also towards the devising of special sorts of index-numbers for special purposes. Not only wholesale prices but retail prices are now measured, and within these general categories there are many specific groupings, so that, in many countries, information is available for the comparison of such contrasted groupings as imports and exports, raw materials and finished manufactures, consumers' goods and producers' goods. In addition, the method of index-numbers has been applied to the

measurement of prices other than those of commodities, and to many other economic phenomena. There are index-numbers of freight rates and car-loadings, of stock-market prices, bank clearings, wages, employment, the cost of living and many other series. As a result of this statistical activity, economists, bankers and business men in many countries now have at their disposal a large number of price- and business-indices, for the most part published at brief intervals and kept continuously up to date. One consequence of this rather confusing and often apparently contradictory mass of statistical information has been a clearer revelation of the intricacy of price-movements and relationships.

VIII. The Secular Trend of Prices.

105. We define the secular trend of prices as those long-period upward or downward movements of prices over a relatively protracted period of years which persist in spite of briefer and more violent short-term fluctuations. As illustrated in the diagrams on the following page, which are extracted from the memoranda submitted to us by Professor Cassel and Mr. Kitchin and published as Annexes to our first interim report, the evidence of the later part of the nineteenth century and first decade of the twentieth, when the majority of the more important commercial countries of the world were employing some form of gold standard, shows that the curves of wholesale commodity prices and the curves representing the relative supply of gold, and particularly that of monetary gold, moved upward and downward in remarkably close conformity. In so far as gold constituted the basis of money and credit, some such similarity of movement would be expected. The demand for money increases as national wealth grows and if for any reason the production of gold falls behind this rate of increase and is not sufficiently compensated by economies in the use of gold, conditions would be created which would tend to restrict the basis and hence the pyramid of credit and so to depress prices.

106. This period was one of rapid development in all fields of economic activity, and means for economising the use of gold by the development of banking, the use of cheques, the arrangement of clearing facilities, etc., were gradually being improved in one country after another. But, in spite of this, the importance of the gold supply as a monetary factor in the evolution of prices would appear to have predominated during this period.[1]

In view of these facts, it is in our opinion important to ascertain whether the supplies of gold in the future are likely to prove adequate.

IX. The Supply of Monetary Gold.

107. In our first interim report we attempted, on the basis of such statistical and other information as was then available, to present a picture giving the more significant features of the situation with regard to the supply of, and the demand for, gold, indicating the manner in which that situation seemed likely to develop in the near future.

108. We then reached the conclusion that, if prices were to be maintained at about the level ruling at the end of 1928, there was some danger of the supply of new gold proving inadequate at a relatively early date unless measures were taken to economise the use of gold for monetary purposes. The evidence seemed to point to a decline in the output of gold in about 1933, to a slight increase in the demand for non-monetary and a more rapid increase in the demand for monetary purposes. There were, however, as we pointed out, certain surplus stocks of monetary gold then available which, if distributed in such a manner as to support a maximum credit structure, might postpone any shortage being felt in the immediate future.

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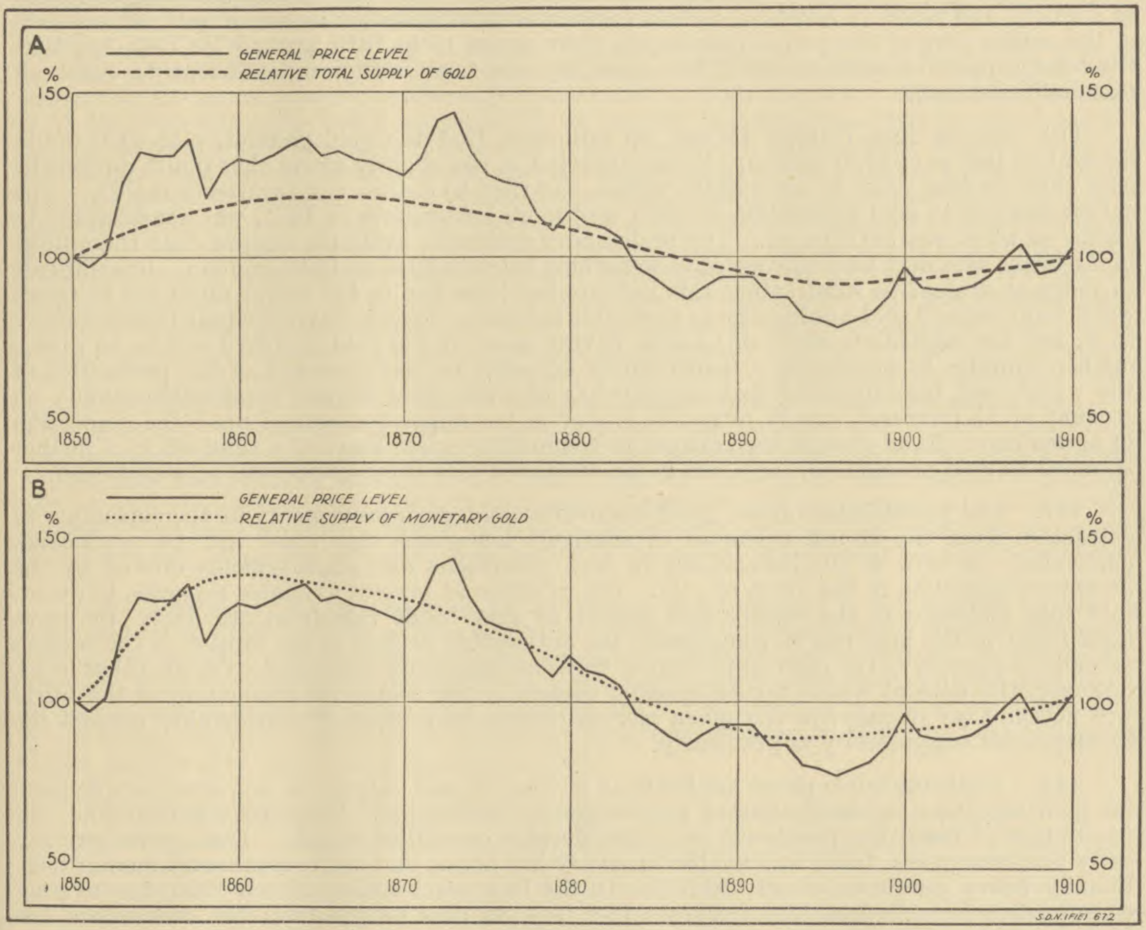
[1] See Annexes X and XI to our first interim report : " Supply and Demand ", by Professor Gustav Cassel ; and " The Supply of Gold compared with the Prices of Commodities ", by Mr. Joseph Kitchin ; and " The Functioning of the Gold Standard ", by Dr. Feliks Mlynarski (document F. 979[F. Gold 67(1)]).

Movement in Wholesale Prices (according to the Sauerbeck-Statist Index) compared with :

A. Relative Total Supply of Gold (according to Professor Cassel) ;
B. Relative Supply of Monetary Gold (according to Mr. Kitchin)..



Note. — The curve for *Relative Total Supply of Gold* shows the changes in the percentage ratio of the actual total stock of gold accumulating from year to year (as calculated by the German *Statistisches Reichsamt*) to the " Normal Stock of Gold " calculated for each year by applying to the initial stock in 1850 the average annual rate of increase over the whole period 1850 to 1910. Similarily, the curve for *Relative Supply of Monetary Gold* shows the changes in the percentage ratio of the actual world stock of gold money in each year (as calculated by Mr. Kitchin) to the stock of gold money as it would have been if it had increased at an even rate throughout the same period. (For further details see First Interim Report of the Gold Delegation, Annexes X and XI, League of Nations, Geneva, 1930.)

109. Before proceeding further in our analysis of the problem of the gold supply, we wish at this point to record our opinion that the world's total stock of monetary gold, apart from any considerations as to its distribution among different countries, has at all times in recent years been adequate to support the credit structure legitimately required by world trade and that the rapid decline in prices, which began in 1929, cannot be attributed to any deficiency in the gold supply considered in this sense. During the six years from the end of 1925 to the end of 1931, the world's central gold reserves increased from about $9,150 million to about $11,350 million, or at an average rate of 3 $^{2}/_{3}$ per cent per annum. [1] Since this rate is not lower than the generally accepted normal rate of growth of production and trade in the gold-using countries as a whole, and since, in addition, certain economies were made in the use of gold, at any rate in the earlier part of the period considered, there seems to be little ground for believing that the total supplies of gold available for monetary use have not been sufficient to meet all reasonable demands.

110. In our first Interim Report we estimated that the gold production in 1930 would amount to just over $400 million. It was expected to rise slightly above that figure during the next three or four years to some $410 million, and then to decline comparatively rapidly. The actual increase in gold production in 1930, and more particularly in 1931, was considerably in excess of what was anticipated. The preliminary estimates available suggest that the output in the latter year may have amounted to something between $445 and $450 million. It is difficult to judge at present to what extent this increase has been due to the recent rapid fall in prices which has rendered gold-mining a more profitable industry. Canada has contributed substantially to it, and the immediate effect of Canada having gone off the gold standard will be to give a further stimulus to production. South Africa accounts for over one-half of the production of the world, and the output of that country has also increased beyond expectation mainly on account of an increased supply of native labour in the mines consequent upon the depression in agriculture. Even though the collapse in commodity prices may for a time act as a further stimulus to gold production, there can be no assurance that this increase will be maintained.

111. The possibilities of new gold discoveries and of improvements in the technique of extraction from the known resources of relatively low-grade ores must not be overlooked, particularly in view of the inducement to such discoveries and improvements offered by the present appreciation in the value of gold. The evidence at present available suggests, however, that such additions to the world's gold output as may result therefrom are likely to prove insufficient in the long run to compensate the anticipated decline in the output of the sources actually exploited, as the most important of these are gradually exhausted. On the other hand, however, the date at which the anticipated decline in the total gold production of the world will actually set in may, in the given circumstances, be postponed considerably beyond the turning-point suggested by us previously.

112. While the fall in prices has led to an increase in gold output, the non-monetary demand for gold has been seriously affected by the general depression. From time immemorial, the population of India has purchased very considerable quantities of gold. During the war and early post-war years, India was unable to satisfy her needs, and she consequently made exceptionally heavy purchases about 1924-25. In the five years ending March 1930, her average consumption for non-monetary purposes (net imports plus output from her own mines less increases in her central gold reserve) dropped back to somewhat over $80 million per annum — a rate of consumption rather less than that of the last pre-war quinquennium. In the four years ending March 1930, it averaged somewhat less than $70 million per annum. As a result of the economic depression, her non-monetary consumption fell in the calendar year 1930 to about $65 million, and in the calendar year 1931 her exports of gold exceeded her imports by $96 million, while her central gold reserve increased by $34 million. As her domestic gold pro-

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[1] Total monetary gold stocks (excluding gold hoards in all Asiatic countries and Egypt, but including the approximate amount of monetary gold held outside central gold reserves elsewhere) would appear to have increased in the same period from some $10,250 million to approximately $12,500 million, or at an average rate of 3 $^{1}/_{3}$ per cent per annum.

duction did not exceed $7 million, India therefore in that year not only failed to make any net addition to her non-monetary gold stocks, but actually surrendered almost $125 million of her old non-monetary gold primarily for monetary use.[1] Most of the exports took place in the last three months of 1931, when the premium on gold consequent upon the suspension of the gold standard naturally acted as a strong incentive to export. Concomitantly with the appreciation in the exchange value of the rupee in terms of gold since December 1931, a marked slackening of the outward gold movement from India has taken place in the first four months of 1932. If there is a further appreciation in the value of the rupee in terms of gold, the outflow of gold may well dry up, and the risk, furthermore, of India endeavouring to make good her recent losses, when the depression is past, must not be overlooked.

113. In our first Interim Report we drew attention to the fact that the information available concerning the use of gold for industrial purposes was far from complete. After a careful study of all the evidence which had been collected, we reached the conclusion that the total demand for non-monetary purposes, including that of India, China and certain other Oriental countries, and the amounts used for industrial purposes elsewhere, might be estimated at $180-200 million. Since we wrote, the Director of the United States Mint, who has endeavoured for a number of years to collect evidence on the subject, has revised and somewhat reduced his estimate of gross industrial consumption in recent years. More recent evidence we have received points to the conclusion that a rather greater proportion of old gold than we had previously allowed for has probably been employed. It is possible, therefore, that the aggregate figure put forward by us for total non-monetary consumption for these years should be somewhat reduced. But, of the old gold used in recent years in the arts, a substantial proportion consisted of gold coin previously hoarded. It would appear that the supplies of such old coin were gradually running out before the present depression began, so that an increased demand by industry for new gold was to have been expected. During the depression there has been, as we will show, a very considerable transference of non-monetary gold and unrecorded hoarded coin to the reserves of Central Banks, and we may consequently anticipate that, when industry revives, the older hoards of gold coin will be found to have been very largely depleted and industry will have to rely to a considerably greater extent than heretofore on new gold from the mines.[2] On the other hand, the use of gold in the arts has naturally fallen off rapidly during the recent exceptional economic depression.

114. The monetary requirements of new gold are determined to-day by the amount of notes and other sight liabilities of Central Banks, by the laws regulating their cover requirements and by the average rate of economic development in gold-standard countries. We showed in our first Interim Report that the minimum legal requirements at the end of 1928 amounted to 29-34 per cent of notes and other sight liabilities of Central Banks, and the actual reserves to 40 per cent. As some margin above minimum requirements must normally be held, the actual stocks were at that date clearly far from excessive.

115. It has been generally assumed that the very heavy fall in prices which has taken place since we wrote has resulted in a large diminution in the monetary demand for gold, and that in consequence the danger of a gold shortage making itself felt is no longer real. It is true that our object was to indicate certain conditions which appeared to us essential to the maintenance of the price-level, and that the failure to maintain that level has affected the hypothesis on which our arguments were based. But unfortunately the assumption that the monetary requirements of gold have greatly contracted is incorrect. On the one hand, the sight liabilities of Central Banks have been less affected by the fall in prices than might have been expected ; on the other, as we shall show below, the demand for gold is likely to be materially increased by the influence of recent events on the gold-exchange standard.

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[1] By the end of March 1932 the amount of gold thus surrendered by India had increased to about $180 million. Part of this gold, however, seems in fact to have accrued to hoards or to commercial bank reserves in some of the countries to which it has ultimately gone.

[2] The gold coin and bullion contained in the recently constituted hoards in certain Western countries will presumably in the first instance find their way to central monetary reserves.

116. We showed in our first Interim Report that the total of notes and other sight liabilities of Central Banks in gold-using countries at the end of 1928 aggregated some $24,600 million. Excluding the Union of Soviet Socialist Republics, which constitutes a self-contained economic system practically divorced from the rest of the world, the aggregate amounted to some $22,800 million.

The detailed figures (excluding the U.S.S.R.) for that and subsequent years are :

End of	Notes in circulation	Other sight liabilities	Total sight liabilities	Wholesale index of U. S. Bureau of Labor Statistics 1926 = 100
	$ (000,000's)			
1928	17,275	5,493	22,768	95.8
1929	17,078	5,523	22,601	93.3
1930	16,776	5,669	22,445	79.6
1931	16,456 (17,103)[1]	5,190 (5,476)[1]	21,546 (22,579)[1]	68.6

The wholesale price-index of the United States Bureau of Labor Statistics has been included above for purposes of comparison. While that index, which might to some extent be taken as representative of the general movement of prices in gold-standard countries, dropped by almost 30 per cent between the end of 1928 and the end of 1931, total sight liabilities of Central Banks and other note-issuing institutions (excluding those in the U.S.S.R.) as shown above only contracted by something between 1 and 5 per cent.[2] On the other hand, the total minimum legal gold requirements of the countries considered increased by somewhat more than 2 per cent in the same period.[1] This discrepancy is explained by the comparatively large legal gold requirements, not only for notes, but also for other sight liabilities in some of the countries where total sight liabilities increased most rapidly.

117. The failure of the sight liabilities of Central Banks to contract to any appreciable extent in spite of the great drop in wholesale prices must be attributed in part to the fact that other values, retail prices, wages, etc., have not dropped in proportion, in part to the fact that the velocity of circulation has substantially decreased, in part, at later stages of the depression, to the hoarding of notes which has taken place on a large scale in some countries and the maintenance by commercial banks of larger reserves with the central institutions.

118. While up to the present, therefore, the depression has had little influence in reducing the monetary demand for gold, a continuance of a lower price-level than existed in 1928 would eventually have this effect, especially when there is a return of notes from hoarding. Unless prices should revert to the 1928-29 levels, it seems inevitable that the volume of sight liabilities of Central Banks will adjust itself downward, in which case there would be less demand for gold, which might postpone for some period the time when a shortage in available supplies of gold would need to be feared.

119. The situation will be influenced also by the following factors : (*a*) the effect of the depression on the size of the monetary gold stocks (see paragraphs 120-122); (*b*) the new demand for gold that has arisen for the purpose of converting Central Banks' foreign exchange reserves into gold and, temporarily, for hoarding purposes in certain Western countries (see paragraphs 123-125); and (*c*) the distribution of gold (see Section X).

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[1] In view of the fact that many countries were off gold at the end of 1931, the significance of world figures for minimum gold requirements at that date is, of course, rather formal than real.

[2] The apparent drop in the total expressed in terms of dollars at the current rate of exchange between 1930 and 1931 is in fact misleading, as it merely reflects the depreciation in the external value of the currencies of those countries which went off the gold standard in the autumn of 1931. Since the internal value of their currencies had changed but little by the end of the year, while their Central Bank sight liabilities were almost identical at the end of 1930 and the end of 1931, it would appear preferable to convert the figures relating to these countries at the former dollar parity in order to obtain a more satisfactory measure of the real volume of Central Bank currency. The world figures for the end of 1931 thus corrected are given in brackets in the statement above, and should be used for purposes of comparison in preference to the uncorrected figures shown for the same date. The increase in total sight liabilities which, according to the corrected figures, took place in 1931 was mainly due to France, the United States, Switzerland, the Netherlands and Belgium.

120. The growth of the world's monetary gold reserves and total stocks in recent years may be estimated as follows :

MONETARY GOLD STOCKS

$(000,000's)

End of	Reserves [1] Excluding U.S.S.R.	Reserves [1] Including U.S.S.R.	Other stocks [1] Excluding U.S.S.R.	Total [1] Excluding U.S.S.R.	Total [1] Including U.S.S.R.	Increase in total stocks	Excluding U.S.S.R.	Including U.S.S.R.
1925	9,054	9,148	1,096	10,150	10,244			
1928	9,919	10,011	1,041	10,960	11,052	1925-1928 p. a.	270	269
1929	10,251	10,398	874	11,125	11,272	1929	165	220
1930	10,798	11,047	709	11,507	11,756	1930	382	484
June 1931	11,122	11,383	695	11,817	12,078	6 months 1931	310	322
Dec. 1931	11,021	11,349	...	...	...	...	...	...

121. The above figures bring out three highly significant facts :

(*a*) That in the four years 1926 to 1929 somewhat more than $250 million of gold per annum were added to the visible monetary stocks (including those of the U.S.S.R.), which would suggest that rather less than $150 million remained for non-monetary consumption. We know, however, that part of the increase in these stocks even during that period was due to supplies of old coin not included in our figures ; the non-monetary consumption of new gold may therefore have somewhat exceeded $150 million.[2]

(*b*) That in 1930 the addition to monetary stocks (including those of the U.S.S.R.) exceeded the total world production of new gold by about one-seventh and in the first half of 1931 by nearly 50 per cent. While the monetary demand for gold as measured by legal minimum cover requirements increased comparatively little between the end of 1928 and the middle of 1931, central gold reserves rose by about $1,200 million (including the U.S.S.R., by about $1,370 million). This rise was partly due to the absorption of some $350 million from other monetary gold stocks.

(*c*) That in spite of the increase in the gold production and the large amounts of old non-monetary gold which became available for monetary use in the latter half of 1931, the total of the world's central gold reserves was less at the end than in the middle of that year [3].

122. Reference has been made above to the fact that the use of gold in the arts has fallen off rapidly on account of the exceptional economic depression since 1929. The available information does not as yet permit of any precise estimate of the magnitude of this decline. But, even if it be presumed that the industrial demand for gold in the eighteen months ending June 1931 was reduced by a-half, not less than $300 million of old non-monetary gold must in that period have found its way into monetary gold stocks. The provenance of all this additional gold is not definitely known ; but the available information suggests that a large proportion of it was derived from China, where the collapse in silver prices led to an export of a part of the

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[1] For details see Annex. The column " Other Stocks " is incomplete, as it ignores altogether the gold hoards in Asia and Africa and certain hoards also in other parts of the world for which no estimate can be made. It only includes stocks actually recorded and, in addition, such other amounts of gold in circulation or with commercial banks in certain countries as may be estimated with a reasonable degree of accuracy. The figures given do, however, reflect the gradual concentration of gold from these stocks into central gold reserves which was taking place up to the end of June 1931. Since that date, the tendency has been reversed, as fear of investment losses has lead to new hoarding on a very considerable scale in certain countries. The amount of this new hoarding in the various countries is, however, unknown ; a comparison of the changes in total monetary gold stocks cannot therefore be extended beyond the end of June 1931.

[2] From the revised figures now available for the industrial consumption of new gold in principal countries, it may be concluded that total non-monetary consumption, including that of India and other Eastern countries, during the period in question probably amounted on an average to something between $150 and $160 million per annum.

