WORLD DEPRESSION

(The first three of these Chapters are Lectures on the Nature and Causes of the World Depression, with special reference to India, delivered under the auspices of THE MADAN MEMORIAL FUND, and published with their permission. The last 2 Chapters on the Crisis in the United States, and on the World Economic Conference of June—July, 1933, were added to bring the book up to date.)

BY

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MADRAS.

A. G. m D.

To

LAKSMIDAS ROWJI TAIRSI

"Tu l'as voulu........"

PREFACE.

This little Volume is the outcome of 3 Lectures delivered in February, 1933, under the auspices of the Madan Memorial Fund, Bombay. The Lectures have been printed and published in all essential particulars as they were delivered. The writer regrets that, owing to circumstances over which he had no control, there has been considerable delay in publishing those Lectures; but the delay has proved serviceable in enabling the writer to add two Chapters, one on the Crisis in America, and the other on the World Economic Conference, which may render this volume more useful. To a considerable extent these additional Chapters, also, represent the substance of two Lectures delivered under the auspices of the Gokhale Institute of Economics and Politics, Poona, in August, 1933; and of two more under the joint auspices of the Bombay Students' Brotherhood, Bombay and the Bombay Swadeshi, League, in September following. As the audiences which attended these Lectures showed evidence of the keen interest the public of this Presidency takes in such world problems, the writer trusts that the material of those Lectures, now presented in book form, will prove useful to a still larger public.

BOMBAY
23rd October, 1933.

K. T. SHAH.

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Bibliographical Note.

The Lectures have been based on Standard publications, such as those of the League of Nations, or well-known periodicals, like the London ***Economist,*** *the* ***Statist*** *or the* ***New York Current History.*** *Other Works, like those of Mr. G. D. H. Cole, or the Report on Recent Economic Changes in America, have been mentioned in their appropriate place. The last Chapter represents the summary of the Experts' Report on the Agenda for the World Economic Conference, together with notes and comments by the present writer on the results achieved.*

"The Present World Depression—
How and Why it has affected India to the
extent it has done."

LECTURE.

THE NATURE OF THE PROBLEM.

Introductory :—The present Depression in Industry and Agriculture, Finance and Commerce, is a world-wide phenomenon, from which hardly any country is exempt. The civilised countries of the world being nowadays very closely connected and interdependent by the growing bonds of Trade and Finance, it is indeed, inevitable that such a profound phenomenon should not be localised and isolated; but be shared, in a greater or less degree, by all the leading commercial countries of the world, and be felt by every important people in their productive as well as distributive organisation.

The prevalence and intensity of this depression has been noticed, not only by the writers and thinkers, statesmen and business-men, of all countries, their press and Government, their collective and authoritative organisations of Trade, Industry and Agriculture, but also by the League of Nations. Under the auspices of the latter have been, and are being held, Conferences of experts from all countries, and of representatives likewise, to examine the nature of the present world-wide Depression, study its causes, and concert remedies for removing it. Pending the final recommendations of such Conferences, and the measures to be adopted in consequence, the Economic Section of the League of Nations has issued comprehensive studies regarding the nature, extent, and causes of the Depression in all countries, which afford a most useful and reliable source of material or data for these Lectures.

PLAN OF THE LECTURES.

But, though this economic Depression is a world phenomenon, common to all civilised and trading countries, the causes and conditions of of the Depression may not be the same in each country; nor the extent and intensity of the Depression be felt equally in all. No doubt, there are some common or general causes noticeable at work in all the leading countries. But these are in addition to the special or peculiar causes, which account for its effects being felt in one particular form as against another, or in a greater or less degree in the different countries. The cry of Depression is common in Europe, Asia, and America; but the nature and reasons for the phenomenon are not the same in France, Germany or Britain,—let alone Russia,—in Europe, as in the United states of America, or Japan and India in Asia. Historical and economic reasons combine to account for this variation from country to country; and also explain the varying reactions of the several countries to the different remedies proposed for combating the Depression.