[3] By the end of March 1932, however, aggregate gold reserves had again risen somewhat above the figure for June 1931 (see paragraph 128, below).

hoards slowly accumulated through centuries. While India still attracted gold for non-monetary use in 1930, it began in the first half of 1931 to surrender hoarded gold for monetary use, and gold may have come forward from hoards in other countries as well. The rapid fall in commodity prices since 1929 and consequent rise in the monetary value of gold, combined with the destruction of private fortunes as a result of the depression, must further have acted as an inducement in other parts of the world to return gold from non-monetary to monetary use.

123. Were it not for other factors that have arisen, the threatened shortage of gold to which we drew attention in our first Interim Report might have been averted for some years. When our first Interim Report was published two years ago, a considerable number of countries were operating under the gold-exchange standard under which they were legally entitled to keep a part or the whole of their reserves, not in gold, but in liquid assets abroad. The Central Banks in other countries were also accustomed to maintain considerable foreign assets which in practice they employed to meet demands made on them for foreign currency. To what figure the aggregate of such floating foreign balances of Central Banks amounted we do not know, as in many cases they were not published separately and in full. The published figures alone, which must have been substantially short of the real total, amounted to almost $3 milliard at the end of 1930. Not all this total was held by countries legally on the gold-exchange standard, but, since several of the other countries which have in the past used foreign assets as additional reserves have also converted a large proportion of these assets into gold in recent months, we quote that figure as an upper limit for the possible additional demand for gold that may ultimately arise from the distrust of foreign currency assets as a substitute for gold. As however the Central Banks, particularly in certain smaller countries, may be expected to continue in some measure to hold foreign exchange in addition to gold, we consider it unlikely that this upper limit will in fact be reached.

124. Although this system was so widely and so largely practised, it had in recent years caused certain misgivings for a number of reasons into which we need not enter here, but more especially because it was felt that it involved on the creditor bank a risk of exchange depreciation in the country where the assets were invested. This risk has proved to be a real one, and there has, as a result, been a rapid conversion of available assets into gold. Unless, when the gold standard is once more put into general and effective operation, some measures are adopted either substantially to lessen this risk or to devise a new system in place of the post-war gold-exchange standard, the additional demands for gold arising from the partial abandonment of the practice of maintaining reserves in foreign currencies may counterbalance the recent abnormal augmentation in the available stocks of monetary gold.

125. Although gold production in the latter half of 1931 may have reached $225 million, and India alone surrendered some $105 million of old non-monetary gold in that period, central gold reserves were about $35 million lower (excluding the U.S.S.R., about $100 million lower) at the end of December than they were at the end of June. Considering the fact that in other countries important amounts of old non-monetary gold have likewise become available for monetary use, the total sum hoarded in this period is likely to have exceeded $400 million.

X. The Distribution of Gold Reserves.

126. In our second Interim Report[1] we dealt in some detail with the causes and consequences of the uneven distribution of monetary gold reserves. In the following paragraphs we add more recent information which indicates that the problem has been sharply accentuated in the intervening period.

In considering this question, it is convenient to deal with the gold in the reserves of Central Banks and Treasuries only, and to ignore the estimated amounts of other gold in private hands or in commercial banks.

[1] Document C.75.M.31.1931.II.

127. At the end of June 1931, over 60 per cent of the central gold reserves of the world apart from the U.S.S.R.) were in two countries — the United States of America and France.

CENTRAL GOLD RESERVES

	30/VI/31	Change since 31/XII/28 $(000,000's)	%
U. S. A.	4,593	+ 847	+ *22.3*
France	2,211	+ 964	+ *77.4*
Total	6,804	+ 1,811	+ *36.3*
Rest of world (excluding U.S.S.R.)	4,318	— 608	— *12.3*
Grand total	11,122	+ 1,203	+ *12.1*

Thus, in the two and a-half years ending June 1931, these two countries received most of the additional monetary gold becoming available either from the mines or from other sources, plus $608,000,000 from the reserves of other countries.

128. Since June 1931 the situation has greatly changed as is shown in the following statement relating to the end of December 1931 and the end of March 1932, respectively.

CENTRAL GOLD RESERVES

$(000,000's)

	31/XII/1931	Change since 30/VI/31	%	31/III/1932	Change since 30/VI/31	%
France	2,683	+ 472	+ *21.3*	3,010	+ 799	+ *36.1*
Switzerland	453	+ 291	+ *179.6*	471	+ 309	+ *190.7*
Netherlands	357	+ 157	+ *78.5*	353	+ 153	+ *76.5*
Belgium	354	+ 154	+ *77.0*	350	+ 150	+ *75.0*
Total	3,847	+ 1,074	+ *38.7*	4,184	+ 1,411	+ *50.9*
United States	4,051	— 542	— *11.8*	3,985	— 608	— *13.2*
Rest of world (excluding U.S.S.R.)	3,123	— 633	— *16.9*	3,067	— 689	— *18.3*
Grand total	11,021	— 101	— *0.9*	11,236	+ 114	+ *1.0*

By the end of March the United States had lost over $600 million [1], while France had received another $800 million, Switzerland over $300 million and the Netherlands and Belgium some $150 million each or, all together, more than $1,400 million. If the sums retained by commercial banks and private persons be included, the gold acquired by these four European countries probably exceeded $1,700 million. The rest of the world (apart from the Union of Soviet Socialist Republics) had suffered a further loss of almost $700 million, or more than 18 per cent of their central gold reserves ; in spite of the greatly increased supply of gold for monetary purposes, the total of these reserves was only one per cent greater at the end than at the beginning of the nine months' period considered.

129. We quote these facts in order to show the magnitude of the disequilibrium, and to indicate how rapidly changes in the situation are effected. The growth in the gold reserves of France, Switzerland, the Netherlands and Belgium was in part due to that conversion of

[1] Of the decrease — $608 million — shown in the table $41 million in gold coin had flown back into domestic circulation or hoards. An amount of some $35 million from domestic gold production accrued to the central gold reserves in the nine months ending March 1932. Actual net exports of gold in the same period amounted to $286 million, while a net balance of $317 million was placed under earmark for foreign account.

foreign assets into gold to which we have alluded in paragraphs 123-124 above and also to the repatriation of capital by their commercial banks and to the inflow of foreign capital seeking temporary protection from the risk of currency depreciation elsewhere.

130. We do not think it necessary at this point either to trace the history or to analyse the causes of the distribution of gold in the world to which we refer in Section II of this Report [1]. Its importance, so far as the particular problems submitted to us for consideration are concerned, lies primarily in the above-mentioned considerations and in the fact that, in connection with a general and effective restoration of the gold standard, a modification of the present distribution will be required. It may be useful further to illustrate the reciprocal effects of the present depression and the distribution of gold. We show therefore in the diagram on the opposite page the changes that have taken place in the gold reserves of various groups of countries since 1925.

131. Certain of the causes that contributed to the results shown in the diagram are indicated in other paragraphs of this report. We desire here to draw attention to the continuous strain on the monetary systems of the great majority of the countries of the world caused by the disequilibrium in the balance of payments of certain countries which those movements reflect — a disequilibrium which became more serious as prices declined. Since the end of 1928 this strain has grown constantly more intense.

132. We deal incidentally with the evolution of events in Section XII (*b*), and in the final section of our Report with the principles of monetary and economic policy which, in our opinion, are a condition of the normal working of the international gold standard.

Before these principles can take full effect, a change in the distribution of gold reserves must take place.

XI. Short-Term Fluctuations of the Price-Level.

133. We have pointed out in Section VIII the connection over a long period between the supplies of new monetary gold and the long-term drift or secular trend of prices. In this section we draw attention to the complication of shorter-term fluctuations in the price-level which are often referred to as cyclical. It is disputed whether these shorter-term fluctuations have any direct connection with the monetary supply of gold ; but the available evidence seems to point to the conclusion that the period of declining prices in a business cycle is likely to continue longer if the long-term trend of prices is downward, and, on the contrary, is likely to be arrested earlier if it is upward.

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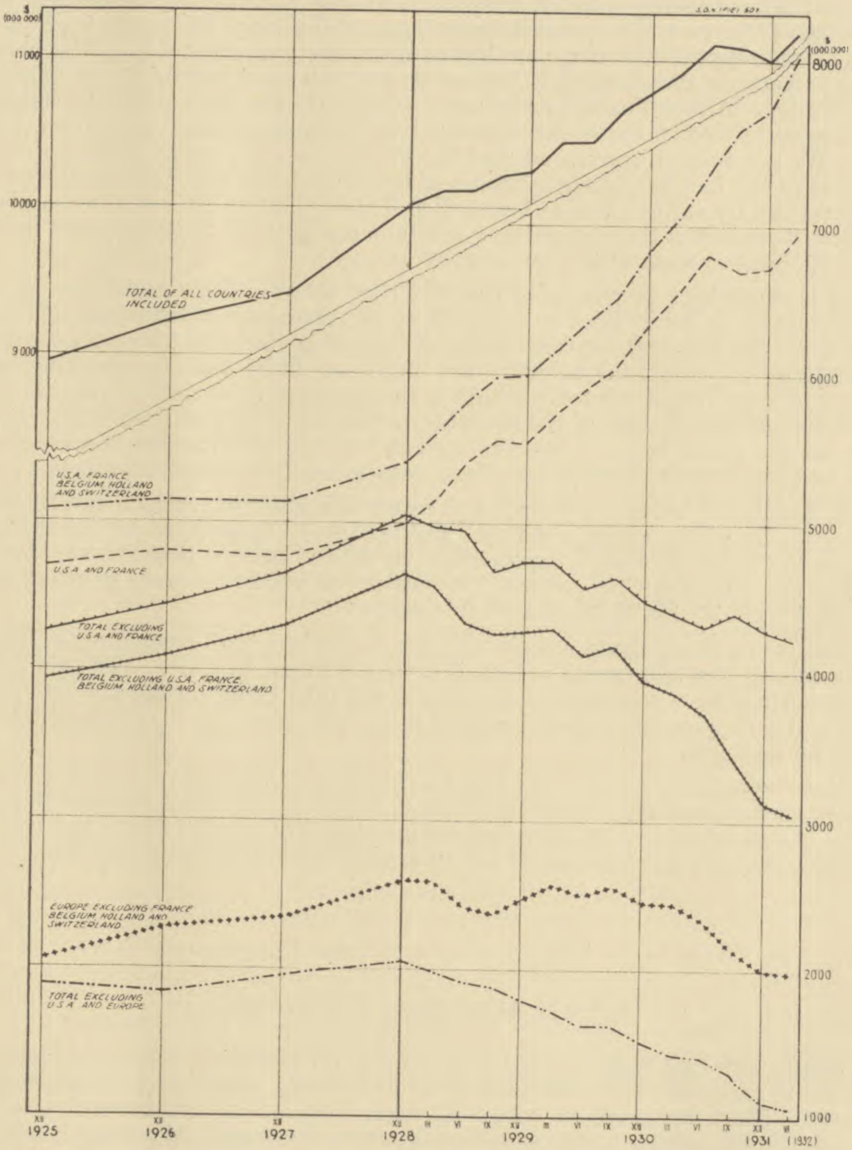
[1] See also “ Second Interim Report of the Gold Delegation of the Financial Committee ” (document C.75. M.31.1931.II), and “ Selected Documents on the Distribution of Gold, submitted to the Gold Delegation of the Financial Committee ” (document C.102.M.38.1931.IIA).

CHANGES IN THE GOLD RESERVES OF CENTRAL BANKS[1] AND TREASURIES.

The following countries are excluded throughout : Union of Soviet Socialist Republics, Cuba, Mexico, Central American Republics, Paraguay, the Philippines, Straits Settlements and Turkey.



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[1] Including the "Banco de la Nación Argentina", which, although not a bank of issue, acquired a considerable gold reserve in 1927 and 1928 in view of a proposed banking reform ; practically the whole of this reserve was subsequently exported.

134. We view the business cycle as a more or less rhythmical oscillation of a very complex price-structure and business activity around a hypothetical norm of stable relationships. The normal position of equilibrium is never reached and never can be realised except upon the theoretical assumption of a static society. The economic arrangements of modern life are a moving process, always in disequilibrium to a greater or less degree. This disequilibrium is the price of progress; it is the manner in which adjustments are constantly being made to new factors, both monetary and non-monetary, which change the pattern of production and trade and alter existing price-relations. The forces producing instability are inevitably complex, so that the resultant price-changes have defied any attempt at simple analysis or explanation. Some degree of cyclical oscillation is probably unavoidable, unless indeed economic society were to become almost static. Moreover, the risk must not be ignored that attempts to control fluctuations in the general or average level of prices may accumulate strains within the price-structure and therefore cause deferred and possibly more violent paroxysms of readjustment eventually. We are, indeed, convinced that the violence of the present crisis, for example, is due in large degree to the fact that readjustments of industry, trade and prices in the post-war period have been thwarted by various forms of control and manipulation. Even in a completely planned economy there would arise the necessity of constant readjustment which would be likely to take the familiar rhythmical form of the business cycle.

135. It is important to recognise the fact that there is little regularity in the recurring cyclical movements, either in time or in much of the phenomena displayed. This fact in itself throws into relief the disparate nature of the disequilibria that must be considered. The short-term fluctuations of industrial activity are built up from shifting combinations of price-movements, which at irregular intervals appear to culminate in situations of great instability. At this point an unwise functioning of the monetary system or a failure of confidence may precipitate a crisis, or, on the other hand, if the fundamental economic situation is strong, confidence is maintained and credit well handled, the strain may pass off with minor effects.

136. It remains to be seen whether, as a result of further experience and further researches into the phenomena of the cycle, a definite and accepted explanation of the initial causes will be found. In the absence of such explanation we do not believe that the avoidance of cyclical movements in the future can be assured. We attach therefore the very greatest importance to the pursuit and organisation of studies on this subject.

137. But, while many issues remain obscure, we believe that much may be done to prevent disequilibria arising through credit policy, if action is taken in time. The primary causal disequilibria giving rise to a period of depression come into being during the preceding period of rising prices and active business conditions and it is while prices are thus rising that the necessary checks must be imposed.

138. Moreover, however deficient our knowledge of the initial causes may be, concerning the secondary and cumulative causes of price-movements and their effects there can be but little doubt. As we show in the following section, the interplay of cause and effect is so close and so constant that the one can in fact not be treated separately from the other.

XII. The Effects of Fluctuations in the Purchasing Power of Gold.

(a) *The Main Types of Fluctuation.*

139. Before entering upon a discussion of the problems set out in paragraph 90 above it is necessary to recognise that fluctuations of purchasing power may be generated in several different ways. There is a sense in which all such fluctuations are monetary in their nature, since they arise from changes in the equation of which the supply of money is one side and the demand for it created by commodity and other transactions is the other. But there is a considerable difference between fluctuations which are produced primarily by alterations in the structure of industry affecting the volume of monetary transactions necessary, and those which are generated primarily by alterations in the supply of money.

140. A further distinction should be drawn between the slow long-term drift induced by changes in the supply of gold available for monetary purposes or the use made of that gold in the credit mechanism, and, on the other hand, the more sudden and violent fluctuations which are induced by currency inflation or deflation.

141. It is obviously difficult in any particular situation, such as the present economic depression, to disentangle the precise influence of the various factors contributing to a marked decline of prices. Certain of us regard the recent deflation as largely the inevitable sequel of previous inflationary movements. Others attribute great importance to the effect of the uneven distribution of gold reserves. There is among economists generally a wide disagreement, both in emphasis of detail and in principle, about these matters. But there is agreement, on the other hand, concerning the undesirable effects of such rapid and great fluctuations in the purchasing power of gold as the world has recently experienced. The following subsections are concerned with a general exposition of these effects.

(b) *The Effects of a Rapid Fall in Prices.*

142. It is convenient to consider first the sequence of events when prices fall, for the consequences of a rapid rise in the purchasing power of money (fall in prices) have never been more clearly exemplified than in the course of the last two years. Moreover, the populations of many countries had scarcely had time to recover from the chaos and tragedy caused by the reverse movement, the war and post-war inflation of prices,when this new ill fell on them. The consequences have been so far-reaching and so disastrous that to describe them may seem superfluous. In spite of the experience of the past and of the present, however, the causal sequence of events is so frequently misunderstood that we believe a service may be rendered by setting out that sequence briefly as we see it.

143. There are two main reasons why such violent fluctuations of the price level are so profoundly disturbing to the economic organisation. The first is the fact that a great part of the economic life of the modern world involves monetary contracts fixed for varying periods. The processes of production involving money commitments are spread over lengthy periods ; wage contracts may be weekly, monthly or yearly ; rents are likely to be fixed in many cases for terms of many years ; loan contracts remain valid during the whole period of the loan and in the case of Government loans this period may be virtually perpetual ; life insurance premiums and benefits similarly involve contracts of long duration. These are only some of the innumerable ways in which contractual relationships must be entered into if the modern economic system is to function at all. Moreover, even where the period of contract is not long, there may be great difficulty (as in the case of wage-rates) in altering the scale of payments.

144. In the present depression the fall of prices has been so sudden and so severe that there is the utmost difficulty in maintaining contracts entered into when the level of prices was higher. In particular, the real burden of debt has been so seriously increased that great numbers of debtors, including individuals, companies, local authorities and Governments, cannot meet their obligations. The readjustment of money wages which will be necessary if the present level of prices should continue (or fall further) will have to be so drastic as to be likely to lead to industrial disputes with their attendant economic waste and to involve a serious risk of social disturbances.

145. The second reason why a violent fall in the general price-level is profoundly disturbing to economic life lies in its psychological effect. Once a decline in prices sets in, a further decline is expected. The incentive both to spend and invest is weakened. Uncertainty and insecurity ensue, leading quickly to the undermining of confidence. Potential purchasers await the expected fall and, by waiting, help to cause it. Production is paralysed, unemployment increases, and a vicious spiral is set in motion.

146. There is little need for us to emphasise the way in which this failure of business confidence has developed with alarming rapidity in the present depression. As the prices of individual commodities have fallen, whole trades, and even whole countries dependent upon particular trades, and with them the public finances of the countries concerned, have drifted towards insolvency. This has been the case particularly in the countries which are engaged

in the production of primary products. But the difficulties which are created by falling prices are by no means confined to such countries. Indeed the whole world is afflicted by the fact that the weight of commitments has become intolerable for traders, bankers and Governments alike. The result has been a growing feeling of insecurity. Perhaps the best indication of the extent to which this feeling of insecurity has developed is the marked tendency, even in the countries still on the gold standard, for individuals to hoard gold rather than leave their resources to fructify in the hands of their bankers. This lack of confidence is likely to continue as long as prices continue to fall.

147. It is desirable here to indicate the actual process by which the fall in prices has produced the present difficulties. The immediate effect of falling prices is to change the distribution of the national income. Those who possess claims upon the national income, stated in terms of monetary units whose purchasing power has appreciated, become entitled to a greater share of the goods and services constituting that national income. On the other hand, this greater proportion of the national income (or internationally, of world production) can be provided only by a corresponding diminution of the shares accruing to other groups of the community whose incomes are not fixed in terms of the appreciating currency. In practice the first loss falls upon industry the profits of which are curtailed. When the fall in prices is both sudden and severe as in the present crisis, profits may be wiped out entirely or indeed turned into losses, since debt charges remain fixed and such customary payments as wages and salaries are difficult to reduce quickly.

148. The effect of such a situation is seriously to increase unemployment, the social and economic consequences of which are among the most serious destructive effects of rapidly falling prices. The burden imposed by the price decline, which in the initial stage fell mainly on industrial and business profits, now falls heavily also on those wage-earners and others whose services industry can no longer use. To the extent that the loss of income suffered by the members of the latter group is not compensated from insurance or relief funds, their standards of living are reduced and, if the reduction persists, their industrial efficiency is likely to be seriously affected. Increased unemployment, with its consequent ill effects, has in fact been a characteristic feature of periods of falling prices. The experience both of pre-war years and of the post-war period indicates a general tendency for unemployment to be high when the price-level is falling and to be relatively low when the price-level is rising. [1]

149. As unemployment has become general, pressure has been exercised to protect the home markets of almost every country. Indeed, protection in all its forms has gone far towards destroying international trade. A whole new series of devices for excluding foreign goods has been invented and applied. In addition to tariff increases, there are such devices as the rationing of imports, exchange restrictions and special import duties on goods from countries with depreciated currencies. These measures are claimed to be justified by the perilous state of home industries and the prevailing unemployment, but, when applied by many countries, their total effect is to make these conditions very much worse.

150. It will be obvious from what has been said in the preceding paragraphs that the immediate effect of such sudden changes in the distribution of income (the burden of which falls first upon the profits of industry) is a curtailment of the volume of production. The expectation of further price-falls and the contraction of consumers' demand in periods of wide-spread unemployment would in any case make such a curtailment of production inevitable.

151. Nor is this contraction of consumers' demand fully compensated by the larger real income which is obtained by those whose incomes are fixed in terms of money. For such persons do not increase their consumption proportionately to the benefit they derive from falling prices, and when the fall is especially rapid and practically all classes of business are in financial difficulties, they hesitate to venture upon new investments. They keep their savings on short-term account or even go to the length of hoarding banknotes or gold bullion.

152. A further way in which the abnormally severe fall of prices has crippled economic activity is to be found in its effects upon the public finances of most countries. It is difficult

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[1] See "Unemployment and Monetary Fluctuations" in the International Labour Office: *Studies and Reports* Series C. No. 16. "Unemployment Problems in 1931", Geneva, 1931, pages 97-118.

to make sudden reductions in public expenditure, much of which is fixed in monetary terms — for example, in debt commitments — and much of which also is for the provision of social services which are very reluctantly curtailed. Pending reductions of expenditure, Governments, in order to balance their budgets, have no option but to increase taxation and that at a time when the national income is shrinking, while profits have disappeared and there is a large volume of unemployment. The inevitable result is a further heavy addition to the burdens, particularly of the *entrepreneurs*, and a further crippling of business enterprise.