India has been affected by this Depression, not only incidentally, as one of the most important trading countries of the world, unable to escape the world currents of prosperity or depression, but because of her own peculiar conditions and circumstances, which have made her feel this Depression for a longer time, and more keenly, than perhaps any other country of corresponding importance. India is a land of chronic Depression, in which, the wonder would rather be that at any time there was no Depression. When we have no famine, we may have wars or epidemics; when these fail, we have Currency changes, Fiscal alterations, or additional taxes to explain away the state of continued Depression; and when all these cannot be urged, we can easily fall back on political agitation,—including Civil Disobedience in all its forms, if we are speaking for Government; and the follies of the Finance Department if we are speaking for the people —to account for an eternal fact. We shall review, in the next Lecture, some of the causes peculiar to India, which have made the feeling of Depression in this country deeper, more lasting, and all-embracing than in other countries. Here I am concerned only with the observation: that India has had her own peculiar spell of the prevailing Depression, with her own special causes occasioning the phenomenon, and with her own special reasons for its continuance and extent.

We shall, then, consider in the next Lecture the general causes, common to the civilised commercial world, accounting for this Depression, as well as the peculiar conditions and circumstances of India, explaining the scope and intensity of this Depression. To discuss the world causes along with those peculiar to India is necessary, if only to maintain a sense of proportion and perspective, and to form a balanced judgment on the entire question. Unless one adopts this policy, it is most likely to happen that the immediate forces of one's own country may affect and impress a student almost to the complete neglect of other circumstances and influences, which, because they are common to the whole world, are not the less operative in one's own country. And we in this country are peculiarly liable to be accused of losing our sense of proportion and perspective, if we consider the reasons peculiar to India by themselves, apart from the consideration of world conditions. Hence, at the risk of over-crowding that Lecture, I propose to discuss both the general causes of the Depression in the world at large, and the causes special and peculiar to India, in one place, noting their mutual corelation, and considering each, as it were, in its proper place.

Though the title of this Series does not quite embrace any consideration of the Remedies, the discussion would, you would agree, be incomplete and unsatisfying, if not misleading, were one to omit altogether any notice of the proposals hitherto made to remedy the situation, or those which might occur to oneself on a close study of the circumstances and conditions occasioning the Depression, both for one's own country, and for the world at large. I shall, therefore, offer no apology for devoting the third and final Lecture of the Series to a consideration of the remedies for the present situation, of course with special reference to India. The common remedies for the world Depression will, in that examination, no doubt have their bearings. But, what would particulary interest you would be the reaction of these remedies in this country, their practicability under our peculiar conditions, and their supplementation by additional measures specially calculated to relieve the situation in this country.

NATURE OF PRESENT DEPRESSION.

To estimate properly the full significance of the causes of the present Depression, and to understand correctly its nature, it is necessary, *first*, to realise that the present phenomenon represents no real diminution of the productive capacity of mankind. Following the world war, and the dislocation caused by it, the peoples of the world set themselves the task of reconstruction and recovery, in which they were in turn hindered and stimulated by the circumstances of the moment. With the abandonment of the war-time control of industry and trade, there were at first violent fluctuations in commodity-prices, leading to a considerable disorganisation and decline in production and trade. Coupled with the disappearance of war credits, the first reaction of the cessation of hostilities was a serious depression in the years immediately following. But if the War had brought about wastage and destruction of life and property, which needed to be made good, it had also left a legacy of a stimulus to invention and a strong tendency to closer and more efficient organisation, which brought about a rapid revival in the productive organisation of the world. The real problem of the years immediately following the War, was not so much the restoration of the pre-War level of productive effort, but rather the reestablishment of the equilibrium between effort and its yield or return; the reconstitution of trading relations between the countries of the world; and the re-adjustment of the machinery of Exchange that had been thrown completely out of gear by the War and its aftermath. As the countries of the world most intimately concerned in this maladjustment came to re-establish their pre-War position; as the disturbed Currency system, Credit machinery, and Exchange organisation were rehabilitated; as the causes of bickerings were weakened by the settlement, even temporarily, of such thorny questions as that of the Reparations, a new effort was made by the world for addition to production and trade. And they succeeded in their endeavours by about 1925 when the pre-War level was practically attained. As the statistics in the *World Economic Survey* for 1931–32, prepared by the Leagure of Nations, show:

World Production in 1925 compared with 1913.

Increase in world population	5%
Increase in production of food stuffs	10%
,, ,, ,, Raw materials	25%
,, ,, ,, Quantum World Trade	7%

"The *per capita*, as well as the total production of the world was greater than in 1913, though not as much greater as it might have been if the steady pre-War increase of productivity had not been interrupted." This increase was, indeed, unevenly distributed, being 16% in aggregate production all over the world, 26% in North America, and only 27% in Europe; while the difference was still more marked in regard to trade quantum, which, for Europe, was still 9% below the pre-War level, in North America over 39% above that level, and in the rest of the world 26% above the 1913 level.*

From and after 1925, the upward trend was maintained in the world at large, though in individual countries the curve was not rising uniformly. There were many factors which contributed to this progress, amongst which may be mentioned the return to the Gold

* *Op. Cit p.* 23.

Standard and the stabilisation of the Currency in the leading countries; the introduction of a cheap Credit policy in the U. S. A; the settlement of the Franco-German Reparations question by the Dawes Plan; the reorganisation and rationalisation of German industry, chiefly by means of foreign capital; and the conclusion of the Locarno Agreements. Local incidents, like the British Coal strike of 1926, might have temporarily arrested the upward trend in the country affected; but they were offset in full by the impetus they provided for a corresponding expansion in other countries' trade and production.

By 1929, Europe had rccovered her pre-War position in trade and industry. The following table, compiled from the source already mentioned, crystallises the progress of recovery and re-integration by the end of 1929.*

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* *Op. Cit. p. 25 Foot Note.*

The bulk of this expansion was in capital goods, or industries, raw material, as shown by the following: production of pig iron in the world increased by 28%, and steel by 33%; the U.S. recorded an increase of 87% in the demand for machine tools, and 48% in that for foundry equipment: Ship-building in the world as a whole increased by 27%, the production of artificial silk by 133% and the consumption ot crude rubber by 43% as compared with 1925 (Ibid)

INDICES OF PRODUCTION AND TRADE, 1929.
(1925 = 100,)

Region.	Population.	Production A. Food Stuffs.	Production B. Raw Materials.	Production A & B.	Quantum of Trade.
Europe	105	110	131	117	122
N. America	106	97	114	105	119
Rest of the world	103	105	119	109	112
World	104	105	120	111	119

As compared to 1913, the last pre-War normal year, the world's increase in population was 11% as against 30% increase in the aggregate production. In Europe, the population in this period increased only by 9%., while production increased by 20%; and in North America, the increases were, respectively, 27% and 33%.†

Since the peak of production and prosperity* was reached in 1929, there has no doubt

† CP *"Guide through World Chaos,"* by *G. D. H. Cole, p. 29.*

* The term 'prosperity' is here used with reference only to Production. For, as Prof. Cole points out, (Op Cit- Loc. Cit.)—"This increase in output was accomplished without- any corresponding rise in the number of workers employed." The productivity per unit of effort (man-hour) has increased very consit derably, owing to scientific agriculture and mechanisation in cultivation as also to wholesale rationlisation in industry. In the U. S. alone, the productivity per man power in 35 factories investigated into was found to have increased by 74% between 1919 and 1927. Herein is the chief explanation of growing productivity and, at the same time, rising unemployment.

been a considerable fall; but the net effect of the fall is still not taking the world production below its normal pre-War level. If we take the average of production between the peak period in the post-War years 1925-29 as the basis of comparison, the following figures, though showing a decline, nevertheless bear out the comparative statement:

WORLD PRODUCTION OF VARIOUS CLASSES OF GOODS.