153. While no country has escaped these consequences, their incidence has been particularly severe upon the debtor countries of the world, the more so since so many of them are mainly dependent upon the production of primary commodities. The fall in the prices of these products in the world market has been especially severe. Agriculture is a slower process than most other forms of production, and supply cannot therefore be adapted so readily to changed conditions of demand. But adaptation is very much slower than the length of the productive process alone would necessitate. Farms cannot be temporarily closed down as can factories ; curtailment of production may necessitate reductions of stock or degeneration of culture, which would involve more serious losses than those incurred by temporary sales at unremunerative prices. The supply of agricultural products is difficult to adjust to price-changes, and the prices of those products are in consequence exceptionally sensitive to any pronounced price-movement. On the other hand, the demand, at any rate for foodstuffs, is likewise inelastic. When prices fall therefore, demand is not greatly increased and the agriculturist suffers from his dual inability to reduce his output or to expand demand by lower prices.

154. It is precisely the countries producing primary commodities that have the largest foreign debt proportionately to their wealth. A sharp fall in prices puts a severe strain on their capacity to meet the service of this debt and prevents them from borrowing the further capital which is necessary for their development. At the same time, the necessity of setting aside a larger proportion of their reduced national incomes for debt service reduces their capacity to purchase imports, which are drastically curtailed. If this process is long continued, a breakdown is sooner or later inevitable. It may be averted for a time by allowing the currency to depreciate or by a rigorous control of imports and the artificial creation of an export surplus. But the first of these methods involves the danger of currency inflation, and the second, if widely practised, leads quickly to the drying-up of international trade.

155. The most startling feature of the recent depression has been, not so much the violent readjustments imposed upon the world by the falling price-level, severe and important as they have been, but the far-reaching breakdown of business confidence which they have entailed. One further consequence of this failure of confidence may be added. The widespread reluctance to employ savings in long-term investments has increased the accumulation of short-term funds which are liable to be shifted from country to country at any moment. Any fresh shock to confidence starts a sudden transfer of funds which imposes a strain upon the banking system against which no protective measures can be effective and which has in fact forced many countries off the gold standard. In so far as commercial banks endeavour to accumulate large cash reserves with their Central Banks, or Central Banks to accumulate large reserves in gold, they further depress prices and increase the dangers against which they are trying to guard themselves. There can be no solution of this difficulty until the excess of short-term money is reduced by a renewal of investment on the part of the general public ; but this will not come till a measure of confidence is restored.

156. This disinclination to invest is in itself a further contributory cause of falling prices. The result is that national incomes decline, profits disappear, the *entrepreneur's* incentive to take risks is weakened, and the world as a whole is poorer in real wealth produced. Resources remain unutilised, workmen are unemployed, machinery is idle, stocks accumulate, and enterprise fails.

The effects of a fall in prices are thus cumulative. At each stage new forces are brought into play which tend towards a further fall. At what stage these forces will be arrested will depend in part on the monetary policy pursued, but the success of that policy will depend on a variety of other factors, partly economic and partly political, many of which are discussed elsewhere in this Report.

157. A corrective to such a situation is the rate of interest. The decline in prices affects, not only the willingness to invest, but the demand for capital, and above all the willingness to borrow ; for the borrower, so long as that decline continues, will be faced by the necessity of repaying in a constantly increasing quantity of goods and services. Hence interest rates fall and a new set of forces is put into motion. On the one hand these lower rates may render possible conversion operations which will in part offset the effects in the distribution of income described above. The long-term loan contracts are terminated by repayment in full of the sums borrowed, and new contracts are entered into at cheaper rates. The receipts of the *rentiers* as a class are reduced and the income of others increased. On the other hand, this reduction in the cost of capital may induce those to borrow who had previously hesitated, and thus lead to a revival of demand for capital goods. Through the employment of those engaged upon the preparation of these goods the demand for consumption goods will in its turn be stimulated.

158. But when the fall in prices is severe, and when the economic disequilibrium which has contributed to that fall is serious, or enterprise is checked by political or other non-economic influences, these corrective forces may prove too weak to resist the impetus of the general movement. They have proved too weak during the course of the present depression, and the consequences of falling prices are now unfolding themselves before us.

159. These consequences arise largely from the earlier effects of the general movement upon the dispersion of prices. To such a general movement different classes of commodities respond with varying rapidity and in varying degrees. The prices of agricultural products generally tend to fall more rapidly and to a greater extent than do those of other classes of goods, and (largely in consequence) the prices of raw materials more rapidly than those of manufactured goods.

160. This fact leads to a reduction in the demand of the agriculturist for articles of consumption other than his own produce. As in the vast majority of countries of the world more than half the population is engaged directly or indirectly upon agricultural pursuits, the influence of this factor on other forms of production is very great. But its most significant effect is that which we have already alluded to in connection with the international repercussions of a fall in prices (paragraph 154).

161. At this point we desire to emphasise further the harmful effects of falling prices upon international trade.

The extent to which artificial methods of restricting imports by debtor States may ultimately curtail trade and thus defeat their own end must depend on the influence of such measures on the countries to which their debts are owed. The cessation of lending by creditor countries must affect the balance of payments and almost inevitably their balance of trade. The value of their export surplus must be diminished (or import surplus increased) to the extent to which their lending has been reduced. A fall in the prices of the products of their debtors must reduce the quantity of the goods they can export and increase relatively the quantity of the goods they purchase to the extent that that fall exceeds the decline in the goods they sell abroad themselves. If these tendencies are resisted and measures are adopted to stop imports, then world trade must contract and in the end the debtor must fail.

162. Quite apart from such artificial measures for restricting imports, however, falling prices under present-day conditions automatically tend to restrict trade by raising import duties. In the majority of States such duties are expressed as sums of money per unit of goods. When therefore the market price of the goods falls and the duties remain unchanged, the percentage of the total import price which these duties represent — that is, their *ad valorem* incidence — automatically increases and trade is impeded. The greater the fall in price the greater the obstruction to sale, and in consequence the less the possibility of the price-decline being arrested by increased demand. The impediment is automatic and undesigned.

163. But almost inevitably, as experience proves, there are added to it, when prices and economic activity are contracting, additional deliberate obstructions to trade in the form of increased rates of duty, quotas and exchange restrictions. Each country endeavours to protect itself against the repercussions of the depression, and in so doing intensifies them.

164. The world is experiencing to-day exactly this sequence of events that we have endeavoured to trace. A number of States have abandoned the gold standard ; others have

imposed restrictions on the purchase and sale of foreign exchange designed to restrict imports; others have failed to meet their obligations. The natural checks to the fall in prices have not come into play because the fall in the rate of interest which did take place failed to revive the spirit of enterprise or the confidence exhausted, not only by the direct effects of the fall in prices, but by political uncertainty and social unrest.

(c) *The Effects of a Rapid Rise in Prices.*

165. In the foregoing paragraphs we have attempted to trace the influence of a rapid increase in the purchasing power of gold — or a fall of prices. The broad effects of rising prices are the reverse of those described. The distribution of wealth is changed in such a way as to give those with fixed incomes a smaller share in the national dividend. The first and most obvious benefits accrue to the *entrepreneurs* who gain increased profits during the period when the prices of their products are rising, while many of their costs of production, particularly interest and wage-rates, lag for a time. The wage-earners also gain, at first by an increase and greater regularity of employment and later (if the rise in wages exceeds the rise in the cost of living) by higher wage-rates. The growth of profits acts as an incentive to industry and boom conditions of trade are sooner or later reached if the upward movement persists. Such conditions may in the end tend to upset the balance of production. Security speculation sets in as a result of the increasing profits of industry and this speculation encourages the undue expansion of existing enterprises and the promotion of new enterprises which later prove unsound. Security speculation may also encourage higher levels of consumption, particularly of luxury goods, as paper profits are spent. The demands to finance increased consumption, speculation and industrial expansion outrun the available savings. In the end monetary stringency develops, the progress of the boom is ended and prices decline sharply.

166. So long as the gold standard is maintained, a rise in the general level of prices generally takes place through the issue of credit to an amount greater than is needed for the expansion of industry and trade caused by the growth of population and the improvement of industrial efficiency. Such an over-expansion of credit tends to lead to a carelessness in enterprise, over-investment in certain lines of business, the granting of unproductive loans, and advances in the standard of living greater than those warranted by increased productivity and, in the end, to the sequence of events traced in the preceding paragraph.

It is not easy, in the complicated circumstances of modern economic life, to estimate exactly the amount of credit needed for healthy industrial growth, and since, as we have said, profits tend to increase in the first stages of a rise in the price-level, there are always strong influences working for cheap and expanding credit policies. But the seeds of the ills of a business depression are sown during the preceding periods of business activity and rising prices, and it is in those periods that corrective checks can be most effectually applied.

(d) *Influence of the Long-Term Trend.*

167. Concerning the disturbing results of violent short-term price-movements, there is but little division of opinion, though more importance may be attached to one phenomenon than to another. But on the other hand, opinion is by no means united concerning the influence of those long-term upward and downward movements called price-trends.

168. The change in the monetary equation which the trend reflects may be due on the commodities' side to a change in the volume of production caused either by a like change in the quantity of the factors of production (labour, capital, etc.) or by a change in the productivity of those factors. If it is due to the latter cause alone, then the movement of prices will have no influence at all on the distribution of wealth. Thus, if prices fall by an amount that is equal to the increase in the volume of production so that the value of the national dividend remains unchanged and there is no change in the factors of production, then the national income will be divided as heretofore ; wages will be unchanged ; but all classes of society will obtain rather more goods and services in exchange for their monetary income. In such circumstances there will be no significant change in the division of national income.

169. When the decline of prices is due to improvements in industry and agriculture which have lowered production costs, the decline in prices is, on the whole, beneficial, for it is in this way that the fruits of industrial and agricultural progress are made available to society as a whole. It is true that such lowering of prices may involve difficulties to those producers which for one reason or another do not improve their production methods, but this is inevitable and will not involve serious disequilibria, if prices are permitted to reflect the lowered production costs. It is only when the attempt is made to sustain prices in the face of decreasing production costs that disequilibria occur, for this encourages over-production and causes an accumulation of goods which results ultimately in a breakdown.

170. A long-term upward movement of prices tends to lighten the burden of debt and increase the share of the product of industry which goes to profits and wages. Since rising prices stimulate profits and are accompanied by active business conditions, they lead immediately to greater productivity. While they reduce the real value of fixed monetary claims and therefore affect the *rentier* adversely, restricting his savings and lowering the value of past investments — the total volume of production being greater and that part of it going to profits being increased even more than the total — the replacement of industrial capital is facilitated for a time. Nevertheless, it is an observed fact that the rate of interest, while lagging somewhat behind, follows changes in the price-level, whether they are long and gradual or relatively short and rapid. There comes a time when the savings of the community fall behind and the price necessary to hire them for investment rises to a point where further industrial expansion is checked and prices fall. If the forces causing the long-term upward trend — such for example as increased gold production — continue to operate, the trend may be resumed after such a temporary fall.

171. There is one further aspect of the phenomena of the long-term trends of prices to which we wish to refer. Although the primary effects of such trends may be slight and indeed almost imperceptible, the available evidence seems to point to the conclusion that a declining trend accentuates and prolongs any similar short-period movements that may happen to occur during the period of the trend. The cyclical fall in such circumstances is steeper and more prolonged, and recovery is slower and less complete. When the trend of prices is upward, on the other hand, the cyclical fall in prices is less marked and shorter, while recovery takes place quickly and the periods of active business and rising prices are longer. In other words, when the depression period of the cycle coincides with a downward trend, it is intensified; when it occurs in a rising trend, it is minimised.

XIII. The Present Level of Prices.

172. In the foregoing sections we have endeavoured to set out in analytical form the problems which we were appointed to consider; but we feel it incumbent upon us, in the concluding sections of our final Report, to review some of the practical proposals that have been made for future monetary policy.

173. The first problem that presents itself concerns the implications of the present level of prices, or of the lower levels which will be reached if the deflation of gold prices continues as it has done in recent months. The extent of this deflation may be judged from the following table:

INDEX NUMBERS OF WHOLESALE PRICES

(Average for 1928 = 100.)

	1928	Oct. 1929	Dec. 1929	Dec. 1930	Dec. 1931	Mar. 1932
France	100	95	93	79	65	67
Germany	100	98	96	84	74	71
Italy	100	96	93	75	66	66
Japan	100	95	91	71	67	[1]
Switzerland	100	98	96	81	71	68
United States	100	98	96	82	71	68

[1] Japan abandoned the gold standard in December 1931.

174. Our analysis of the effects of such a rapid fall in commodity prices (Section XII, *b*) has drawn attention to two main consequences which we desire to re-emphasise here. It is clear that such a fall involves the necessity of drastic and widespread readjustments of the whole price-structure, affecting not only commodity prices, but also the distribution of income and the rearrangement of production. These readjustments have been proceeding in different ways ; but it would be optimistic to assume that they have been completed even in the countries which have taken the most drastic measures of retrenchment and adjustment, and there have been marked differences between the countries of the world in this respect. Moreover, the continuance of the decline in prices involves fresh readjustments to each new level reached.

175. From the international point of view, the most serious aspect of this situation is the cumulative increase caused by a rapidly declining level of prices in the real burden of financial obligations which have been incurred in terms of gold at a time when the price-level was much higher than it is now. Both private and public debts are affected in this way. If prices remain at their present low levels, or fall to still lower levels, the burden of debt will in many cases become unbearable.

176. On the other hand, a rise from the present level of prices would make the payment of fixed charges considerably easier. The real burden of debts and other fixed money charges would be lessened. We regard such a rise of prices as desirable. We do not look, however, to monetary policy alone to adjust the price-level, which is influenced by many factors of a non-monetary character. But we recognise that monetary policy, expressed through the volume of credit, may, if the general situation permits, play a large part in determining the level of prices. Hence we feel that, where credit contraction for one reason or another has been carried to extremes, it is proper and, indeed, imperative for the Central Bank to take such action, as may be within its power, to check excessive contraction, and in some cases to take the initiative in encouraging a freer use of credit.

There is, of course, a danger that measures taken to expand credit may be undertaken prematurely, thus encouraging the belief that it is unnecessary to seek further correction of fundamental economic maladjustments. They may in some cases even lay the basis for a new expansion of credit which it may prove difficult to control.

That a rise in the price-level will take place when business confidence returns and industry revives is scarcely to be doubted. Meantime, it cannot be too strongly emphasised that, whatever remedial action is undertaken in the monetary sphere needs to be supplemented by evidence of progress in the settlement of such perplexing and disturbing problems as reparations, international debts, disarmament and trade restrictions. Until there is some clearing of the atmosphere of international distrust and a modification of the obstructions to international trade, it will be difficult for that restoration of confidence and improvement in business to take place which is necessary to restore prices and standards of living to more satisfactory levels.

XIV. The Desirability of Stabilisation.

177. When we pass from the problems of monetary policy in the immediate future to the more general problem of securing a measure of stability in the future course of prices, we enter a highly controversial field. There is a general agreement among almost all schools of economic thought as to the desirability of avoiding such violent fluctuations in prices as were experienced during the war and post-war inflation and during the deflation which set in so sharply after 1929. There is, however, disagreement concerning the causes of these fluctuations, and still more concerning the possibility of their control by monetary means. The whole problem is so clouded by lack of clear definition of what is meant by stability of purchasing power, or stabilisation of prices, that we have thought it necessary to preface our conclusions on this subject by a discussion of the main elements of this conception.

178. In this connection we refer again, in the first place, to the distinctions drawn briefly in Section XII between the different types of price-movements which may occur. In the second place, our whole study leads us to emphasise the complication of the price-structure in modern countries. Thirdly, the effects of the recent drastic fall in prices have rendered more obvious than ever the fact that violent price-movements involve serious disturbances in economic

relationships. It follows that any attempt to control or stabilise prices affects economic relationships, and, on the contrary, changes in these relationships must inevitably affect the price-system and any controls which are set up to stabilise it.

179. In the concluding sections of this Report we return to a consideration of the third of these factors of price-stability. Meantime, it is important to repeat here with some emphasis that, in endeavouring to lay down the principles of monetary policy and to define measures of action calculated to cope with disturbing fluctuations in purchasing power, much more is involved than constructive suggestions for monetary reform, difficult as they are. As we have endeavoured to emphasise throughout this Report, we hold the view that the correction and prevention of fluctuations in purchasing power must be sought in more enlightened economic policies generally as well as in the monetary sphere.

180. There is little need to prove in any detailed way the importance of the second consideration advanced in paragraph 178 regarding the complication of the modern price-structures. For instance, as we have shown in Section XII, fluctuations in the general level of prices have a very direct effect upon the distribution of income and, through it, upon production.

181. This consideration becomes more important when it is remembered that the productivity of the factors of production varies from time to time. We have examined the bearing of this fact upon proposals to stabilise the purchasing power of gold in paragraph 93 above.

182. We have commented above (Section VII) upon the difficulty of devising any single index-number which will measure the fluctuations of purchasing power as a whole. The measure which we have proposed to employ (paragraph 95) is an index-number of wholesale commodity prices in the country concerned. It is evident, however, that monetary measures which are successful in stabilising such an index will not necessarily stabilise either the distribution of income, the important series of prices which are not included in the calculation of the index-number, or the relative prices of those commodities which are included.

183. These illustrations serve to raise immediately a fundamental question upon which there is much disagreement. Changes in the purchasing power of gold may originate on either side of the price-equation, from changes in the demand for money or in its supply. There is general agreement that price-disturbances due to monetary factors should be avoided. There are some who would go farther and use monetary policy as an instrument to correct fluctuations in the general level of prices, however they arise. But there are others who consider it neither possible nor desirable, by the application of monetary policy, to correct fluctuations in the price-level due to non-monetary causes. The majority of the Delegation holds the latter view.

184. This consideration leads us back to the first problem raised in paragraph 178 — the distinction between different types of price-movement. In this connection we desire to emphasise mainly the distinction between the long-term trend and the shorter-term cyclical fluctuations. We consider it highly desirable that monetary policy should be directed to an avoidance of violent fluctuations in purchasing power. We devote the next section (XV) to a consideration of certain aspects of the long-term trend ; but we desire first to examine the desirability of measures being taken to reduce the range of the shorter-term cyclical fluctuations of prices.

185. While we attach the utmost importance to every effort being made to attain this object ; while we are firmly convinced that the wide fluctuations in prices and the recurrence of periods of economic depression constitute the greatest threat to the whole economic organism to-day, we desire at the same time to emphasise (1) that we do not consider it possible to avoid all oscillations in the general level of prices and (2) that we are fully aware that even that measure of stability, which we would all wish to achieve, cannot be secured by monetary policy alone. We do not envisage, as an objective, complete stability of any group of aggregate prices ; we do not envisage identical movements in all countries or in all groups of commodities. Identity of movement between, for instance, the prices of intermediate products and those of consumption goods is incompatible with the growth of efficiency. Complete stabilisation and identity of group movements are, indeed, impossible in a dynamic society, and society must either develop or decay.

186. The stability of the price-level which we envisage as being practically possible is a relative, but not an absolute, stability of wholesale commodity prices as measured by their

movement over a long series of years. We do not conceive it as possible to eliminate short-term fluctuations of the price-level, but we believe that these shorter-term fluctuations would be appreciably reduced in severity if the longer-term trend were relatively stable. Nor do we conceive the possible measure of stability as inconsistent with slow movements of the long-term trend either upward or downward. What it is desirable to avoid, as far as possible, are such violent price-fluctuations as the world has recently witnessed. Such a measure of stability, however, can, in our judgment, be achieved only by the development of a flexible monetary and general economic policy which would allow the play of economic forces to bring about minor short-term fluctuations in individual prices and the average level of prices.

187. We consider that monetary policy designed to avoid violent fluctuations of purchasing power should be based upon a variety of considerations which we mention later (paragraph 196), interpreted by the judgment of central bankers and expressed in national policies arrived at after due consideration and co-operative consultation concerning their international repercussions. Movements of the index-numbers of wholesale prices should be used, not as a single determinant criterion of immediate policy, but as one among many factors to be taken into consideration.

The relative stability of these index-numbers of wholesale commodity prices over a term of years will, however, provide a test of the success of the policies that have been pursued.

For this purpose, we consider that the price-quotations to be employed should relate to wholesale transactions in primary or intermediate products. There is a further practical consideration which reinforces our conclusion. We are dealing with an international, not a national, problem. We have to consider the changes in the purchasing power, not of this or that national currency, but of the aggregate of the currencies based on gold. Purchasing power so considered can in practice be correlated only to goods which have a world market, and further, for obvious technical reasons, to goods which are easily defined and identified.

188. This final consideration goes far also to determine the instrument of measure. There are in fact — given existing conditions — only two alternatives : the one is to employ an international index, the other to employ one (or more) national indices relating to the country (or countries) which naturally exercise a determinant influence on world prices. In both cases the indices would require to relate to a carefully selected but adequate list of primary or intermediate products with a world market, and the price-quotations to be taken free of import duty.

189. Were an international index to be employed, it would have to be composed of an adequate list of crude products — such, for instance, as that used by the League of Nations for its index of production — and weighted in accordance with the approximate relative importance of each commodity in international trade. Prices would be quoted either at port of shipment or at the main world market for each staple. In either case, adjustments on account of changes in freight rates might be required.

190. Such an index would, of course, measure accurately the purchasing power of no single currency ; it would reflect in a haphazard fashion changes in movements of currencies within the gold points, though, if the quotations were widely enough spread, such variations might be expected to cancel each other out. But, in spite of its conventional character, such an index would, it is believed, in practice reflect adequately the general tendencies both of the trend and of cyclical movements in prices.