(Average 1925 to 1929-100.)

	1925	1929	1930	1931.
Food Stuffs	97	103	101	99.
Raw materials	92	111	101	91.
Raw materials for consumers' Goods	98	104	100	100.
Ditto for Producer's Goods	91	113	98	82.
Weighted average of production Indices of 12 Industrial countries.	91	112	97	84. *

The falling off seems to be the greatest in the heavy industries concerned with the production of capital goods, where the rise also was the greatest. The distribution of this decline by regions, including as well as excluding

* *CP. World Economic Survey. p. 88.*

the United Socialist Soviet Republics of Russia; where the intense drive for increasing production under the Five Years Plan* has occassioned no small degree of the world Depression, is still more instructive.

General Indices of production of Food Stuffs and Raw Materials weighted by 1930 values :†

(Basis : Average for 1925 to 1929=100)

	1925	1929	1930	1931
Europe excluding U. S. S. R.	95	112	103	98
„ (not excluding U. S. S. R.)	94	110	104	100
North America	96	103	93	88
Latin America	96	104	102	97
Africa	95	108	106	104
Asia (excluding Asiatic Russia)	97	105	108	102
Oceania	93	102	110	108
World	95	106	101	96 *

* c/o Ibid. The production Indices of U.S.S. R are:—

1925	1929	1930	1931
62	143	175	195

† It should be pointed out also that the yearly figures quoted above tend to minimise the extent of the decline, which has been proceeding rapidly in recent months. Thus the Canadian index in March 1932 stood at 77, as against 126 in March 1929; that for the United States fell in the same period from 109 to 61. The French, which was 113 in March 1929 remained high till 1931 (standing in March at 108) fell rapidly to 80 in March 1932. The Polish index also fell from 118 in March 1929 to 51 in March 1932."

The general conclusion to be drawn from those figures is obvious. The decline is the greatest in the manufacturing countries, and in manufactures. The depression is thus an outcome of commercial and financial, as well as agricultural and industrial causes. Says The *World Economic Survey* :—*

"The crisis which has paralysed international finance and credit, and bids fair to strangle international trade, has severely shaken manufacturing enterprise, including the production of mineral raw materials. But agricultural production, the extention of which in recent years is one of the causes of disorganisation, does not decrease, though stocks accumulate. The farmer, faced with a reduction in his income, exerts every effort to increase his production in order to counteract the effect of lower prices."

REAL NATURE OF CRISIS.

I have deliberately quoted a somewhat lengthy extract from The *World Economic Survey*, not only because it is of peculiar significance to us in India—an overwhelmingly agriculturist country,—but because it embodies in brief the real nature of the present crisis. Mankind, in the aggregate, has not lost its pro-

* p. 91.

ductive capacity, nor suffered any diminution in the productive equipment. But for the breakdown or dislocation of the economic mechanism,–and particularly that of exchange,–on which our entire productive organisation depends all over the world,–except Russia-the advances in human science and technology recently achieved would still continue to provide us with the same increment in the annual supply of material utilities that minister to the welfare of mankind. But the maintenance of the pace in production is conditioned upon the continued functioning of the mechanism of Exchange, including the stability of prices and trade, of Currency and Credit,—failing which the continued replenishment of the main currents feeding the fountain of production would be impossible. Hence the present Depression all over the world may generally be said to consist, not so much in any loss or destruction of material utilities or productive organisation, as was the case in the years immediately following the War, 1914–18; nor in any marked and disproportionate diversion of productive effort to one special class of production as against another, as was the case in the War years proper; nor even in any disparity between the wants of mankind and their resources to supply those wants;* but simply and solely in the break-down or dislocation of the mechanism of Exchange, together with all its accessories; and, ultimately, in the unsuitability of the entire socio-economic fabric of the world outside Russia to the altered conditions of production, and the new conception of human wellbeing.†