191. Were national indices to be employed as tests of international policy, they should be confined to the two or three most important capital markets, should be compiled on principles and composed of elements as identical as possible, though the weights (if weights are employed) should of course be determined by the relative importance of each commodity to the economy of the country in question.

192. None of these indices that we suggest are free from objection. None of them will prove to be perfectly reliable or nice instruments of measure. The national indices will be found to vary within fairly wide limits one from another, and all or any of them may fail to reflect the working of the underlying forces of the economic system until it is too late for adequate action to be taken. Thus the Bureau of Labour Statistics index of wholesale prices in the United States of America actually rose slightly between January or June 1929, and September, and afforded no evidence of the collapse that was imminent. It has been shown that, in the period

1903 to 1914, ten other economic indices reflected the general tendencies of business before the index of wholesale prices was influenced. Further, the evidence available seems to point to the conclusion that the prices of relatively few commodities conform closely to the real changes in business activity. To these facts we attach particular importance.

193. We have suggested that the criterion of monetary and economic policies should be their success over a period of years in maintaining the average level of wholesale prices of important international commodities relatively stable. But this does not mean that wholesale price index-numbers should be used as a sole means of determining when action should be taken to correct economic and monetary maladjustments. On the contrary, we show below that other and more sensitive indicators should be used. As we have already suggested, for action to be effective it must be taken in time. To check a fall in prices after that fall has set in is, we believe, very much more difficult than to prevent it developing. It is obvious therefore that, to be effective, monetary policy must rely upon other guides than those which, after the event, may be used as a test of its success.

194. We are concerned, as we have said, with an international problem and international phenomena. But those international phenomena are the outcome of a complex of national phenomena. It is necessary not only to maintain the various national price-levels in equilibrium with one another, but also to take account of the domestic economic situations affecting the various national price-levels. Any policy designed to maintain the world price-structure in equilibrium, therefore, must necessarily be of a dual character. Those responsible for monetary policy in each country must take account both of domestic and of international considerations, and these may not be easily reconcilable. It is for this reason that we attach particular importance to the development of methods of continuous consultation and co-operative effort to maintain the international equilibrium without sacrificing national interests.

195. In considering monetary policy from the national point of view, the primary index should, in our opinion, be the historic index of the gold reserve. We consider that in recent years too little attention has been paid by monetary authorities to changes in their reserves — to the net imports and exports of gold. There has been, on the one hand, an endeavour to offset gold movements, on the other a belief that, whatever the circumstances, gold movements will produce automatically the necessary effects. Measures to counteract the influence of the movements of gold, though, as we pointed out in our second Interim Report, they may be desirable in exceptional circumstances, are and should be recognised to be fundamentally in contradiction with the gold-standard system. On the other hand, while it may be true that gold movements, if not counteracted, always create their own correctives sooner or later, the rapidity with which the natural reactions take place may vary so widely from country to country as to render some stimulus (not check) to them indispensable.

The first indicator for national policy should therefore, in our opinion, be the gold reserves and the gold movements, and policy should, apart from quite exceptional circumstances, be directed to accelerating the effects which such movements create.

196. With reference to the other indices which should be taken as a guide to monetary policy, varying opinions, in our present state of knowledge, are likely to be held. They are all those indices which reflect business activity — the market rates of discount, the yield of bonds, the prices of different classes of shares, the value of building permits, the debits to individual deposit accounts, the production of various primary products, the international movements of capital, etc. The significance of these will vary from country to country and from epoch to epoch. No set rules for their interpretation can be laid down.

197. The problem of maintaining international equilibrium between the various national price-systems is more difficult. Day-to-day policy is primarily a national problem; but it must be fitted to the general lines of policy designed to check the violent fluctuations of purchasing power by appropriate action taken after international consultation. In the present state of knowledge concerning the causes of cyclical price-movements, it is not easy to discern the early manifestations of conditions leading either to boom or to depression. Action must be based on a common interpretation of all those manifold signs of the times to which we have referred in the preceding paragraph. Obviously, this joint act of judgment presents, and will present, very real difficulties. On the other hand, major booms and depressions never recur at very close

intervals. When business has been active without serious interruption for two or three years, special care and attention should be paid to all signs of disequilibrium arising. As we have already stated, action, to be effective, must be taken in time, and it must be action based on international understanding and co-operation.

198. The normal action will be by alteration of the official discount rate supplemented, in certain cases, by open-market operations. We have already (paragraph 16) traced the processes by which alterations in the discount rate tend to influence market rates of interest, and therefore the volume of credit and ultimately the movement of prices.

199. Such action, however, demands the most carefully planned and closest co-operation between Central Banks. It is necessary for each to consider the object of the whole concerted policy and the relationship of the domestic situation of each country to the world tendencies.

200. In certain countries it is the practice of central banking authorities to supplement discount policy by open-market operations. By this term is understood the direct purchase or sale of bills or securities on the market by the Central Bank with a view to increasing or decreasing the volume of credit. The essential difference between this system and that of raising and lowering the discount rate is, therefore, that in the one case a direct influence on supply is exercised, in the other an indirect influence via price. In both cases the tendency will be to modify the ultimate price of credit to industry and commerce — namely, the market rates.

201. Open-market operations may render a real aid to central banking authorities when, for one reason or another, difficulties arise in making the official discount rate effective. They should, in our opinion, be looked upon as a supplementary, not alternative, lever. They should be employed rather to intensify than to deaden the semi-automatic influence of gold movements.

202. While we attach considerable importance to the last point, we are aware that special circumstances may occur in which counteracting open-market operations may be advisable. Temporary disequilibria may arise through causes over which the country mainly affected has itself no direct control, such, for instance, as a failure of crops or financial difficulties in one of its main export markets. They can be met by temporary gold movements or by the provision of short-term credits. In such cases, if equilibrium existed before these temporary causes made themselves felt and the movement of gold is allowed to affect the general level of values in either the losing or the recipient country, it may be found, after these special causes have ceased to operate, that owing to that change in values a more permanent and serious form of disequilibrium has been caused and that a complete reversal of policy is required.

203. Action taken to influence the volume of credit is facilitated by the fact that great power is vested in the relatively few large exporters of capital. As in each national banking system power is largely concentrated in the Central Bank, so in the international system it lies with those who can furnish the funds required by others. In consequence, Central Banks in dependent money markets may be unable to make their rates really effective. The credit furnished to domestic industry in such markets may be less influenced by the official rate at home than by market rates abroad.

A special responsibility rests therefore upon the monetary authorities of the great creditor countries. It may become necessary at times for the Central Banks in such countries to exercise a direct pressure and suasion upon the commercial banks and issuing houses, in order to discourage excessive or injudicious loan transactions. The experience of recent years has shown but too clearly how real is the danger of ill-considered international credit operations.

204. But, if Central Banks are to bring direct pressure to bear, they must be enabled to follow closely the operations of the market. We have already drawn attention (paragraph 26) to the fact that in recent years many Central Banks were not in possession of full information concerning the possible demands that might be made upon their reserves. The maintenance of currency stability is the chief responsibility of these institutions ; but the effective discharge of that responsibility necessitates power to obtain from the market all the information necessary to enable them to take timely decisions as to policy. We attach particular importance to this point. The powers of action entrusted to the Central Banks in most countries are adequate, provided they can obtain the necessary information on which to act. Where they are not adequate, they should be strengthened ; but in any case the Central Banks should be enabled, by the voluntary

co-operation of the market, or, if necessary, empowered by legislation, to secure all the information deemed necessary for the discharge of their responsibility in respect of currency stability.

205. While borrowing countries must thus watch and control the volume of their borrowings and assure that the funds obtained are devoted to productive purposes, it is necessary for lending countries to assure that foreign lending does not exceed or fall short of their net active balance on income account. For this purpose, in normal circumstances, the use of the discount rate, reinforced if need be by open-market operations, should prove adequate. But the willingness of the public to invest abroad may be affected by events wholly outside the control of monetary authorities, such, for instance, as the threat of political trouble. In certain countries, also, the machinery for foreign lending is insufficiently developed. Lending must not be impeded by artificial restrictions, such as discriminatory rates of taxation. We believe that any measures designed to improve the mechanism for the issue of foreign loans, or to promote international transactions in existing securities, would contribute to the smooth working of the gold standard, granted the powers of Central Banks to control temporary disequilibria are adequate. We have in mind such measures as the improvement of facilities for foreign investments, the quotation of foreign securities on national Stock Exchanges, the equalisation of taxes on domestic and foreign investments. We also attach particular importance to the discussions now taking place with a view to the solution of the problem of double taxation. The high rates of taxation in certain countries constitute an insuperable barrier to capital movements in cases when, owing to the absence of any international understandings, the owner of foreign securities is liable to be taxed twice on his holdings. We realise, however, that all these various measures designed to facilitate long-term lending and the international purchase and sale of securities will require time for their perfection.

206. Whatever the system finally evolved or created may be, the closest co-operation between central banking authorities will prove to be necessary for any concerted effort to lessen price-fluctuations. A condition of the success of such co-operation is the simultaneous application by Governments of commercial policies compatible with an international monetary system.

XV. The Use of Gold in the Monetary System.

207. For the reasons given in Sections VIII-X, we believe that, when recovery from the present depression sets in and a substantial rise of prices occurs, an intensified demand for gold is a possibility to be reckoned with.

208. We therefore consider, in the following paragraphs, a variety of measures which have been suggested for economising the use of monetary gold. We do so, not only because we consider a possible future shortage of gold-supplies as a contingency to be reckoned with, but also because, in our judgment, the general drift of these measures is to render the monetary system more flexible, and therefore more capable of achieving that measure of monetary stability which we have defined in Section XIV.

(a) *The Maintenance of Gold Reserves.*

209. In our first Interim Report we drew attention to a number of means by which the use of gold could with advantage be economised, and suggested, *inter alia*, that the legal stipulations concerning the minimum gold cover required for notes and sight liabilities of Central Banks might be reduced without in any way weakening the general credit structure. Since writing that Report the situation has changed; a number of countries have provisionally abandoned the gold standard; others are enforcing it in a restricted and partial manner only; substantial legislative changes will be required before it is once more revived as an active and effective system.

210. We have already drawn attention (paragraph 29) to the effect of recent banking legislation in raising and making more rigid the reserve requirements of many Central Banks. Under the system most generally in force to-day, many of them are compelled, either absolutely or subject to certain penalties, to keep a minimum ratio between their reserves in gold (or gold

and foreign assets) and their obligations at sight. In practice such banks must always, even in normal times, keep more gold than the minimum ratio demands, for they are under an obligation to sell gold or foreign exchange to any person offering notes (to a certain minimum amount) in exchange. If they kept no margin above the minimum ratio, they would be forced to break the law (or suffer its penalties) on the first occasion that such an offer was made.

The introduction of a so-called elastic clause into the law renders it permissible for the Central Bank to let the reserve fall below the defined ratio, on condition that a tax is paid to the Government and, in many cases, the official rate of discount is raised.

The effect of this whole system in recent years has, in our opinion, been to impose too rigid restrictions upon Central Bank policy. Even when an elastic clause exists (and we consider such clauses desirable), in practice the effect on public confidence of allowing the reserve ratio to drop below the legal (elastic) minimum is liable to be so grave as to defeat the object of the law.

211. In our opinion, this whole system of defined ratios has proved itself in the light of the special circumstances of post-war years to be too rigid and inadaptable. Now that gold coin is in circulation only in a very few countries and an internal drain cannot take place (except in moments of violent panic for hoarding as bullion), the reserves are primarily required to meet possible deficits in the balance of payments. Each country in determining the gold reserve required should therefore consider in the first instance what the range of movement in its balance of payments is likely to be.

In this consideration regard should be had to the circumstances likely in each case to cause sudden and large alterations in the balance of payments. Agricultural countries must provide against the risk of crop failure or a fall in the prices of their products. Those countries where foreign banks are in the habit of keeping large liquid assets, or where there exists the possibility of large withdrawals of capital or sales of bonds and other securities, will require and should maintain a reserve adequate to meet an eventual withdrawal of these assets. Debtor countries will normally require larger relative reserves than creditor countries which, by calling in their short-term loans or merely by a cessation of lending, can improve their balance of payments. On the other hand, countries which, while creditors on balance, may temporarily be placed in the position of debtors on short term should provide against this contingency.

212. We are of opinion that it would be advantageous, as we argued in our first Interim Report, to reduce the reserve ratios from their present high levels. If this were done, the immediate effect would be to free the hands of the Central Banks by enlarging the free margin of their gold reserves which they can use for international payments without endangering the legal minimum ratio. The total of the notes and other sight liabilities of Central Banks and similar institutions (apart from those in the Union of Soviet Socialist Republics) amounted at the end of 1930 to about $22,450 million, their gold reserves to $10,780 million and their legal minimum gold requirements to $7,760 million[1], or some 35 per cent of their sight obligations. The amount of free gold above the legal minimum requirements thus aggregated over $3,000 million[2]. If, however, these minimum gold requirements were lowered so as to correspond to an average ratio of, say, 25 per cent of total sight obligations, the amount of free gold available for international payments would have aggregated about $5,170 million at the end of 1930 or about $5,350 million at the end of 1931. If the average ratio had been 20 per cent, the corresponding figures would have been about $6,310 million at the end of 1930 or about $6,480 million at the end of 1931.

In our opinion, the lowering of the minimum reserve ratio could and should be accomplished in such a way as not to endanger the liquidity of the Central Banks.

213. We have considered the suggestion that the system of legal minimum reserve ratios should be wholly abolished ; but we do not consider it either practical or advisable. We consider that the reduction which we advocate in the preceding paragraph would give the Central Banks adequate freedom and flexibility in their conduct of credit policy. As we pointed out above,

[1] In the case of the Central Banks which may, under the terms of their national currency legislation, hold the whole of their minimum cover reserve in the form of assets other than gold, it has been assumed in calculating the above figure that the amount of gold actually held by them corresponded to their legal gold requirements.

[2] About $2,600 million (at the end of 1931, almost $2,800 million), if legal minimum reserves were to be held exclusively in the form of gold.

in paragraph 209, substantial legislative changes will now be required in any case before the gold standard is once more restored as an effective system, and we consider that advantage should be taken of this opportunity to reduce the legal minimum reserve ratios required of the Central Banks. Such a reduction should, however, be accomplished more or less simultaneously by prior international agreement among at least the principal countries concerned.

214. Our main reason for rejecting the proposal to abolish the system altogether is that it would, in our opinion, have an undesirable effect upon public confidence in many countries. Moreover, we feel that it would leave both the Central Bank authorities and the public without any guidance as to the conduct of reserve policy. The responsibility that would thus be placed upon the Central Banks is heavy and it is probable that the effect would be to lead those banks to accumulate larger rather than smaller reserves and to use them with less rather than greater freedom. The possibility of governmental or popular pressure upon the Central Banks would also be greatly increased if the latter were not able to rely upon the statutory provisions fixing a minimum ratio below, which they should not allow their reserves to fall.

(b) *The Future of the Gold Exchange Standard.*

215. The essential principle of the gold-exchange standard is, and always has been, that the domestic currency, whether notes or coins, is convertible not — or not only — into gold but into a foreign gold-standard currency (or currencies). It has undergone considerable changes since the war, certain of which were discussed in our second Interim Report. In the period immediately preceding the stabilisation of currencies and the return to the gold standard, especially at the Genoa Conference (1922) the use of methods similar to those which had been worked out in the gold-exchange standard countries was strongly advocated as a measure of economy in the use of gold. The distribution of the world's gold reserves was very uneven and a shortage of gold for monetary purposes resulting in a disturbing scramble for gold reserves was anticipated.

216. The adoption of these new methods took the form in certain countries of new legislation permitting a proportion of the legal reserves of some Central Banks to be held in foreign exchange assets. In addition, there has in recent years been a remarkable extension of the practice by countries not actually on the gold-exchange standard of holding short-term balances in foreign countries. These liquid funds were held by Central and commercial banks and treasuries in such a form that they could readily be shifted from country to country. The existence of such large balances held on foreign account, and liable to be shifted quickly, has been a prime factor in the monetary instability of the post-war period. It is apparent that the world is here confronted with a phenomenon that is new at least in the scale of its operation.

217. It is important to observe that such foreign assets, whether held by countries on the gold-exchange standard, or by countries on the gold standard, were deposited either in Central Banks or in commercial banks forming part of another national currency system. There was no international co-ordination of the practice. There was indeed, as we have pointed out (paragraph 204) insufficient national co-ordination in many cases, so that a Central Bank might not be aware of the full extent of its obligation to furnish gold for export.

218. There were many criticisms of these developments even before Great Britain abandoned the gold standard. Attention was drawn to the danger of making the convertibility of one national currency dependent on the stability of another in which the Central Bank held large foreign assets. From the opposite point of view the vulnerability of certain currencies was increased by the fact that large foreign balances might be withdrawn at any moment. The reality of both these dangers became fully apparent when Great Britain abandoned the gold standard in September 1931.

219. Another serious criticism of the gold-exchange standard methods has been that they facilitated inflation by allowing more than one country to build a superstructure of credit upon the same gold reserve. To the extent that the country in which foreign balances were accumulated kept a higher gold reserve than it would otherwise have done on account of the risk of withdrawal, such inflation was of course avoided.

220. The real point of criticism, in our judgment, is not that the gold-exchange standard (and practices based upon it) achieved in some measure the economy in the use of monetary gold which was one of their avowed purposes, but that in recent experience they have hampered the working of the gold standard. In addition to the inflationary tendencies previously mentioned, such large amounts of short-term foreign balances as were actually built up just before the recent depression created a situation of dangerous currency, instability, since these balances were transferred rapidly from one financial centre to another.

221. We do not, however, regard this development as inherent in the gold-exchange standard, as it was practised, for example, by many countries before the war. We regard the gold-exchange standard in this form as a useful system for many countries, for whom it still remains the most economical and efficient monetary mechanism available.

It is obvious that recent events and particularly the depreciation of sterling upon which so many gold-exchange standard systems were based have entailed heavy losses upon many countries. Such of those countries as are in a position to do so will make every effort to avoid further losses and it is probable that the gold-exchange standard will in the future be much more restricted than it was in the years before 1931. But it still offers the cheapest, and in some cases almost the only, method by which countries which are unable themselves to afford the heavy expense of a gold-standard system, may yet participate in the advantages of stable exchanges which such a system will again offer, if and when it is restored. It is inevitable that those countries which choose, or are forced by circumstances, to retain, or readopt a gold-exchange standard for the regulation of their currency will endeavour so to organise it as to minimise the possibility of once again being faced with heavy losses.

Two possibilities have been suggested. The first is that such countries will choose carefully among the principal financial centres those which offer the greatest promise of future stability. The other is that an endeavour should be made to spread the risks of losses by utilising such an international institution as the Bank for International Settlements as the agency through which the system shall be administered. In the latter case, the reserve assets of the gold-exchange standard country would be deposited with the International Bank which would in turn spread its deposits among its constituent Central Banks.

(c) *Other Methods of economising Gold.*

222. The reduction of the percentage reserve ratios which we have recommended above may or may not suffice alone as a means for economising the use of gold. Its adequacy will depend on the magnitude of the absolute reserves which countries will consider it necessary to keep, upon the conditions under which certain countries return to the gold standard, and upon the readiness which those that have *de facto* ceased to operate the gold-exchange standard show to revive it in its old form.

223. There are a number of other methods of economising gold to which we made reference in our first Interim Report. They may be summarised as follows :

(*a*) That in all countries where gold is in active circulation or kept in the vaults of commercial banks, it could be withdrawn into the reserves of the Central Banks and replaced by notes.

(*b*) That in all countries in which banknotes of small denominations are in circulation, these small notes should be withdrawn and replaced by subsidiary coin. The employment of such notes is in the main the accidental result of inflation in certain countries. Notes which were originally of relatively high value have been allowed to continue in circulation after their value diminished. The result has been to increase the strain on gold reserves and, since a gold backing to such notes is required, the cost of subsidiary currency to the community as a whole.

(*c*) That in countries in which notes are largely used for payments of taxes and salaries, large retail transactions, the transference of money from place to place, etc., the use of cheques, post office banking facilities, transfers, mechanism for clearings, etc., should be developed. Much could be done directly by Governments and municipal authorities in this connection without legislative action, were they to set the example of accepting cheques whether drawn on commercial banks or on post office savings banks in payment for taxes, public utility services, etc.

224. We consider that the measures enumerated in the preceding paragraph 223 are in themselves desirable. They are not, however, likely to bring about any immediate and considerable economy in the use of gold. For that purpose the solution mentioned in paragraph 212 would be required. We do not consider that this solution could be successfully applied unless it was agreed upon by at least a considerable proportion of the interested countries.

XVI. The Necessity for International Economic Co-operation.

225. In the preceding paragraphs we have been concerned with the objectives of monetary policy as we see them, with the guides to that policy that may be employed and with the powers with which those responsible for policy are or may be endowed. But the extent to which the measures adopted are likely to prove effective will depend, not only on their appropriateness, but on a large number of factors of a non-monetary order. Cheap money policies pursued by powerful financial countries may, in certain circumstances, increase both the volume and the velocity of circulation of money and therefore raise the price-level. They may further, by stimulating the issue of foreign loans, as well as by the influence on their own domestic price-level, transfer credit resources from one country to another and so raise price-levels throughout the world. But money is employed in the exchange of goods and services and, if either the flow of those goods and services is itself impeded or if prices of some special classes of goods are artificially controlled, then the best conceived and most strongly supported monetary policy may fail. Thus, if countries with large claims on others place obstructions to the payment of those claims in goods, and, on the other hand, make further loans to their debtors to enable them to pay their interest obligations, and even to expand their consumption of imports from the creditor countries, they will in the long run create such a condition of instability that a breakdown of the price-structure becomes inevitable ; for the borrowing countries use the new loans only partly to increase industrial productivity (for which, however, it is difficult to find markets). Some part of the loans goes into wasteful and unproductive uses and some into maintaining relatively high standards of living. Meantime, the interest burden mounts cumulatively and faster than either the productivity of the borrowers or their capacity to transfer payment by means of an export surplus. Thus inevitably a disequilibrium is created which may prove too persistent for any monetary policy to resist. Moreover, the search for means of payment may lead to an export of gold from the debtor countries which cripples their banking structure and nullifies international effort to avert depression.