Because the existing, orthodox, obsolete Exchange organisation is thrown out of gear, the wealth or material utilities man produces cannot be disposed of with the necessary rapidity; nor with the required margin of surplus profit. Failing a quick turnover, the producer feels depressed; his equipment is left un-remunerated or unrenovated; and his aids and assistants become unemployed. It is this Unemployment of the workers, the neglect of the plant machinery and equipment, and the losses

* [See note p. 7 where the population in the world is shown to have increased between 1913 and 1929 much less than production.]

† *CP.—Recent Eeonomic changes in the U. S.* for changes in demand.

or absence of profits to the producer—often called the entrepreneur,—which constitutes the real Depression..

The Depression, thus generated, is hastened and emphasised by the remedies sought to be applied, each in its own way, by the several countries affected, without any general plan or mutual co-ordination. The result has often been a stultification of the measures so devised by the unwillingness of the other countries conjointly affected to co-operate, in the form or at the moment, when alone such co-operation is effective. Hoover grants a moratorium at Hindenburg's request to relieve Germany's immediate distress. That distress would have been relieved, if only France had accepted the offer at once and without conditions. And as and when at last she did, and because of the manner in which she did it, the psychological moment had passed, her acceptance was of no avail. In this way, the Depression may be said, in part at least, to be of human creation.

We shall review the causes, immediate as well as ultimate, of this phenomenon in the next Lecture. Here, it is necessary to add, for a proper understanding of the phenomenon, that the disorganisation between production and exchange, the disequilibrium between demand and supply, which we collectively describe as Depression, is, in its essence, a phase of the socio-economic transition silently taking place below the surface of events. Mankind is rapidly outgrowing the ideal of production for exchange, and of human life exclusively for self-gratification. It is not, indeed, a fact that those who still have in abundance the means of self-gratification are themselves surfeited with the wealth at their disposal, and so have decided to renounce them. It is rather because of that far larger proportion of mankind, which, under the existing social system, has not even a hope of self-gratification and self-realisation, that the ideals of individualism are being questioned, discredited, and discarded. The process of disillusionment, regarding the efficacy as a motive force of "Enlightened Selfishness," has been stimulated and intensified by the growing perception of the utter helplessness of man as a unit for the purposes of his own gratification, and by the simultaneous realisation of the modern economic organisation being unworkable to any advantage, except on the basis of concerted action and co-operative enterprise. The growth of the joint stock enterprise, and its evolution through the varying stages of trust, cartel or collectivist enterprise, with an ever increasing size of the venture, and scale of its operations, provides but one concrete illustration of this tendency of our age, consciously or subsconsciously affecting and altering our social mechanism. And while this process of radical change is at work, while the transition is being affected, Depression like the one the world is now passing through would be inevitable.

Given this basis of the phenomenon, it is immaterial if its intensity or phases vary in the different regions, and with the peoples coming within its grip. As the evidence already adduced in only one branch of our socio-economic organisation shows, the ecomomic intensity of the Depression is different in different countries, as well as in different branches or categories of production. Similar indices would be produced later regarding other aspects. They will all emphasise the fact that the general trend is there, though in varying degrees and in different forms, in the different countries. Examined as they seem on the surface, they indicate the fact of the Depression. But considered collectively and in their essence, they all reveal the same fundamental basis, *viz.*, the unworkability—under altered conditions and changing ideals—of our existing socio-economic institutions.

TRUE NATURE OF THE PROBLEM.