226. Similarly, if in any country one set of prices, such for instance as wages, proves resistant to those changes which are an indispensable condition of all progress, monetary policy may be stultified. If again in any country the burden of fixed charges is so great that small price-changes involve very considerable changes in the distribution of the national income, forces may be loosened which monetary policy is unable to check.

227. If measures are to be sought in the domain of monetary policy designed to lessen the amplitude of the periodic fluctuations in business activity, they must be accompanied by appropriate measures of general economic policy. The trade cycle is to-day an international phenomenon. Countries cannot hope to escape its effects by self-isolation. They can only hope collectively to lessen them. To this end they must permit an adequate freedom in the flow, not of credit alone, but of goods. In our opinion it is imperative that the restrictive commercial policies adopted by Governments to-day should be radically changed. Adherence to an international monetary standard at once implies and necessitates adherence to an international economic system. To impose artificial restrictions on the movement of goods is the negation of such a system.

228. The efficacy of monetary policy will depend, however, not only on Government action in other fields of economic activity, but also on the varying sentiment of the general

public. Thus, to take a single example, the even flow of capital exports cannot be guaranteed by monetary policy alone. Conditions may and do arise under which the willingness of the public to venture their savings abroad undergo sudden — frequently inconsequent — changes. The public estimate of the risk element may be such that it cannot be influenced by the relatively narrow variations in rates that may be enforced by banking policy.

229. We are impressed by both the responsibilities and the difficulties of those in control of monetary policy. The guides to policy at their disposal are uncertain and inadequate. The assessment of the relative importance of the various factors at play demands exceptional powers of insight and judgment. The most accurate forecast may be nullified by accidental, physical or political events. The measure of purchasing power is a rough and insensitive mechanism which can be relied upon neither to function with precision nor to function at all without repair. Action appropriate for the more important issues demands the closest co-operation, goodwill and mutual understanding, and it often seems to demand some measure of immediate national sacrifice for a common ultimate benefit.

230. We emphasise these facts, because we consider that measures should be adopted, not only with a view to lessening the degree of variation in the purchasing power of gold, but to making the whole economic and financial system more adaptable to such fluctuations, if and when they recur. As we have pointed out in Section XII, one of the main causes of the disastrous effects of falling prices lies in the automatic increase in the burden of debt. A weakness of the financial system in many countries to-day is to be found in the excess of debts at fixed interest — whether governmental or private, short or long. The difficulties imposed upon industry are increased during periods of falling prices, if industry has been financed by the incurrence of debt rather than by the placing of shares.

231. We conclude our survey of monetary problems, therefore, by emphasising once more the dependence of monetary upon general economic policy. It is evident that there is need for measures, both monetary and non-monetary, which will render the economic organisation more flexible. We attach the greatest importance to the consideration, not only of steps to solve the present crisis, but also of more permanent measures to improve the banking and currency organisation of the world, and equally its trading and productive systems.

232. We are deeply conscious, however, that such improvements depend largely upon the restoration of international confidence and goodwill. There can never be any hope of establishing a monetary system that will function smoothly and efficiently in the promotion of economic co-operation between the nations until the nations are prepared to co-operate. The fundamental necessity for the creation of a more effective international monetary system is the re-establishment, not so much of the technical processes of monetary interchange, as of the willingness to use these processes. The working of an international monetary system such as the gold standard presupposes the interdependence of nations. If, however, political conditions are such that nations hesitate to commit themselves to too great interdependence one upon the other, but impose rigid restrictions upon international trade in their effort to attain economic self-sufficiency, there will be little scope for any international monetary mechanism. We do not desire to enter into the political aspects of this problem; but we do desire to record our conviction that, without some measure of political settlement leading to renewed confidence in international economic and financial relations, there can be no secure basis for the restoration and improvement of world trade and finance.

Addendum I.

NOTE.

By Professor M. J. Bonn.

The presentation of a quasi-unanimous report by the Delegation, the members of which disagree on some fundamental questions necessarily, involves a certain amount of verbal concessions, which may lead to misunderstandings, as did some statements in our First Interim Report. For that reason, I should have preferred separate reports expressing the views of the majority and of the minority.

As I have stated my opinions in a memorandum on " The Effect of the Fluctuations in the Purchasing Power of Gold on the Economic Life of Nations ", written for the Delegation by Dr. Tismer and myself, I need not safeguard myself by the enumeration of such points where I would have preferred greater outspokenness to avoid possible misunderstandings.

I desire, however, to dissociate myself from the conclusions drawn from the reproduction of the diagram in Section 105. The parallelism between gold supply and price movements which it suggests might furnish an interesting starting-point for a detailed enquiry into the causes which have brought it about. In the absence of such an enquiry, a mere formal juxtaposition cannot be taken as an explanation.

There is, moreover, one point on which I must express a definite dissociation here. In paragraph 81 of the Report, the phrase occurs " Although we are not of the opinion that this problem [the problem of reparation payments and war debts] is the main cause of the difficulties with which the world is now faced . . . " ; I could only subscribe to this phrase if the word " main " were altered to " only ".

Addendum II.

NOTE.

By M. G. B. Roberts.

I am in general agreement with the discussion and conclusions set forth in the report. I have, however, several observations to make :

Notwithstanding the qualifications given in the text, there is still, in my opinion, a certain degree of over-emphasis upon the importance of wholesale commodity prices used as either (1) a measure of the purchasing power of gold, or (2) as a test of the success of monetary policy. It will be admitted that, in considering the price structure, particularly for purposes of international comparisons, a wholesale commodity price index will probably prove most useful, but it should not be overlooked that the price structure is composed also of many elements not included in such an index. This is brought out in various paragraphs of the report, but it has to be borne constantly in mind, else there is danger that the conception of prices will prove to be unreal and lead to errors of monetary policy. Clearly in 1928 and 1929, for example, the Federal Reserve Banks had to give consideration to security price movements and the condition of inflation existing in real estate in the United States, and any monetary policy directed solely to the maintenance of the stability of prices of wholesale goods during this period would have failed to meet the requirements of the situation.

My acceptance of the proposition stated in paragraph 200 that " the relative stability of these index numbers of wholesale commodity prices over a term of years will, however, provide a test of the success of the policies that have been pursued " would depend upon the meaning of the words " term of years ". The fact that there was relative stability in wholesale prices in the period 1925 to 1929 would hardly justify the claim that monetary policy during that period was free from criticism. The success of that policy must be judged also in the light of what happened after 1929.

In paragraph 125, I question the use of the figure $3 milliards as suggesting possible maximum demands in additional gold resulting from the abandonment of the gold-exchange standard. Of this total, the amount of foreign balances held by countries on the gold-exchange standard is calculated at approximately $1 ½ milliards. It is only with these latter countries, where the foreign exchange has been counted part of their necessary basic reserves (thus enabling the same gold to serve as a basis of credit in two countries), that the abandonment of the gold-exchange standard necessarily leads to additional demand for gold. It is true that withdrawal and conversion of foreign assets into gold by countries not on the gold-exchange standard may involve large and disturbing movements of gold, but, since this gold has not done double duty as a basis of credit, the problem is quite different and involves rather the question of the maldistribution of existing gold stocks than that of providing for a sudden shrinkage in the credit base such as is involved in the reversion from the gold-exchange standard to the pure gold standard.

Addendum III.

NOTE.

By Mr. Guido Jung.

I wish to emphasise that with a view to arriving at a unanimous report a certain amount of mutual concessions has been necessary.

I must point out that neither the first nor the second interim reports have been signed by my predecessor in the Gold delegation, Professor Alberto Beneduce, who resigned after the first session of the Delegation.

I participated for the first time in the work of the Delegation in January 1932 and my line of thought is summarized in my letter dated 8th of January to the Chairman of the Gold Delegation, in which I wrote :

> " I consider that present conditions are quite different from those specifically mentioned in the report of the Financial Committee of May 1928, on the basis of which we were given our terms of reference, and I do believe that conditions then existing were the pre-requisites of such terms of reference. Whilst therefore even at that stage political and economic factors had in my opinion a predominant importance, still the monetary problems which were specifically referred to us could appear of immediate interest, whilst they may seem purely academic in the light of the present situation.
>
> " I do believe that it was not the intention of the Financial Committee that we should report on the political and economic causes of a crisis which broke out long after we were given our terms of reference. But on the other hand, in my opinion, it would be disastrous to the reconstruction of the world if in a report of ours we were to give to the people at large the impression that there exists a monetary witchcraft, which can, by its own force, work miracles and avoid the necessity of facing firmly and solving the political and economic problems, which have brought the world to its present conditions."

If we are to discuss on a political and economic plan and not confine ourselves to monetary policy which my colleagues of the minority have considered as all powerful all through the discussions in which I participated, I would like, as my own opinion, to state the pre requisites of a restoration of the world's economic well being in a much more definite form.

I would say that :

in order to overcome the world crisis, which by now has more political and ethical than economic aspects it is necessary :

(1) To solve the reparations and interallied debts problems by wiping out reparations and cancelling debts ;

(2) To suppress restrictions upon international trade exchanges before such restrictions strangle the trade of all countries.

NOTE OF DISSENT.

By M. Albert JANSSEN, Sir Reginald MANT and Sir Henry STRAKOSCH.

While signing this report, we desire to make it clear that there are certain fundamental issues on which we are unable to accept the views of our colleagues as expressed in the report.

I. CAUSES OF THE BREAKDOWN OF THE GOLD STANDARD.

In the first place, we must dissociate ourselves entirely from Section IV of the report, headed " The Breakdown of the International Money System ", in which an analysis is given of the causes which led to the recent abandonment of the gold standard by so many countries. This analysis suggests that the crisis was the direct result of various economic maladjustments arising from the war and from war and post-war inflation. In support of this view our colleagues refer to profound changes in the structure and localisation of industry, to its elaborate and rigid organisation, to cartelisation, attempts at price control, pools, valorisation schemes and the like, and to tariffs, prohibitions and bounties. It is claimed that these conditions caused maladjustments in economic factors and processes and that there resulted a general instability which the international gold standard was not able to withstand. Hence its breakdown.

No concrete evidence of any kind — statistical or otherwise — is adduced in support of this analysis ; in particular, no evidence is adduced to show that these factors were of so exceptionally intense a character as not to be amenable to the self-righting forces of economic life and particularly to the potent forces of adjustment which the operation of the gold standard of necessity imposes upon the countries adhering to it. Nor does the report attempt to describe the process by which these disequilibria brought about the violent rise in the value of gold in recent times. Many of the factors enumerated existed and were strongly developing in the quarter of a century preceding the war — a period of great economic progress — yet in that period the international gold standard functioned with complete smoothness and efficiency. Indeed, such disequilibria are continually arising in every progressive society and may be regarded as a necessary condition of economic progress.

We recognise, however, that the war and the developments immediately following it accentuated some of these disequilibria and created others of a special character, but we cannot accept the view that they were the major cause of the catastrophic fall in the general level of prices and, consequently, of the breakdown of the international gold standard.

Our reasons for rejecting this view can be briefly stated :

One of the most remarkable features of the monetary developments of the post-war period was the rapidity with which practically the whole of the civilised world re-established the gold standard within the year and a half following the return to that standard by Great Britain in the early part of 1925. The restoration of the gold standard involved, as a condition precedent to it, a substantial adjustment of major disequilibria — economic, financial and monetary. In fact, a return to the gold standard without such prior adjustment of major disequilibria would not have been possible, and, *a fortiori*, without such adjustment it would not have been possible to maintain it in the years that followed. In point of fact, the gold standard, as an international monetary system over the greater part of the world, was successfully maintained until the early part of 1930. Its maintenance during these four years over so wide an area must inevitably have tended to reduce, and not to accentuate, such disequilibria as remained to be adjusted. For it is in the very nature of the gold standard to compel the countries adhering to it to adjust, through the operation of their exchanges, their price structure to that of other gold-standard countries and so to maintain economic equilibrium. Indeed, there is abundant evidence to show that the period from 1925 to the latter part of 1929 was one of remarkably steady economic progress. That progress could not have been achieved if there had been accumulating in an intensified form all the maladjustments which our colleagues claim to have finally caused the rapid rise in the value of gold at the end of that period.

The volume of the world's production of primary commodities (foodstuffs and raw materials) and that of the world's international trade are reliable indices of economic progress.

During the period in question, the volume of the world's production of foodstuffs and raw materials increased at almost precisely the same rate as it did in the quarter of a century immediately preceding the war — that is, at a rate of about 3 per cent per annum — as the following table (compiled from League of Nations figures) shows :

Year	Volume at 1925 prices $000,000	1925 = 100
1925	61,851	100
1926	62,582	101
1927	64,829	105
1928	67,333	109
1929	68,650	111
1930	66,181	107

The volume of the world's international trade (imports plus exports of merchandise) increased during that period at a remarkably steady rate of nearly 5 per cent per annum, as will be seen from the subjoined table (which again reproduces statistics compiled by the League of Nations) :

Year	Value of world trade (imports and exports of merchandise) $000,000	1925 = 100	Gold prices 1925 = 100	Volume of world trade = Value / gold prices 1925 = 100
1925	64,702	100	100	100
1926	61,887	96	93.5	103
1927	65,142	101	91	111
1928	67,380	104	90.5	115
1929	68,460	105.5	88	120
1930	55,365	86	(77) [1]	(111) [1]

Striking as these figures are, their significance becomes even more apparent when presented graphically in a setting which portrays some of the other relevant developments of the period. In the chart on the following page are grouped together lines showing the monetary gold reserves : (*a*) of United States of America and France; (*b*) of the world as a whole (excluding U.S.S.R.); (*c*) of the world (excluding United States of America, France and U.S.S.R.); (*d*) the average bank rate of the seven principal money centres of the world ; (*e*) and (*f*) the movement of wholesale commodity prices ((*e*) compiled from United States of America Bureau of Labor index, and (*f*) from the League of Nations index for world trade) ; (*g*) the volume of the world's production of foodstuffs and raw materials ; and finally (*h*) the volume of the world's international trade (imports plus exports of merchandise).

It will be seen from line (*b*) that the monetary gold reserves of the world as a whole increased steadily over the whole period at a rate of about 3 per cent. But when these gold reserves are

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[1] The figures in brackets are provisional.

CHART.

On Ratio Scale.

Monetary Gold Reserves.

End-year figures to 1927, June 30th, 1928, and thereafter end-month figures.

(A) U.S.A. and France.
(B) World excl. U.S.S.R. (half-scale).
(C) World excl. U.S.A., France and U.S.S.R.

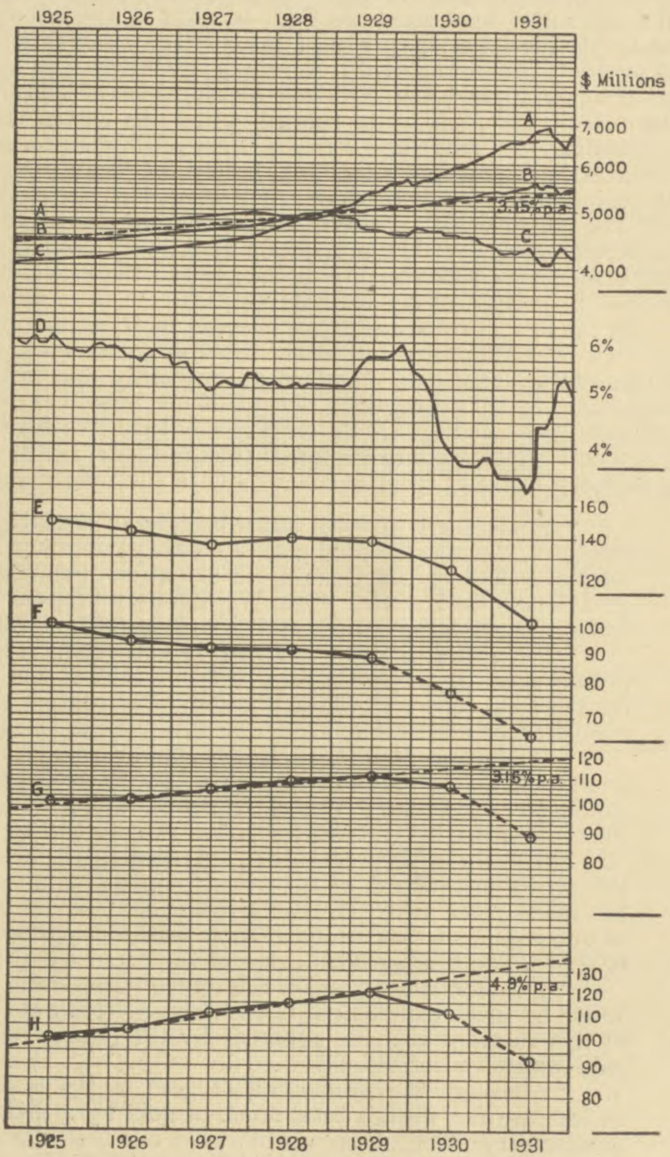
(D) Average Bank Rate (7 countries).
Monthly Averages.

(E) Wholesale Commodities Price Index.
Annual Averages.
U.S.A. Bureau of Labor.

(F) League of Nations Gold Prices for World Trade.

(G) Volume of World Production of Foodstuffs and Raw Materials.
By Years.

(H) Volume of World's International Trade (Imports plus Exports).
By Years.



Sources :

(A), (B) and (C) Federal Reserve Bulletin.
(D) League of Nations Monthly Bulletin. Bank rates of the following countries averaged U.K., France, Germany, Italy, Japan, Netherlands and U.S.A.
(E) U.S. Bureau of Labor.
(F), (G) and (H) League of Nations Memorandum on Production and Trade.

segregated into the two groups — viz., (*a*) United States of America and France on the one hand and (*c*) the rest of the world on the other, it becomes at once apparent that while, in the period from 1925 to the end of 1928, the rest of the world absorbed gold at a slightly greater rate than the rate at which gold was added to the gold reserves of the world as a whole, the reverse was the case in a very marked degree in the period from the early part of 1929 to 1931. Coinciding with this latter movement we find — what in the circumstances was to be expected, indeed was inevitable — a sharp rise of the average bank rate. The Central Banks of the " rest of the world ", finding their gold reserves being drawn upon heavily by the United States of America and France, applied the orthodox measures of protection. They raised their bank rates to make credit dear, and so to compel debtors to hasten the repayment of loans by the sale of commodities and securities. This process of liquidation naturally reacted at once on the level of wholesale commodity prices and, indeed, we find closely coinciding with the rise of bank rates the beginning of the steep fall of prices which has persisted ever since. Again, closely coinciding with the fall of prices, a sharp deviation from the trend of economic progress sets in. Both the volume of the world's production of primary products and that of international trade not only cease to increase steadily as they did in the previous years, but are reduced at a growing rate as the process of deflation develops.

In the face of these and other relevant facts, we are quite unable to associate ourselves with the view that the sharp fall in the level of commodity prices and the consequent breakdown of the international gold standard are primarily due to the various economic maladjustments enumerated by our colleagues. The dominant cause in our view is the maldistribution of monetary gold reserves which began in the early part of 1929. We dealt with the causes of this maldistribution in a report which we and Professor Gustav Cassel felt it our duty to present to our Chairman in January last and from which we quote the following [1] :

> " While there are still some half-dozen countries endeavouring to maintain the gold standard, the international gold-standard system has broken down. In such circumstances, we feel bound to concentrate our attention upon the remarkable alteration in the value of gold during the last two years. We therefore propose first to trace the main causes of the recent violent fall in prices and the consequences which this fall has produced.
>
> " We desire to point out that in this report we do not attempt to deal with all the problems involved in the terms of reference of the Gold Delegation which were reserved for the final report of the delegation. We confine this document to the matters that we regard as of urgent importance in the present emergency.
>
> " We further desire to make clear that we do not consider it our task to make a complete analysis of all the factors which have contributed to the present economic depression. This would go beyond our terms of reference, which were directed to the causes and effects of fluctuations in the purchasing power of gold to the exclusion of other factors which may also affect the general situation. Accordingly, our analysis is limited to the question of the causes and effects of the violent appreciation in the purchasing power of gold which has taken place since the third quarter of 1929. It will be clear, however, from the course of our argument that we have come to the conclusion that this appreciation in the value of gold is the fundamental cause of the present depression.
>
> " The immediate cause of this appreciation is the shortage of gold for monetary purposes which has been experienced in the great majority of the countries of the world. The extent of this shortage is made apparent by the figures relating to the distribution of monetary gold which we set out below.
>
> " Although the production of gold in the post-war period has only been sufficient to increase the world's total stock of gold by a little more than 2 per cent per annum, a greater proportion of the world's gold has been devoted to monetary purposes, so that, in the period between the end of 1925 and the middle of 1931, the monetary gold stocks have increased with fair regularity at a rate of somewhat more than 3 per cent per annum. This increase in the stock of monetary gold corresponded approximately to the normal pre-war rate of economic progress which was resumed from 1925. This stock, therefore, if properly

[1] Certain of the figures in that report have been slightly modified as a result of recalculation of some of the factors. The new figures are embodied in our quotation.

distributed, should have sufficed to support a volume of credit adequate to maintain the existing level of prices. In fact, the gold price level was fairly stable in the period 1925-1929. After 1928, however, a situation arose in which by far the greater part of the new gold available became concentrated in two countries, while the remaining countries of the world, apart from U.S.S.R.,[1] so far from increasing their stocks of monetary gold, lost no less than 16 per cent of their monetary gold between January 1st, 1929, and June 30th, 1931.

" The table below shows the sudden and radical change which the distribution of the world's monetary gold underwent after the beginning of 1929.

" *Distribution of the World's Monetary Gold Stocks.*

(In millions of dollars.)

	1.1.29	30.6.31	Change	Percentage
France	1,271	2,211	+ 940	+ 74
United States	4,141	4,956	+ 815	+ 19½
Rest of world (excl. U.S.S.R.) about . .	5,550	4,650	— 900	— 16
Total	10,962	11,817	+ 855	8

" The world's total monetary gold stocks (excluding those of U.S.S.R.) increased in the period covered by the above table by 8 per cent. The holdings of France increased by no less than 74 per cent, and those of the United States by 19½ per cent, or, if the stocks of those two countries are combined, their increase is 32½ per cent. The stocks of the rest of the world, on the other hand, decreased by 16 per cent. These stocks should normally have increased by roughly 3 per cent per annum, so that the real deficiency at the end of the period considered amounted to about 23 per cent. The loss of free gold reserves in excess of legal minimum requirements was, of course, relatively much greater. Thus the countries concerned found it impossible to maintain the level of prices obtaining at the end of 1928. In order to defend their gold reserves, their Central Banks had to apply the normal measures of deflation. The process of deflation thus set in motion gathered momentum when it became apparent that contraction of credit and falling prices in the gold-losing countries failed to re-attract gold to their depleted monetary reserves, but that, on the contrary, the flow of gold to France and the United States continued unabated. The result was a further pressure upon commodity prices in the gold-losing countries, increased competition in world markets, and, in consequence, a world-wide fall in prices.

" As a further consequence of this disastrous and continuous fall in the price level, most of the gold-losing countries were, in the end, forced to abandon the gold standard. They found it practically impossible to adjust their internal levels of prices and wages, and particularly the burden of debt which they all carried, to the lower international price level, and they had no alternative but to abandon the gold standard and so to sever the link between their internal prices and gold prices.

" It is clear from the figures given above that the recent drastic fall in prices has been caused by a maldistribution of monetary gold rather than by any shortage of the world's monetary stocks of gold as a whole. When we examine the causes of this maldistribution, we find it obvious that the power of the United States and France to attract the abnormally large proportions of the world's gold which they have absorbed is due to the fact that they have had a surplus in their balance of payments. Up till 1928, this surplus, which is, of course, not a new phenomenon, had been adjusted by a corresponding export of capital by the United States mainly in the form of long-term investments and by France mainly on short term, but from that year onward this export of capital began to dwindle. At the same time, both these countries placed new obstacles in the way of the inflow of commodities. The result has been that the only way in which the debtor countries could meet this gap in the balance of payments was by sending gold to the creditor countries.

[1] U.S.S.R. constitutes a self-contained economic system practically divorced from the rest of the world.

" The surplus in the balance of payments by means of which so much gold has been attracted to these two great creditor countries is intimately bound up with the fact that the two countries in question have received very substantial payments in respect of reparations and war debts. The following table will show the connection between the payment of inter-governmental indebtedness and the increase of gold reserves in the receiving countries :

" *Gold Movements and Inter-Governmental Payments.*

(In millions of dollars.)

	Reparations and war debt receipts	Increase of gold reserves [1]	Increase of gold reserves less than (—) or in excess of (+) reparations and war debt receipts
January 1925 to December 31st, 1928 :			
France	557	+ 294	— 263
United States	807	— 457	— 1,264
	1,364	— 163	— 1,527
January 1st, 1929, to June 30th, 1931 :			
France	343	+ 940	+ 597
United States	555	+ 743	+ 188
	898	+ 1,683	+ 785
Total, January 1925 to June 1931	2,262	+ 1,520	— 742

" In the first period, one of stability and ordered progress, the United States, as already indicated, lent abroad, mainly to Germany, sums more than sufficient to make gold movements in settlement of reparation and war debt payments unnecessary, while France accumulated large short-term balances abroad. In the second period, one of profound disturbance on the other hand, France and the United States together not only collected the whole of the reparation and war debt payments in gold, but also converted balances accumulated abroad during the earlier period into gold and withdrew them. As the table shows, it may be said with truth that reparation and war debt payments collected from January 1925 till 1931 (amounting to about 2,262 million dollars) have, over the whole period, been received in gold, with the exception of about 742 million dollars, since the increase in the total gold stocks of these two countries derived from foreign supplies of gold during the period amounted to somewhat more than 1,500 million dollars. Had these two countries not received reparation and war debt payments, they would obviously not have been in a position to draw these sums of gold to themselves. No doubt a country's balance of payments is the combined result of all the factors entering into this balance. But if factors of an extraordinary character enter into the balance and if, in consequence, a surplus result, which must be settled in gold, then it is reasonable to conclude that these extraordinary factors are the cause of this result. Thus, it may truly be said that the payment of reparations and war debts has been the basic cause of this one-sided distribution of gold. In the normal course of international trade and in the absence of these abnormal influences, such a surplus in the balance of payments could never have arisen.

" Reparation and war debt payments had, in fact, laid such an enormous burden on the gold-standard system of the world that it was impossible for this system to carry it, and therefore the system had to break down.

" It may be asked why the strain did not prove intolerable until 1929. The answer is that in the preceding years Germany had been enabled to pay reparations, mainly because of the steady receipt of large loans from the United States. After 1928, there

[1] Excluding gold delivered to the Central Banks from domestic hoards and from domestic gold production.

was a notable shrinkage in these loans, partly because the development of a stock-exchange boom within the United States itself kept resources in that country and even attracted them from other countries, and partly because Germany had practically exhausted her borrowing power and doubts were beginning to be felt concerning the safety of the loans previously made. With the falling away of these loans, reparation and war debt payments had to be made in gold.

" Of course this abnormal movement could have been prevented if the countries ultimately receiving the reparations and war debt payments had been prepared to receive them in goods and services. But this they were not willing to do. In order to prevent a great invasion of German goods, they raised their Customs duties and took a number of other protectionist measures, not only against Germany, but against the rest of the world, thus preventing payments in goods even by way of triangular trade.

" The breakdown of the gold standard must therefore be regarded as the combined result of the obligation to pay reparations and war debts on the one side, and the unwillingness of the receiving countries to receive payment in the form of goods and services on the other.

" It remains to be explained why this huge accumulation of gold did not produce an increase in the supply of means of payment and therefore a rise in internal prices in the receiving countries. According to the classical doctrine of the functioning of the gold standard, such a rise in prices would have been the automatic effect of the inflow of gold, and this effect would have checked the inflow and eventually caused a reversal of the movement. However, both in France and the United States, the gold was not used for any such purpose, but was simply buried in the vaults of the Central Banks. Not only was the level of prices of these countries not raised but was actually lowered as the price level fell in the rest of the world.

" It is a widespread belief that the present crisis is merely a phase of a cyclic movement of business activity — a crisis, therefore, which has to be regarded as the inevitable result of the forces of instability assumed to be inherent in the present organisation of the world's economy. This belief stands in the way of a true analysis of the development that has led to the catastrophe in which the world is now involved. It prevents those who hold it from appreciating the real causes of these disastrous developments. We think it is of the highest importance to discard such vague conceptions and thus to clear the ground for an objective investigation of the present situation in the light of distinct and clearly traceable facts."

To put the matter very briefly, we hold that the fall in the general level of prices has been the fundamental cause of the present depression, and that that fall was the result of the obligation to pay reparations and war debts combined with the unwillingness of the receiving countries to accept payment in goods and services, so that payment had to be made in gold.

II. The Objective of Monetary Policy.

The second important issue on which we differ from our colleagues is the objective of monetary policy. They define this objective (paragraph 186) as " a relative, but not an absolute, stability of wholesale commodity prices as measured by their movement over a long series of years ", and they add that the measure of stability which they envisage is not inconsistent with slow movements of the long-term trend either upward or downward. We are not clear what is intended by the reference to relativity, but we understand that our colleagues would aim merely at restricting the range of short-term fluctuations of prices, and would not attempt to influence the long-term movement by monetary policy, though this seems hardly consistent with other parts of the report, which stress the desirability of economising the use of gold, the most potent factor in determining the course of long-term movements. But whatever may be the meaning of our colleagues' recommendation, we think it desirable to make it perfectly clear that, in our view, the prime objective of monetary policy should be stability in the general level of wholesale commodity prices. It is stated in paragraph 169 of the report that " when the decline in prices is due to improvements in industry and agriculture which have lowered production costs, the decline in prices is, on the whole, beneficial, for it is in this way that the fruits of industrial and agricultural progress are made available to society as a whole " ; and that " it is only when the attempt is made to sustain prices in the face of decreasing production costs that disequilibria occur, for this encourages over-production and causes an accumulation of goods, which results ultimately in a breakdown ".

There appears to be some confusion in this argument between the general price level and the prices of particular commodities or groups of commodities. No one will deny that the lowering of the costs of production of a particular commodity should tend to lower the price of that commodity or that the maintenance of the price of a particular commodity at an artificially high level may lead to its over-production. But this consideration does not apply to the maintenance of stability in the general price level, which is in no way incompatible with the fall or rise in the prices of individual commodities.

We are aware that some economists would regard a gradual fall in prices as beneficial if it is commensurate with an increase in the efficiency of the factors of production. But it seems to us that the arguments in support of this view, if valid at all, would apply only to a self-contained economy, which does not exist under modern conditions. We are concerned with world movements in prices which affect all countries on the same monetary standard, and the rate of growth of the efficiency of the factors of production varies widely from country to country. Under such conditions, the practical question is whether it is better for the world at large to keep commodity prices stable and let producing classes in the more rapidly progressing countries reap the benefit of their increased efficiency or to let prices fall *pari passu* with that increase in efficiency and thus to force a dislocation in the distribution of income in the less progressive countries. Our study of the economic effects of a fall in prices, in regard to which we are in full agreement with our colleagues, leaves us in no doubt that the former is the preferable alternative.

The third main point of difference is the extent to which it is possible for monetary policy to achieve its objective. The difference here is to some extent one of emphasis and degree, for we are all agreed that monetary policy is not all-powerful and can be thwarted by political and fiscal policies. But the degree of potency that is attributed to the monetary factor is none the less important. Our colleagues express the view (paragraph 183) that " it is neither possible nor desirable by the application of monetary policy to correct fluctuations in the price level due to non-monetary causes ". To take first the question of possibility : it is clear from the context in which this passage occurs that it refers only to the level of prices in terms of gold. In the case of a country which is on a paper standard, it is obviously possible by expansion of currency and credit to raise national prices to any extent, as so many countries in Europe have learned by bitter experience. To take a recent instance, the United Kingdom, since it went off gold, has maintained its wholesale price level considerably above gold prices and, in fact, at a much more stable level than the purchasing power of gold. In the case of countries on the gold standard, the factors at work are essentially the same, though more limited in their scope. Broadly speaking, the general price level is determined by the ratio between the supply of money (*i.e.*, means of payment) and the demand. So long as supply keeps pace with demand, the price level will remain stable. The level may be disturbed by an alteration on either side of the equation — *i.e*, either (*a*) on the supply or monetary side or (*b*) on the demand or non-monetary side. The latter is what we understand our colleagues to mean by non-monetary causes. Now, so far as the ratio is concerned, it makes no difference from which side of the equation the disturbance comes and, assuming that monetary policy can control the supply, it is clear that it is possible, theoretically at least, to maintain prices stable. The power of any individual country to influence gold prices is, of course, limited by practical considerations. It could not keep on the gold standard if its monetary policy were widely at variance with that of the other gold-standard countries, but this only means that gold prices cannot be kept stable without co-operation between the principal countries on the gold standard, a desideratum in regard to which we are all agreed. Another limitation is imposed by the amount of gold available for monetary purposes, but our colleagues do not base their argument on this limitation ; in fact, it is expressly stated in paragraph 109 of the report that the rapid decline in prices, which began in 1929, cannot be attributed to a deficiency in the world's total stock of monetary gold. When this is admitted, it seems clear that, given international co-operation, it is both theoretically and practically possible to restore gold prices to a suitable level and to maintain them stable at that level.

When we turn to the *desirability* of correcting fluctuations in the price level by the application of monetary policy, we find an equally profound divergence between our view and that of our colleagues. We have defined the objective of monetary policy as stability in the general level of wholesale commodity prices, we have tried to show that it is possible to attain that objective, and it follows that we hold it to be desirable to direct monetary policy to that end. We cannot endorse the view expressed in paragraph 134 of the report that " attempts to control fluctuations in the general or average level of prices may accumulate strains within the price structure, and therefore cause deferred and possibly more violent paroxysms of readjustment eventually ". We believe, on the contrary, that a readjustment of industry, trade and of relative prices is likely to proceed with far less strain if fluctuations in the general level of prices are avoided, for such fluctuations necessarily superimpose upon the price structure the additional strain which arises from the consequent redistribution of incomes and from all the reactions which such redistribution has on production, trade and finance.

We feel, moreover, that our colleagues are both unduly apprehensive of injurious effects from credit expansion and unduly mistrustful of the power of monetary authorities to control that expansion. We wish to dissociate ourselves from the implications of paragraph 176 of the report in which it is said, *inter alia*, that "measures taken to expand credit . . . may in some cases even lay the basis for a new expansion of credit which it may prove difficult to control ". We can hardly believe that our colleagues intended to imply in this part of the report that it may be impossible to control expansion of credit by appropriate monetary and budgetary policy. Such a conclusion would indeed come strangely from a delegation of the Financial Committee, seeing that, on the advice of that Committee, so many European currencies have been stabilised under the ægis of the League, and the results have amply demonstrated that it is possible to get inflation under control even at an advanced stage. We lay stress on this point because we consider that it would be most undesirable for the monetary authorities to be deterred by the bogey of inflation from taking the steps necessary to check and reverse the disastrous fall in gold prices. In our view, the prime need of the world to-day is a concerted policy of expansion of credit by the principal gold-standard countries, and we see no reason whatever to fear that such a movement may be incapable of control. In particular, we wish to record our opinion that the attempts at present being made to expand credit in the United States are a move in the right direction.

III. Remedies for the Present Crisis.

The fourth main point of difference between ourselves and our colleagues is in regard to the possible remedies for the present economic crisis. Seeing that we differ as to (*a*) the causes of the crisis, (*b*) the objective of monetary policy, and (*c*) the possibility and desirability of stabilising prices by means of monetary policy, it was only to be expected that we should disagree regarding remedies. In this vital matter, the report offers very little guidance to a hard-pressed world. The general impression which it will give is that our disorders are the inevitable result of the war and of war and post-war inflation, possibly aggravated by the malignant infuence of some "business cycle ", the nature of which is said to be not fully understood, and that it is useless and even dangerous to attempt to put matters right by the instrument of monetary policy.

Our own recommendations are given in detail in our January report, from which we quote the following :

> " We feel that this report would be incomplete if we did not summarise the salient conclusions that naturally follow from our analysis of the causes and effects of the recent appreciation of gold. We are the more impelled to to so because the very phenomena of the present depression, which we have reviewed, convincingly demonstrate how urgently necessary it is that a concerted and well-thought-out plan should be prepared at the earliest possible moment for the restoration of the world's monetary affairs.
>
> " The gold standard, as an international monetary system, may be regarded as destroyed, owing to the inordinate appreciation of the purchasing power of gold. There are still half a dozen countries who maintain the convertibility of their currencies into gold and may therefore be regarded as still being on the gold standard, but the functioning of that system is restricted to a comparatively small area of world trade. It is clear that the gold standard

in this restricted sphere is something quite different from the gold standard as it existed before the war, when the general adherence to this standard and a comparative freedom of trade gave it a certain measure of stability. The impediments to international trade, which the abandonment of the gold standard in the majority of countries has produced, subjects the value of gold to the possibility of even wider fluctuations in its purchasing power. The truth is that an international economic system, as we knew it, is impossible without a tolerably stable international monetary system and, conversely, that an international monetary system is impossible without a tolerably stable international economic system. The absence of either must inevitably lead to a very substantial reduction of production and trade which will make it impossible for the world to support its present population and may even threaten the very existence of our civilisation.

" It must therefore be the aim of statesmanship to restore stability to both the monetary and economic systems of the world at the earliest possible time.

" This postulates international agreement. No international monetary system is likely to command such wide support as the gold standard ; the restoration of that standard therefore is probably more likely to be acceptable to the nations as a whole than the adoption of any other system. But to restore confidence in the gold-standard system, certain conditions are indispensable.

" The world catastrophe is due to the steep fall of commodity prices which it has experienced during the last two years — that is to say, to the appreciation of money, which in a gold-standard system is synonymous with the appreciation of gold. The countries which have abandoned the gold standard were forced to do so, because the burden of debt had become unbearable, and a serious and increasing disequilibrium had developed between the level of wholesale commodity prices and other groups of prices, including wages. Those countries that still adhere to the gold standard, while for the time being able to stand the strain, are also undergoing a severe crisis for precisely the same reasons. The strain is increased in cumulative fashion by the progressive decline of international trade and, latterly also, by the almost universal breakdown of credit.

" If the gold standard is once more to be restored as an international standard, the real difficulties of such a task must be clearly faced.

" The first requisite for the restoration of the gold standard must obviously be the removal of the forces which have caused it to break down, and with which we have dealt in the earlier part of this report.

" But the removal of these forces will not in itself suffice. For re-establishing the gold standard as a common standard of the world's trading nations, some essential conditions, relating both to the economic and the monetary side of the problem, have to be fulfilled. There is, indeed, a great danger in premature restoration of the gold standard in one country or another without sufficient safeguards for the stability of that standard.

" The most important conditions are the following :

" *First :* Some reasonable settlement of the reparations and war-debts questions must be effected, and this settlement must be of such a character as to make it quite clear that (*a*) reparations and war debts can be paid and the payments received, and (*b*) how this can be accomplished without serious interference with the working of the gold standard.

" *Second :* In international trade, conditions must be restored to some degree of normality, at least so far that it may truly be said that foreign debts can be paid as a rule by an export of goods and services and that such export is not unduly hampered by increased tariffs or other protectionist measures.

" *Third :* There must be adequate assurance that what is sometimes called the ' rules of the game ' of the gold standard will be observed — that is to say, that gold will be allowed to move freely and will not be unduly accumulated in any country without being allowed to exercise its normal influence in raising the level of prices. No doubt these rules require a thorough-going examination, but it is already clear that a restoration of the gold standard as a worldwide system is impossible if it is going to be subjected to the abnormal strain to which it has been exposed in recent years.

" *Fourth :* The world must come to some agreement with regard to a gold-economising policy, involving a deliberate restriction of all monetary demands for gold, with the aim of preventing an unnecessary and indeed disastrous rise in the value of gold.

" Unless these conditions are fulfilled, a general return to the gold standard is not possible, and, even if it were temporarily possible, it would be undesirable and dangerous. There would be a risk of further deflation and of a consequent aggravation of the present economic depression. It is pretty certain that countries which had returned to the gold standard without the necessary safeguards for its stability would soon be driven off it again. Thus the international gold standard would not offer that security for international trade, the establishment of which is the very purpose of that standard.

" The most effective measure that could be taken at the present moment in order to pave the way for a restoration of the gold standard as an international monetary system would be to raise the general price level in the gold-standard countries. If, as we believe, the recent fall in prices is the essential cause of the breakdown of the gold standard, a reversal of this disastrous movement is clearly desirable. Thus the objective should be the restoration of the price-level of 1928 or at least the raising of commodity prices to a level that would be in closer harmony with wages and debt-charges and the maintenance of stability at that level. Such a raising of the price-level would not be open to the objections which attach to inflation in ordinary circumstances, because it would merely amount to a reversal of a previous process of pernicious deflation. If such a rise in gold prices were brought about by the countries still on the gold standard, a situation would be created in which it would be easier for the paper-standard countries to return to the gold standard. But, as has already been explained, such a step should clearly not be taken without sufficient safeguards for a rational treatment of the gold standard in the future.

" At present, the monetary gold stocks of the world amount to a total of about 12 milliard dollars. Of this sum, about 8 milliards represent the legal minimum reserves. Thus there is a surplus of 4 milliard dollars. Some people point to the total of these reserves and say that such reserves disprove the existence of any scarcity of gold. It must be remembered, however, that the so-called surplus reserves are in fact the only reserves that really are at the free disposal of the Central Banks, the legal minimum reserves being immobilised and buried in the cellars of the Central Banks without being of any practical use. The active gold reserves of the world can at the present moment best be increased by abolishing all legal stipulations with regard to minimum gold reserves of the Central Banks.

" In both the interim reports of the Gold Delegation it was suggested that these stipulations might be modified without in any way weakening the general credit structure. Since these reports were written, the situation has changed in many respects. The system of keeping a part of the reserves of the Central Banks in foreign exchange has become discredited, and consequently there is likely to be a larger demand for gold for reserve purposes in the future. This makes it all the more necessary to economise the use of gold as far as possible. Moreover, it is an anachronism to maintain a gold reserve against notes under the conditions prevailing in most countries — *i.e.*, when notes are not redeemable in gold coin and when therefore an internal drain cannot take place (except in moments of panic, for the purpose of hoarding of bullion). The reserves in these altered conditions are primarily required to meet possible deficits in the balance of payments. The criterion determining the size of these reserves should rather be the amounts that are likely to be required for meeting demands on the Central Banks for foreign payments.