The problem, therefore, rightly viewed and understood is a problem of re-casting and re-building our entire socio-economic fabric—not simply an essay in re-adjusting the cogs and wheels of a machine which may temporarily be thrown out of gear. The machine itself and as a whole must be scrapped, since it is obsolete and unadapted for the work expected of it. New springs are being laid to govern it, new motive power is being provided to work it; new demands are being made upon it. How then can its old, effete, unadapted aud unserviceable parts function to yield the expected results ?

True, in our survey of the machinery, we usually concern ourselves with the obvious and the superficial parts and cogs and wheels, which we search for defects, and tinker and repair and renew. But excepting those fired with a revolutionary zeal, we seldom search the main-spring,—the basic plan and idea,—of the machine, for removing the defects in its functioning we may have noticed. In our study of the present economic Depression, we are likely to be so impressed with the magnitude of the actual decline in trade or prices, that we may be excused for being carried away only by the obvious and superficial. But our search for remedies is bound to prove futile and misleading, in proportion as we ignore the root cause of the Depression in all the leading nations of the world simultaneously.

INDICES OF THE DEPRESSION.

I shall have to revert to this aspect of the question in the last Lecture, and so shall now return to the indicies by which we measure and concretely express the degree of this Depression. According to the official and authoritative investigations all over the world, and chiefly by the League of Nations, we may consider the nature and the degree of this Depression by means of:—

(*a*) Production statistics, aggregate as well as per unit of productive energy, by countries or regions, as well as by industries. In this may also be included the statistics of stocks of produce accumulating, because of the break-down of the exchange machinery, and thereby intensifying the disequilibrium between demand and supply. (*b*) Un-employment figures, affecting the same equation in the opposite direction, but with the same results. (*c*)Trade values, and (*d*) Price Index all over the world.

A. PRODUCTION STATISTICS.

We have already reviewed some of these statistics indicating a decline in production considered in the aggregate. Let us, however, re-examine them by some selected countries, and certain commodities. The following three tables compiled from *The World Economic Survey*, issued by the League of Nations in August last, give (1) the indices of aggregate productivity in 12 countries, (2) the accumulation of stocks in certain important aggricultural commodities, and (3) the fall in manufacturing productivity in the leading countries.

(A) NATIONAL INDICES OF PRODUCTION.

(Basis. average for 1925 to 1929=100.)

	1925	1929	1930	1931
Canada	79	121	103	87
U. S. A.	95	108	88	74
Japan	90	118	110	109
U. S. S. R.	62	443	175	195
Germany	87	112	92	76
Belgium	80	111	93	84
France	88	114	115	102
Poland	84	115	95	80
U. K.	99	112	100	85
Sweden	90	110	106	94
Czecho-Slovakia	88	115	101	90

(11) Group Indices of Production in the world as a whole weighted by 1930 values.

(Basis: average for 1925 to 1929=100).

	1925	1929	1930	1931
Cereals	99	101	102	98
Cereal and other food crops	97	102	103	100
Meat	95	104	99	——
Wine & Hops	109	108	94	96
Coffee, tea and Cocoa	88	120	92	106
Tobacco	99	106	109	——
Vegetable oil materials.	95	107	100	105
Textiles	97	106	103	104
Rubber	80	132	125	121
Wood pulp	86	117	113	——
Fuels	93	110	101	92
Metals	88	116	95	71
Non Metallic Minerals	87	112	109	——
Chemicals (Fertilisers)	88	123	110	——

(III) Accumulated Stocks (World) of Agricultural Commodies.

	MONTH	1925	1929	1930	1931
Wheat (Millions of Quintals)	August	114	233	220	246
Sugar („ „)	December	37	57	71	87
Coffee („ „)	March	5	9	16	17
Cotton(„ Bales)	December	5635	7234	9396	10709

* The most recent monthly indices of production available in those countries at the moment of writing show the following declines as compared with the corresponding month of 1929:—

		Percentage
United States	(February)	41 5.
Canada	(„)	36.6.
Germany	(March)	44.1.
Poland	(February)	48.5.

World Ecnomic Survey.

Summing up this evidence, and other data given in the Review of *World Production*, 1925-1931, we find that production has lagged most markedly in industry, which is in marked contrast with Agriculture. The former had, no doubt, shown, in the years of the upward trend, the most considerable increase also; but the present decline is more than in proportion to that rise. Production of capital goods, if we may so describe this part, shrank, between 1929 and 1931 by at least one-fifth of the maximum attained, and the shrinkage continued all through 1932. If we leave out Soviet Russia, where the production of Five Years' plan led to a steady increase in production during these years, production of capital goods in other countries must have fallen by not less than a fourth, probably much more if we make allowance for the raw materials and semi-manufactured goods included in this estimate. Again, excluding Soviet Russia, the countries most advanced in industrialisation register the heaviest slump, the United States, Germany, Canada, Poland, Austria and Hungary leading the downward trend. Countries, like the United Kingdom, Japan or Scandinavia, which discarded the Gold Standard in 1931, arrested the process of decline for a brief spell; but the tendency reasserted itself even there in the closing months of 1932.

As regards industries, iron and steel, ship-building, mechanical engineering, motor-car production, and the timber industry have fallen most considerably, textiles and rubber goods coming next in order, while electrical engineering shows the lowest fall. Only artificial silk shows a substantial increase.

(B) TRADE STATISTICS.

Another equally important and significant index of depression is provided by the International Trade Statistics. Taking these statistics with all the reserve that the compiler of the *Review of World Trade** requires, we nevertheless find the gold value of world trade steadily and progressively declining. In 1930, the total world trade was 19% lower than than in 1929; n 1931, it was 28% lower than in 1930, or about 42% less than in 1929; while in the first

* Op. Cit P. 13 1931 and 1932 first half.

half of 1932, it was 34% lower than in the corresponding period of 1931 or barely 38·7% of the 1929 level. The following figures, giving the value of the imports and exports of 48 countries, and comprising over 90% of the total world trade make the point much clearer.

IN MILLIONS OF U. S. DOLLARS

	Imports.	Exports.	Percentage full compared to preceding year.	
1929 January to June	15976	14300	...	...
1929 July to December	15818	14762	...	...
1930 January to June	13937	12233	13%	14%
1930 July to December	12088	11083	24%	25%
1931 January to June	9988	8712	28%	29%
1931 July to December	8613	7897	28%	29%
1932 January to June	6552	5757	34%	34%

Compared to 1929, first half, the world imports had fallen by 57% and the world exports had declined by nearly 60%, in the first half of 1932, and the process was continuing throughout the remaining months of that year.*

The value figures, it may be added, do not give a complete or a perfectly correct

* Ibid. p. 15.

picture, inasmuch as prices have in the interval fallen very sharply. The same amount of gold represents a much larger quantity of goods today than it did in 1929; so that, the quantum of trade has not shrunk as much as its value has. Says the authority already quoted :—

"The quantum of world trade in 1931 was reduced to about the same level as in 1923-26. It still remained some 8 to 9% above that of 1913. However, in the first half of 1932, the contrast continued. It has been found that a weighted index of the imported prices of these countries, (U. K., Germany, France and Italy) in the years 1929 to 1931, shows very nearly the same fall in prices as was calculated above for the world. On the assumption that this agreement continued in 1932, it may be estimated that, in the first half of that year, Gold prices were lower than in the first and second halves of 1931 by 27% and 18% respectively. This price reduction, if applied to the data given above, suggests a fall in the quantum of world trade to, or possibly below, the level of 1913."

Compared to the peak of 1929, the quantum reduction in trade in 1932 is about a fifth.

(C) PRICE INDEX.