" In view of these considerations we are of opinion that the legal regulations of percentage reserves should be abolished and that it should be left to each Central Bank to consider what amount of gold it thinks appropriate to meet the demands which are likely to arise.

" If all nations, or at any rate the leading nations, could agree at once to take this step, the active gold reserves of the world would have been trebled and would therefore be amply sufficient to support prices at the level we have suggested.

" If in this way the necessary freedom of movement is given to the Central Banks, it ought no longer to be beyond their power to accomplish a more reasonable distribution of the world's monetary gold supplies, provided, of course, that the present political causes of maldistribution are removed. Thus the way would be paved for the restoration of an international gold standard.

" Meanwhile we suggest that the highly developed countries that have been forced off the gold standard should aim at securing a certain degree of stability of internal purchasing power for the paper currencies in which a great part of the world's trade has now to be carried on. If restoration of the gold standard is to be the ultimate aim, this involves tasks the accomplishment of which will require great efforts and much time. An indispensable preliminary will be a certain degree of stabilisation of the paper standards in terms of commodities. Without waiting for a solution of the gold question, therefore, those countries which are now on a paper standard must try to make the best of their situation. For this purpose, a collaboration between paper-standard countries is at present urgently to be desired. Each of the countries should make it its aim to give a certain stability to the internal purchasing power of its own currency. The fact that a country, under present conditions, has abandoned the gold standard should not be regarded as involving uncontrolled inflation. It simply means that the particular country found itself unable to submit to the deflation that had already taken place and still less to the further deflation that the gold-standard countries may have to experience as a consequence of their continued struggle for gold. A common declaration by the paper-standard countries that the objective of their policy is the stabilisation of their commodity price levels would be of great value and go a long way towards restoring confidence.

" However, before adopting a policy of stabilisation, the paper-standard countries will find it necessary to raise their general level of wholesale commodity prices in order to re-establish a reasonable equilibrium between prices, wages and debt-charges. It will then be desirable to determine in advance what the final level of stabilisation is to be, and to make it clear that monetary and financial policy will be steadily directed to that end.

" Assuming that a series of paper-standard countries had agreed on such a stabilisation scheme, the problem arises how they could attain mutual stability between their respective currencies. This problem can obviously only be solved if Great Britain takes the lead by a definite stabilisation of the internal purchasing power of the pound sterling. If this were done, the other countries could make it their programme to keep the rates of exchange on London stable. Their monetary policy would then practically be the same as it used to be in the pre-war history of the gold standard, when a gold-standard country only had to look to the stability of its sterling exchange. This programme would not therefore involve these countries in any new or experimental task. Assuming Great Britain to take the responsibility for the stability of the purchasing power of the pound sterling, we could reasonably expect the new paper-standard system to work well.

" For the success of this plan it is essential to restore freedom in foreign exchange dealings. This should also apply to dealings in exchanges for forward delivery, and such dealings should be actively supported by the Central Banks.

" By co-operating in the plan outlined above, the paper-standard countries would doubtless be able to create an international monetary system based on principles so sound that it would soon acquire the necessary confidence and thus furnish the basis for the development of a new prosperity. This is probably the best way of preparing the ground for a general return to the gold standard."

It will be seen from the above that the immediate measures which we consider necessary to restore the world's economic well-being fall under four main heads :

1. An early settlement of the question of war debts and reparations ;

2. The removal, as far as possible, of restraints on international trade ;

3. A concerted attempt by the principal gold-standard countries to restore wholesale commodity prices, as measured in gold, to the level prevailing in 1928 ; and

4. A similar attempt by the paper-standard countries, under the leadership of sterling, to stabilise their internal price levels.

The third of these measures is largely dependent on the first two, and may therefore take longer to accomplish, but events are moving quickly, and, if the Governments concerned cannot agree on a solution of the reparations and war-debts problems, they will soon be driven to yield to the inevitable logic of economic forces. The countries which have claims to reparations and war debts will be forced either to remit them or to accept payment in goods or services, because their debtors will be unable to obtain the gold required to discharge their debts. Already the receiving countries have accumulated most of the available monetary gold in the world, and, when they have got it all, if they still demand payment in gold, their debtors will have to buy gold from them to pay their debts, and will only have goods and services to offer in exchange for the gold. But long before this point is reached, the resultant deflation will have produced a still further fall in gold prices, and the strain on the world's economy, which is already hardly tolerable, will have reached breaking-point, not only in the debtor countries, but also in the receiving countries. We again urge therefore the vital necessity of an early settlement of this question.

Meanwhile the paper-standard countries might do much to restore more stable conditions to a large part of the world. Having cut themselves free from a degenerating gold standard, they have regained a large measure of freedom and need no longer allow their internal price levels to be dragged down by the continued fall in gold prices. As we pointed out in January, mutual stability between their respective currencies can only be secured by a common policy of internal price stabilisation. If Great Britain will give a lead, as we have suggested, by a clear declaration of its policy, including the level of commodity prices at which it proposes eventually to stabilise the value of sterling, we may expect to see a growing measure of stabilisation among the countries whose currencies are at present more or less closely linked to sterling, and probably the accession of a number of other countries to the sterling area. The parts of the world on a sterling standard would comprise a larger area and population and a greater volume of trade than the countries remaining on the gold standard. In this large sterling group there would be mutual stability of exchange and consequently greater freedom of trade, and to that extent it could afford to disregard fluctuations in its exchanges with the gold-standard countries.

In this connection we think it desirable to add that we do not endorse without qualification the statement in paragraph 45 of the report that " at the present stage of world economic development the gold standard remains the best available monetary mechanism ". We would only go so far as to say that the gold standard is the best mechanism *if properly managed.* As indicated in our January Report, we only advocate a general return to the gold standard if and when there is adequate assurance that the " rules of the game " will be observed.

In conclusion, we desire once more to emphasise the extreme urgency of remedial measures in the present world crisis. When the Delegation met in January last, we were so strongly convinced of this urgency that we felt constrained, contrary to the views of our colleagues, to submit a report to the Chairman and to ask that it should be made public at the earliest possible moment. Since that report was written, the process of deflation has continued at an accelerated rate and in consequence the economic situation of the world has still further deteriorated with alarming rapidity. The wholesale gold prices of commodities have fallen by 7½ per cent and there has been a further drastic curtailment of world production and of international trade. The continued fall in prices has stimulated protectionist measures and given rise to various devices for controlling the foreign exchanges. All these restraints on the international movement of goods tend to force payment in gold, and thereby to produce further deflationary effects, which are only aggravating the evil. It may truly be said that international trade is being gradually strangled to death ; if the process continues, millions of people in this economically interlocked world must inevitably die of starvation, and it is indeed doubtful whether our present civilisation can survive.

MEMORANDUM OF DISSENT

By Professor Gustav Cassel.

After having carefully studied the final report of the Gold Delegation, I find it impossible for me to sign this report. Right and wrong are mixed up in it in such a bewildering way that it is extremely difficult to state all the reservations to which an endorsement of the report would be subject. Important work has hindered me from taking part in the last meeting of the Gold Delegation, and I have therefore been unable to enter upon a detailed criticism of the final report. Some of my colleagues, Sir Reginald Mant, M. Albert Janssen and Sir Henry Strakosch, have undertaken such a criticism in a note which I think to be of great value. With the general views of these members of the Delegation, I am in complete accord.

Although I very much appreciate much of the research work of the delegation, I strongly feel that the whole matter ought to have been presented to a world in the utmost distress in such a way as to let the essential features of the gold problem stand out in full clearness. Since the appointment of the Gold Delegation, actual developments have brought two questions into the foreground : the first is the cause of the breakdown of the world's gold-standard system ; the second is the possibility of a restoration of an international monetary system. It is necessary now to concentrate upon these two questions.

The way in which the Gold Delegation presents the causes of the breakdown of the gold standard seems to me entirely unacceptable. What we have to explain is essentially a monetary phenomenon, and the explanation must therefore essentially be of a monetary character. An enumeration of a series of economic disturbances and maladjustments which existed before 1929 is no explanation of the breakdown of the gold standard. In fact, in spite of existing economic difficulties, the world enjoyed up to 1929 a remarkable progress. What has to be cleared up is why the progress was suddenly interrupted. A minority of the Gold Delegation, including myself, presented in January of this year an analysis of this question, which gave a clear exposition of the principal lines of causation of the breakdown of the gold standard. I still think that this exposition ought to have formed the basis for the report of the Delegation.

It may be desirable that I should, on this occasion, very briefly summarise my views.

It had been made clear during the course of the last decade that the gold standard could be maintained only by the aid of a systematic gold-economising policy aiming at such a restriction of the monetary demand for gold as would prevent a rise in the value of that metal. To a certain extent, this programme had been carried out with the most beneficent result. From 1928 onwards, however, this policy was completely frustrated by extraordinary demands for gold which brought about a rise in the value of gold of unparalleled violence. The fundamental cause was the claim of reparations and war debts, combined with the unwillingness of the receiving countries to receive payment in the natural form of goods and services. This underlying cause became effective when France, in 1928, entered the gold-standard system and began to draw gold to herself on a large scale, and when, at the same time, America ceased that export of capital which previously had served to maintain equilibrium in her balance of payments. The consequence was such a drain on the gold reserves of other countries as to cause the breakdown of the international gold-standard system. The sudden increase in the value of gold meant a corresponding fall of the general level of commodity prices, the effect of which was a general distrust and unwillingness to invest savings in production and a widespread incapacity of debtors — private and public — to meet their obligations, causing a further destruction of confidence. As the fall in commodity prices was felt in the different trades as a result of increased competition, a general desire to protect oneself against this extraordinary competition arose and led to a wave of ultra-protectionism, with the most destructive effects on international trade.

This, in a few words, is the true exposition of what has happened and of what, in a period of some years, has brought the world's economy to a crisis threatening to develop into a complete catastrophe. In such a situation, it is of the utmost importance that the world should see clearly what are the essential causes of a development leading to such disastrous effects. This is, of course, particularly important if we want to find a way out of the muddle. The analysis here given proves that reconstruction work must begin with a restoration of sound monetary conditions.

Turning our attention to this problem of the future, we have first to observe that the value of gold has become exposed to so many incalculable influences that it is impossible now in any true sense to speak of gold as a fixed standard of value. The destruction of the old gold-standard system has, in fact, gone much further than a temporary abandonment of the gold standard by some few countries would denote. We are faced actually with the complete destruction of the essential quality that made gold an acceptable standard of value for an international system of money. It is necessary to keep this fact in mind, if we want to form a clear judgment on the possibility of a restoration of an international gold standard system. Such a restoration would, at any rate, require the fulfilment of a number of essential conditions, among which the following should be mentioned here : a great reduction in the value of gold, a radical redistribution of the world's gold reserves, the resumption of a systematic gold economising policy, cancellation of all claims on reparation and war-debt payments, definite guarantees against the repetition of such extraordinary demands for gold as have occurred during the last few years and, finally, restoration of a reasonable freedom of international trade and of international capital movements.

Whatever the prospects of such reforms may be, it seems quite clear, at the very best, several years must elapse before a restoration of an international gold-standard system can be seriously contemplated. Any premature attempt to use an occasional opportunity for a formal restoration of the gold standard, without the necessary safeguards for its stability, would be extremely dangerous and must be expected to lead to new disasters. If we want to construct a new gold-standard system, we must take care that the foundations are laid with sufficient solidity.

In the meantime, we have to make the best of our existing currencies. The countries off the gold standard have to secure the greatest possible stability for the internal purchasing power of their paper currencies. Before doing this, however, they must first raise their price level at least some half-way up to the price level of 1929. Thereafter, the stabilisation should be carried out. In order to secure the greatest possible stability to the exchanges between the paper currencies, it seems necessary that Great Britain should take the lead with the aim of creating a " Sterling Group ". The different currencies of this group should be regulated so as to remain in a certain parity with sterling. Within such a " Sterling Group ", it would be possible to develop a sound international trade of some stability.

For the countries remaining on the gold standard, the most urgent aim is to force down the value of gold. They could do this themselves by reducing their monetary demands for gold, and the paper-standard countries could contribute to that end by selling gold which they have no longer any reason to keep.

It is an open question whether it will be possible in the future to restore the gold standard as an international monetary system. It is quite possible that the difficulties will prove insuperable, and that the paper-standard system will attain such a stability as to become generally acceptable. Even if we believe in the restoration of the gold standard, and are prepared to make the most serious efforts and sacrifices to this end, the creation of a group of paper standards of the highest possible stability is a preliminary stage which cannot be omitted. For the moment, the paper countries must concentrate their attention entirely upon this aim. Their agreement on such a policy would at once open possibilities for a new development of trade and production and should therefore be the most immediate concern of the economic policy of these countries.

From this analysis, it is clear that the problem of monetary reconstruction has now taken an aspect which places it far beyond the domain of the questions which the Gold Delegation was called upon to examine. The world's monetary problem will henceforth have to be discussed on far broader lines.

ANNEXE

STOCKS MONDIAUX D'OR MONÉTAIRE

(Tableau extrait de l'*Annuaire Statistique de la Société des Nations 1931/32*, Genève, 1932.)

ANNEX

MONETARY GOLD STOCKS OF THE WORLD

(Table extracted from the *Statistical Year-Book of the League of Nations 1931/32*, Geneva, 1932.)

Annexe. STOCKS MONDIAUX D'OR MONÉTAIRE, exprimés en millions de dollars.
Pour observations générales et renvois, voir pages 35-37 et 62-65.

Pays	XII. 1925			XII. 1926			XII. 1927			XII. 1928		
	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total
AFRIQUE.												
Congo belge	1	—	1	1	—	1	1	—	1	1	—	1
Egypte	17	—	17	18	—	18	19	—	19	18	—	18
Maroc	—	—	—	—	—	—	—	—	—	3	—	3
Union Sud-Africaine	48 [1]	* 12	60	47 [1]	* 18	65	50 [1]	* 16	66	48 [1]	* 33	81
Total	**66**	*** 12**	**78**	**66**	*** 18**	**84**	**70**	*** 16**	**86**	**70**	*** 33**	**103**
AMÉRIQUE DU NORD.												
Canada [2]	226	—	226	230	—	230	229	—	229	191	—	191
Etats-Unis d'Amérique	3,985 [3]	414	4,399	4,083 [3]	409	4,492	3,977 [3]	402	4,379	3,746 [3]	395	4,141
Total	**4,211**	**414**	**4,625**	**4,313**	**409**	**4,722**	**4,206**	**402**	**4,608**	**3,937**	**395**	**4,332**
AMÉRIQUE DU SUD.												
Argentine	436 [4]	23	459	436 [4]	23	459	461 [4]	79	540	473 [4]	146	619
Bolivie	8	—	8	9	—	9	9	—	9	8	—	8
Brésil	54	—	54	56	—	56	101	—	101	149	—	149
Chili	34	2	36	10	2	12	7	2	9	7	2	9
Colombie	15	2	17	18	3	21	20	3	23	24	3	27
Equateur	5	—	5	5	—	5	2	—	2	1	—	1
Paraguay	3	—	3	3	—	3	3	—	3	1	—	1
Pérou	21	1	22	21	1	22	23	1	24	21	1	22
Uruguay	57	1	58	57	1	58	68	1	69	72	1	73
Venezuela	16	—	16	15	—	15	16	—	16	18	—	18
Total	**649**	**29**	**678**	**630**	**30**	**660**	**710**	**86**	**796**	**774**	**153**	**927**
AMÉRIQUE CENTRALE, MEXIQUE ET ANTILLES	29	* 122 [5]	151	18	* 136 [5]	154	17	* 154 [5]	171	14	* 166 [5]	180
Total de l'Amérique	**4,889**	*** 565**	**5,454**	**4,961**	*** 575**	**5,536**	**4,933**	*** 642**	**5,575**	**4,725**	*** 714**	**5,439**
ASIE.												
Etablissement des Détroits	2	—	2	2	—	2	2	—	2	2	—	2
Inde (britannique)	109	—	109	109	—	109	119	—	119	124	—	124
Indes néerlandaises	74	—	74	75	—	75	72	—	72	68	—	68
Japon [6]	576	—	576	562	—	562	542	—	542	541	—	541
Philippines	3	—	3	3	—	3	3	—	3	3	—	3
Turquie	—	—	—	—	—	—	—	—	—	—	—	—
Total	**764**	—	**764**	**751**	—	**751**	**738**	—	**738**	**738**	—	**738**
U. R. S. S. [8]	94	—	94	84	—	84	97	—	97	92	—	92
EUROPE (sans U. R. S. S.).												
Albanie	—	* 5	5	—	* 5	5	—	* 5	5	—	* 5	5
Allemagne [9]	303	* 13	316	452	* 12	464	460	* 11	471	666	* 10	676
Autriche	2	—	2	7	—	7	12	—	12	24	—	24
Belgique	53	—	53	86	—	86	100	—	100	126	—	126
Bulgarie	8	—	8	8	—	8	9	—	9	10	—	10
Danemark	56	—	56	56	—	56	49	—	49	46	—	46
Dantzig	—	—	—	—	—	—	—	—	—	—	—	—
Espagne	490	—	490	493	—	493	502	—	502	494	—	494
Estonie	3	—	3	3	—	3	3	—	3	2	—	2
Finlande	8	—	8	8	—	8	8	—	8	8	—	8

* Estimation ou chiffre provisoire.

* Estimate or provisional figure.

Annex. MONETARY GOLD STOCKS OF THE WORLD, $ (000,000's omitted).

For general observations and detailed notes, see pages 35-37 et 62-65.

XII. 1929			XII. 1930			VI. 1931			XII. 1931	
Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Country
										Africa.
1	—	1	1	—	1	1	—	1	2	Belgian Congo.
19	—	19	20	—	20	21	—	21	21	Egypt.
3	—	3	3	—	3	3	—	3	4	Morocco.
46 [1]	* 32	78	41 [1]	* 34	75	36 [1]	* 34	70	43 [1]	Union of South Africa.
69	*** 32**	**101**	**65**	*** 34**	**99**	**61**	*** 34**	**95**	**70**	Total.
										North America.
151	—	151	194	—	194	157	—	157	144	Canada [2].
3,900 [3]	384	4,284	4,225 [3]	368	4,593	4,593 [3]	363	4,956	4,051 [3]	U. S. A.
4,051	**384**	**4,435**	**4,419**	**368**	**4,787**	**4,750**	**363**	**5,113**	**4,195**	Total.
										South America.
405 [4]	40	445	411 [4]	9	420	349 [4]	9	358	252 [4]	Argentine.
5	—	5	2	—	2	2	—	2	2	Bolivia.
150	—	150	11	—	11	—	—	—	—	Brazil.
8	1	9	8	1	9	8	1	9	8	Chile.
22	2	24	17	2	19	10	2	12	9	Colombia.
1	—	1	1	—	1	1	—	1	1	Ecuador.
1	—	1	1	—	1	1	—	1	1	Paraguay.
21	1	22	18	1	19	16	1	17	12	Peru.
68	1	69	61	—	61	58	—	58	53	Uruguay.
18	—	18	15	—	15	15	—	15	15	Venezuela.
699	**45**	**744**	**545**	**13**	**558**	**460**	**13**	**473**	**353**	Total.
17	* 162 [5]	179	11	* 155 [5]	166	10	* 150 [5]	160	10	**Mexico and Caribbean.**
4,767	*** 591**	**5,358**	**4,975**	*** 536**	**5,511**	**5,220**	*** 526**	**5,746**	**4,558**	Total America.
										Asia.
2	—	2	2	—	2	2	—	2	2	Straits Settlements.
128	—	128	128	—	128	151	—	151	162	India
56	—	56	56	—	56	46	—	46	45	Dutch. East Indies.
542	—	542	412	—	412	424	—	424	234	Japan [6].
3	—	3	3	—	3	3	—	3	3	Philippines.
—	—	—	—	—	—	—	—	—	4 [7]	Turkey.
731	—	**731**	**601**	—	**601**	**626**	—	**626**	**450**	Total.
147	—	147	249	—	249	261	—	261	328	U.S.S.R. [8]
										Europe (excl. U.S.S.R.).
—	* 5	5	—	* 5	5	—	* 5	5	1	Albania.
560	* 9	569	544	* 8	552	354	* 5	359	251	Germany [9].
24	—	24	30	—	30	30	—	30	27	Austria.
163	—	163	191	—	191	200	—	200	354	Belgium.
10	—	10	11	—	11	11	—	11	11	Bulgaria.
46	—	46	46	—	46	46	—	46	39	Denmark.
—	—	—	—	—	—	—	—	—	4	Danzig.
495	—	495	471	—	471	468	—	468	434	Spain.
2	—	2	2	—	2	2	—	2	2	Estonia.
8	—	8	8	—	8	8	—	8	8	Finland.

* Estimation ou chiffre provisoire.

* Estimate or provisional figure.

Annexe (*suite*). **Stocks mondiaux d'or monétaire,** exprimés en millions de dollars.

Pays	XII. 1925			XII. 1926			XII. 1927			XII. 1928		
	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total
EUROPE (sans U. R. S. S.) (*suite*).												
France	800[10]	178[10]	978	800[10]	178[10]	978	799	178[10]	977	1,247	24[10]	1,271
Grèce	13	—	13	13	—	13	15	—	15	7	—	7
Hongrie	10	—	10	30	—	30	34	—	34	35	—	35
Italie	221	—	221	223	—	223	239	—	239	266	—	266
Lettonie	5	—	5	5	—	5	5	—	5	5	—	5
Lithuanie	3	—	3	3	—	3	3	—	3	3	—	3
Norvège	39	—	39	39	—	39	39	—	39	39	—	39
Pays-Bas	178	*11	189	166	* 14	180	161	* 15	176	175	* 15	190
Pologne	26	—	26	27	—	27	58	—	58	70	—	70
Portugal	11	—	11	9	—	9	9	—	9	9	—	9
Roumanie	46[11]	—	46	47[11]	—	47	48[11]	—	48	49[11]	—	49
Royaume-Uni et Etat libre d'Irlande	704	* 110[12]	814	735	* 110[12]	845	742	* 100[12]	842	746	* 90[12]	836
Suède	62	—	62	60	—	60	62	—	62	63	—	63
Suisse	90	* 51[13]	141	91	* 51[13]	142	100	* 39[13]	139	103	* 36[13]	139
Tchécoslovaquie	27	—	27	27	—	27	30	—	30	34	—	34
Yougoslavie	15	—	15	17	—	17	17	—	17	18	—	18
Total	3,173	* 368	3,541	3,405	* 370	3,775	3,504	* 348	3,852	4,245	* 180	4,425
OCÉANIE.												
Australie[14]	128	151	279	107	125	232	105	115	220	109	114	223
Nouvelle-Zélande[15]	34	—	34	34	—	34	34	—	34	32	—	32
Total	162	151	313	141	125	266	139	115	254	141	114	255
Total général	9,148	* 1,096	10,244	9,408	* 1,088	10,496	9,481	* 1,121	10,602	10,011	* 1,041	11,052

* Estimation ou chiffre provisoire.

* Estimate or provisional figure.

NOTE GÉNÉRALE.

Les sommes indiquées sous la rubrique *Réserves* représentent, en principe, tout l'or que possèdent effectivement les Banques d'émission et les Trésoreries, y compris, le cas échéant, les montants de faible importance, qui ne servent pas légalement de couverture des billets et autres exigibilités à vue. L'or « earmarked » à l'étranger est toujours compris dans le chiffre du pays pour le compte duquel cet or est ainsi réservé, et exclus du chiffre indiqué pour le pays où il est déposé.

En règle générale la nature des *autres stocks d'or*, dont les chiffres sont donnés pour certains pays, est indiquée dans les notes détaillées ci-après. Dans le cas des pays au sujet desquels il n'y a pas de note spéciale, les sommes indiquées sous cette rubrique représentent l'or en circulation, y compris l'or détenu par les banques commerciales. Sauf dans le cas des pays de l'Amérique du Sud et de l'Australie, pour lesquels les « autres stocks » se rapportent exclusivement aux stocks d'or enregistrés des banques commerciales et autres institutions similaires, les montants indiqués constituent plutôt des évaluations. Les totaux sont d'ailleurs évidemment incomplets car l'or thésaurisé en Asie

GENERAL NOTE.

The sums shown under the heading *Reserves* represent in principle all the gold in the actual possession of Banks of Issue and Treasuries, including such minor amounts, if any, as do not legally serve as cover for notes or other sight liabilities. Gold held under earmark abroad is in all cases included in the figure for the country for whose account it is earmarked and excluded from the figure for the country where it is deposited.

The character of the *Other Gold Stocks* shown for certain countries is in most cases indicated in the detailed notes below. In the case of those countries for which special notes are not given, the sums shown under this heading represent gold in circulation including gold holdings of commercial banks. Except in the case of South American countries and Australia where other stocks relate exclusively to recorded gold holdings of commercial banks and similar institutions, the sums shown are rather of the nature of estimates. The totals are admittedly incomplete, as gold hoards in Asia and Africa are left entirely out of account and hoards not accounted for are known to exist, or to have

Annex (*continued*). **Monetary Gold Stocks of the World, $ (000,000's omitted).**

XII. 1929			XII. 1930			VI. 1931			XII. 1931	
Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Autres stocks d'or Other Gold Stocks	Total	Réserves Reserves	Country
										Europe (excl. U.S.S.R.) (*cont.*).
1,631	10 [10]	1,641	2,099	—	2,099	2,211	—	2,211	2,683	France.
8	—	8	7	—	7	6	—	6	11	Greece.
29	—	29	29	—	29	20	—	20	18	Hungary.
273	—	273	279	—	279	283	—	283	296	Italy.
5	—	5	5	—	5	5	—	5	6	Latvia.
4	—	4	4	—	4	4	—	4	5	Lithuania.
39	—	39	39	—	39	39	—	39	41	Norway.
180	* 15	195	171	* 14	185	200	* 15	215	357	Netherlands.
79	—	79	63	—	63	64	—	64	67	Poland.
9	—	9	9	—	9	9	—	9	13	Portugal.
55	—	55	55	—	55	53	—	53	58	Roumania.
711	* 80[12]	791	722	* 70[12]	792	800	* 65[12]	865	590	United Kingdom and Irish Free State.
66	—	66	65	—	65	64	—	64	55	Sweden.
115	* 36[13]	151	138	* 42[13]	180	162	* 45[13]	207	453	Switzerland.
37	—	37	46	—	46	46	—	46	49	Czechoslovakia.
18	—	18	19	—	19	27	—	27	31	Yugoslavia.
4,567	*** 155**	**4,722**	**5,053**	*** 139**	**5,192**	**5,112**	*** 135**	**5,247**	**5,864**	Total.
										Oceania.
89	96	185	75	—	75	74	—	74	51	Australia [14].
28	—	28	29	—	29	29	—	29	28	New Zealand [15].
117	**96**	**213**	**104**	—	**104**	**103**	—	**103**	**79**	Total.
10,398	*** 874**	**11,272**	**11,047**	*** 709**	**11,756**	**11,383**	*** 695**	**12,078**	**11,349**	Grand Total.

* Estimation ou chiffre provisoire.

* Estimate or provisional figure.

et en Afrique est entièrement laissé en dehors des évaluations, et on sait également qu'il y a, ou qu'il y avait, de l'or amassé par le public dans d'autres parties du monde et dont on n'a pas tenu compte. C'est qu'il est impossible d'évaluer avec une précision raisonnable l'importance de cette thésaurisation.

Jusqu'au milieu de 1931, on a assisté à une concentration graduelle d'or provenant des « autres stocks » (y compris certains de ceux dont il n'est pas tenu compte dans le tableau) dans les réserves centrales d'or. Toutefois, une tendance contraire s'est manifestée au cours du second semestre de l'année, la crainte de pertes sur les placements ayant entraîné, dans certains pays, une nouvelle thésaurisation dans de très grandes proportions. Malgré un certain déclin dans la consommation industrielle d'or nouveau et une augmentation considérable de la production mondiale de l'or, et également en dépit du fait que des quantités très importantes d'or en provenance de stocks thésaurisés dans l'Inde et d'autres sources non monétaires sont devenues disponibles pour l'usage monétaire, le montant total des réserves centrales d'or a effectivement baissé entre la fin de juin et la fin de décembre 1931. Comme on ignore le montant des nouvelles thésaurisations dans les divers pays, aucun chiffre pour les « autres stocks » n'est donné pour la fin de 1931.

existed, also in other parts of the world. These hoards, however, cannot be estimated with any reasonable degree of accuracy.

A gradual concentration of gold from other stocks (including some of those not accounted for in the table) into central gold reserves was taking place up to the middle of 1931. This tendency was, however, reversed in the second half of that year, as fear of investment losses has led to new hoarding on a very considerable scale in certain countries. In spite of a decline in the industrial consumption of new gold and a considerable increase in world gold production, and although very important amounts of gold from Indian hoards and other non-monetary sources became available for monetary use, total central gold reserves actually dropped between the end of June and the end of December 1931. As the amount of the new hoarding in the various countries is unknown, no figures for other stocks are given for the end of 1931.

[1] *Union Sud-africaine.* — Y compris l'or détenu en Rhodésie et dans le Sud-Ouest africain par les succursales des banques de l'Afrique du Sud. Dans les statistiques officielles, on ne fait pas de distinction entre l'or et les pièces divisionnaires en ce qui concerne les réserves détenues en dehors de l'Union. Toutefois, aux fins du présent tableau, on a évalué cet or sur la base de la proportion qui existe entre l'or et les pièces divisionnaires dans les réserves détenues à l'intérieur de l'Union.

[2] *Canada.* — Y compris l'or détenu à l'étranger par les « Chartered Banks » (qui sont des institutions émettant des billets de banque), ainsi qu'une faible proportion de monnaies divisionnaires qui ne sont pas indiquées séparément des réserves détenues par ces banques à l'intérieur du pays.

[3] *Etats-Unis d'Amérique.* — Y compris l'or détenu en contre-partie des certificats-or.

[4] *Argentine.* — Y compris l'or conservé dans les légations argentines à l'étranger, mais non compris l'or détenu par la « Banco de la Nación », qui n'est pas une banque d'émission. L'or de cette banque figure sous la rubrique « autres stocks ».

[5] *Mexique, Amérique Centrale et Antilles.* — Evaluation de la circulation d'or (y compris l'or dans les banques commerciales) principalement au Mexique et à Cuba.

[6] *Japon.* — Stocks d'or détenus à l'intérieur du pays par la Banque du Japon et le Gouvernement. On croit que les stocks d'or japonais détenus à l'étranger étaient assez importants au cours des premières années de la période envisagée, mais les statistiques existantes ne les séparent pas des autres avoirs étrangers.

[7] *Turquie.* — Réserve-or de la nouvelle Banque centrale de la République, qui a commencé ses opérations en octobre 1931.

[8] *Union des Républiques soviétistes socialistes.* — Au cours de la période envisagée, des quantités importantes d'or russe ont été exportées ou mises en gage à l'étranger. On ne peut pas conclure des renseignements dont on dispose si, et dans quelle mesure, cet or s'est incorporé aux réserves des autres pays tout en continuant à figurer dans les chiffres des réserves russes.

[9] *Allemagne.* — Les « réserves » comprennent, en plus de l'or de la Reichsbank, l'or détenu par les banques dites *Privatnotenbanken.* Les chiffres indiqués sous « autres stocks d'or » en 1925 représentent le montant total d'or acheté au public par la Reichsbank pendant la période 1925-1931. Ces achats figurent dans les rapports de la Banque en plus des importations d'or en Allemagne. Etant donné que la Banque n'a procédé pendant cette période à aucune vente d'or à l'intérieur du pays, si ce n'est pour des buts industriels, on peut admettre que tout l'or ainsi acheté existait en Allemagne en dehors des banques d'émission en 1925. Pendant la seule année 1931, la Reichsbank a acheté plus de 8 millions de dollars d'or provenant des stocks nationaux, on a admis que la plupart de ces achats avaient été effectués au cours de la seconde moitié de l'année. Les chiffres indiqués excluent pour toute la période de l'or qui peut encore avoir existé en dehors des banques d'émission à la fin de 1931, et peuvent par conséquent être trop bas.

[10] *France.* — En 1925 et 1926, le chiffre indiqué pour la réserve comprenait une somme de 89 millions de dollars d'or mis en gage à l'étranger. Cet or, bien qu'il n'était pas inclu dans les stocks d'or des autres pays, ne constituait pas une réserve « libre » de la Banque de France. Il a été libéré en 1927. La somme indiquée pour les « autres stocks d'or » en 1925 représente le montant approximatif des anciennes pièces d'or achetées au public, en France, par la Banque centrale, au cours de la période 1926-1930. On admet que la totalité de cet or existait en France en 1925. La diminution subséquente des chiffres indiqués reflète ainsi une concentration de l'or de la « circulation » dans la réserve centrale. L'or effectivement retiré au cours de 1926 et 1927 n'a été incorporé dans la réserve officielle qu'en 1928. Jusqu'à ladite année, il est donc maintenu sous la rubrique « Autres stocks ». Durant toute la période envisagée, les chiffres indiqués ne tiennent pas compte des pièces d'or qui pouvaient encore se trouver thésaurisées par des particuliers en France à la fin de 1930 (dont une partie a pu être achetée par la suite au public) et sont, par conséquent, probablement trop bas.

[11] *Roumanie.* — Y compris l'or déposé à Londres pour un montant d'environ 19 millions de dollars.

[12] *Royaume-Uni et Etat libre d'Irlande.* — Les chiffres indiqués sous la rubrique « Autres stocks d'or » représentent des évaluations grossières du montant d'or monétaire dont on admet l'existence en dehors de la Banque d'Angleterre, c'est-à-dire ou bien dans d'autres banques (y compris les banques d'émission écossaises et irlandaises) ou bien thésaurisé par les particuliers. On sait qu'une concentration graduelle de cet or dans la réserve centrale a eu lieu depuis 1926. Les évaluations faites aux fins du présent tableau ont été basées sur la présomption que le taux de concentration a été uniforme, mais, en fait, des variations considérables ont pu se produire d'une année à l'autre. Une partie des « autres stocks d'or » indiqués pour la fin juin 1931 a été transféré à la réserve centrale pendant la seconde partie de ladite année. Quelque 40 millions de dollars de l'or qui se

[1] *Union of South Africa.* — Including gold held in Rhodesia and South West Africa by the branches of South African joint-stock banks. This gold is not shown separately from subsidiary coins in the official statistics, but has been estimated for the purpose of the present table on the basis of the ratio of the joint-stock banks' gold reserve in the Union to their holdings of subsidiary coin in the Union.

[2] *Canada.* — Including gold held abroad by the chartered banks (which are note-issuing institutions) and a small proportion of subsidiary coin not shown separately from their domestic gold reserves.

[3] *United States.* — Including gold held against gold certificates.

[4] *Argentine.* — Including gold held at Argentine legations abroad, but excluding the gold held by the Banco de la Nación, which is not a bank of issue. The gold of this bank is included under "other stocks".

[5] *Mexico and Caribbean.* — Estimated gold circulation (including gold in commercial banks) mainly in Mexico and Cuba.

[6] *Japan.* — Domestic gold holdings of the Bank of Japan and the Government. Japanese gold holdings abroad were believed to be of some importance in the first years of the period considered, but were not shown separately from other foreign assets in available statistics.

[7] *Turkey.* — Gold reserve of the new Central Bank of the Republic, which began operations in October 1931.

[8] *Union of Soviet Socialist Republics.* — In the course of the period considered, important amounts of Russian gold have been exported or pledged abroad. It does not emerge from available information to what extent, if any, such gold has become incorporated in the reserves of other countries while still being included in the Russian reserve figures.

[9] *Germany.* — Reserves include the gold held by the so-called *Privatnotenbanken* in addition to that held by the Reichsbank. The figures shown for other gold stocks in 1925 represent the aggregate amount of old monetary gold bought by the Reichsbank from the public in Germany in the years 1925 to 1931. In the reports of the Bank, these purchases are indicated in addition to the annual gold imports into Germany. As no domestic sales of gold, except for industrial use, were made by the Bank in this period, it may be assumed that all the gold thus purchased existed in Germany outside the banks of issue in 1925. In 1931 alone, the Reichsbank bought over $8 million from domestic stocks ; it has been assumed that the greater part of this gold was bought in the second half-year. The figures shown ignore throughout the gold that may have still existed outside the banks of issue at the end of 1931 and may therefore be too low.

[10] *France.* — In 1925 and 1926, the reserve figure includes an amount of $89 million of gold pledged abroad which, although not comprised in the recorded gold stocks of other countries, did not constitute a free reserve of the Bank of France. This gold was released in 1927. The sum shown as other gold stocks in 1925 represents the approximate amount of old gold coins bought from the public in France by the Central Bank in the period 1926 to 1930. All of this gold presumably existed in France in 1925. The subsequent decline in its amount reflects the withdrawal of gold from circulation into the central reserve. The gold actually withdrawn in the course of 1926 and 1927 was not incorporated in the recorded reserve until 1928 and is therefore maintained under other stocks up to that year. Throughout the period considered, the figures shown do not take account of the amount of gold coins which may have still remained in private hoards in France at the end of 1930 (part of which may have subsequently been bought from the public), and are therefore probably too low.

[11] *Roumania.* — Including gold deposited in London amounting to about $19 million.

[12] *United Kingdom and Irish Free State.* — The figures shown for other gold stocks represent rough approximations to the amount of monetary gold believed to exist outside the Bank of England — *i. e.,* either with other banks (including the note-issuing Scottish and Irish banks) or in private hoards. A gradual concentration of such gold into the central reserve is known to have taken place since 1926. The estimates made for the purpose of the present table assume an even rate of concentration, but considerable year-to-year variations may in fact have occurred. A certain proportion of the other gold stocks shown for the end of June 1931 accrued to the central reserve in the latter half of that year. Of the gold remaining in private hoards at the end of 1931 some $40 million was collected and exported in the first quarter of 1932.

trouvait encore chez des particuliers à la fin de 1931 ont été retirés et exportés pendant le premier trimestre de 1932. En admettant que l'estimation des « autres stocks d'or » n'ait pas été trop basse pour toute la période, il ne serait par conséquent resté dans le pays, au début du second trimestre de 1932, que relativement peu d'or thésaurisé par les particuliers.

[13] *Suisse.* — La circulation de l'or à la fin de 1925 et de 1926 a été évaluée, en ajoutant au total des monnaies d'or suisses en dehors de la Banque nationale, en 1927 (calculé par la Banque nationale), le montant des autres pièces d'or de l'Union latine versées à la Banque depuis le 8 février 1927, date de leur démonétisation. Pour les années ultérieures, le montant des nouvelles pièces d'or frappées par la Monnaie suisse et détenues en dehors de la Banque nationale, ainsi que le montant approximatif de l'or monétaire (monnayé ou en lingots) importé de l'étranger et détenu en dehors de la Banque nationale, ont été ajoutés au chiffre pour 1927. Une partie des pièces suisses non détenues par la Banque nationale, et plus particulièrement de celles qui ont été frappées avant 1927, peut avoir été fondue pour des fins industrielles ou autres, et une autre partie peut avoir été détenue à l'étranger. Toutefois, la surestimation de la circulation d'or à l'intérieur du pays qui en résulte, peut se trouver plus que compensée par la sous-évaluation résultant du fait que des quantités considérables de pièces d'or d'autres pays de l'Union latine étaient encore, au milieu de 1931, entre les mains du public et de certaines banques privées. Par conséquent, on peut considérer que les chiffres fournis jusqu'à cette date constituent des évaluations approximatives du montant total des pièces d'or, suisses et étrangères, et de l'or en lingots conservé en Suisse, en dehors de la Banque nationale. On a tout lieu de croire que, par la suite, les stocks d'or thésaurisés en Suisse se sont considérablement accrus.

[14] *Australie.* — Les sommes indiquées sous la rubrique « Autres stocks d'or » représentent l'or détenu par les banques commerciales, ainsi que par le Département bancaire général de la Banque du Commonwealth. (Celles qui figurent sous la rubrique « Réserves » représentent uniquement l'or dans le Département d'émission.) Les banques commerciales ne distinguent pas les pièces divisionnaires de l'or dans les chiffres de leurs réserves, tels qu'ils sont publiés. Toutefois, aux fins du présent tableau, on a estimé que leurs stocks de ces pièces divisionnaires représentaient la même proportion, par rapport au montant total de leurs réserves que dans le cas des banques de Nouvelle-Zélande (dont la plupart sont des succursales de banques australiennes) et on les a calculés par déduction des chiffres d'ensemble publiés.

[15] *Nouvelle-Zélande.* — Les banques commerciales émettent des billets. Leurs stocks de pièces divisionnaires, qui ne sont pas séparées de l'or dans les chiffres publiés de leurs réserves, ont été évalués sur la base de renseignements officiels fournis spécialement et se rapportant à des dates légèrement différentes. Les montants ainsi évalués ont été déduits des chiffres des réserves métalliques non spécifiées publiés par les banques elles-mêmes.

The estimate of other gold stocks is not too low throughout the period considered, comparatively little gold would thus have remained in private hoards in the country at the beginning of the second quarter of 1932.

[13] *Switzerland.* — The gold circulation at the end of 1925 and 1926 has been estimated by adding to the sum of Swiss gold coins outside the National Bank in 1927 (as calculated by the National Bank), the amount of other Latin-Union gold coins paid into the Bank since February 8th, 1927, the date of their demonetisation. For subsequent years, the amount of new gold coins struck by the Swiss Mint and retained outside the National Bank as well as the approximate amount of monetary gold (either in coin or bullion) imported from abroad and retained outside the National Bank have been added to the figure for 1927. Part of the Swiss coins not held by the National Bank, and particularly of those struck before 1927, may have been melted down for industrial or other purposes and part may have been retained abroad. But the consequent overestimate of the domestic gold circulation may be more than offset by the underestimate resulting from the fact that considerable amounts of gold coins of other Latin-Union countries were still, by the middle of 1931, held by the public and certain private banks. The figures given up to that date may therefore be taken as rough approximations to the total amount of Swiss and foreign gold coins and gold bullion held in Switzerland outside the National Bank. Subsequently the private gold holdings are believed to have been considerably increased.

[14] *Australia.* — The sums shown under "other gold stocks" represent gold in commercial banks and in the General Bank Department of the Commonwealth Bank (those shown under "Reserves" represent gold with the Issue Department only). The commercial banks do not separate subsidiary coins from gold in their published reserve figures. For the purpose of the present table, however, their holdings of such coins have been estimated to bear the same proportion to total holdings as in the case of the banks of New Zealand (most of which are branches of Australian banks) and have been deducted from the joint figures published.

[15] *New Zealand.* — The commercial banks issue notes. Their holdings of subsidiary coin, which are not shown separately from their published gold reserves, have been estimated on the basis of specially furnished official information referring to slightly different dates. The amounts thus estimated have been deducted from the unspecified metallic reserve figures as published by the banks themselves.

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