The fall in prices is another index of Depression, important because it is at once the cause and evidence of the intensity of the phenomenon. Taking gold prices only, the average fall from the peak of 1929 to the middle of 1932 has been worked out, by the Economic section of the League of Nations, at about 50%. But it was much greater in agricultural products than in those of manufacturing industry. Hence, for countries like India, which are predominantly agricultural, the fall in prices of their production was relatively much more sharp, and consequently the soverity of the Depression felt by them is much greater. For, while the prices of their produce fell, much of their costs of production, fixed in money, as also overhead charges like taxation, remained unaltered; and so absorbed a greater and greater proportion of the produce when the agriculturist was the least able to meet them. The poorer the ryot got, the heavier was the burden of these fixed charges upon him. The farmer, in his despair, tried, wherever it was possible for him to do so, to increase his produce, by intensive cultivation and scientific farming. But the remedy served only to deepen and worsen the disease; for the more he produced, the greater was the supply; and, as the demand never responded, the net result of the farmer's effort simply was to increase stocks and lower the prices further than ever. The Bardoli agitation, and the No-Rent campaign are only the ultimate expression of that growing sense of despair, the cause of which lay much deeper beyond the ryot's ken, and often beyond his friends' power to remove. The sub-joined statistics will serve to indicate the real measure of the damage done by the falling prices to the agriculturist:—

PERCENTAGE CHANGE IN AVERAGE GOLD EXPORT PRICES

Article.	From 1929 to 1930	1930 to 1931	1929 to 1931.
Rubber	42	51	72
Wheat	22	56	65
Maize	40	40	63
Coffee	43	29	60
Wool	40	26	56
Cotton	27	38	54
Raw Silk	30	28	50
Sugar	20	25	39
Butter	19	21	35
Cotton Piece Goods	11	21	30

" The average fall in export prices between 1929 and 1931, according to these figures, amounted to 50 to 75% for cereals, coffee, raw textiles and certain other non-metellic raw materials, to 25 to 50% for raw materials (other than iron, food of animal origin, sugar, petrol, wood-pulp and textile manufactures, and to less than 25% for certain other manufactured articles. The above figures of average export prices for 1929 and 1931 are not representative of the whole price fall which has taken place in recent years. The fall in the price of the majority of primary goods, particularly agricultural products, began in the middle of 1928, and lasted, with but temporary interruptions, till the middle of 1932 when the price fall was arrested and a slight upward movement set in. The total price fall during this period considerably exceeded the above percentages. Thus, for example, according to monthly quotations in certain of the chief markets, it amounted to 76% for American Cotton, 73% for wool, 72% for wheat and maize, and 70% for coffee and butter."*

The abandonment of the Gold Standard by some countries, like the United Kingdom, seemed to arrest for a while the downward trend of prices in their local markets. But if we take into account the gold values of these depreciated currencies, the process is even in

* Ibid p. 10.

these countries maintained. The relief, if any, was purely local and shortlived. As other countries followed this easy gradient of inconvertible paper, and the new caste of scientific insolvents began to grow, the fictitious expression of the currency medium paled before the asserting force of the purchasing power parity of goods against goods; and so, since the begining of 1932, the whole-sale price index began to fall even in those countries. It is only where, as in the case of protected domestic markets, or cartellised commodities, world competition is ineffective; or where, as in Russia, the basic principles and governing ideals of the economic organisation are radically different from those in the world of commerce, that the local fall in prices has been checked for the benefit of the local producer. As we in India are conspicuous in the world for our utter disregard of the local producer, or for our altruistic consideration of the interests of others, we have none of these devices, nor their benefits. I shall, therefore, dwell no further on this index of Depression.

(D) UNEMPLOYED FIGURES.

The next considerable and suggestive indication of the Depression is found in the figures of the unemployed. These figures are available only for organised industries, and in highly industrialised countries, where they have official or authoritative sources of collecting those statistics. The figures, however, are no index at all of the real incidence of unemployment in the world, not only because even in industrialised countries, trades and occupations not properly organised escape any proper computation; but also because they take no stock of workers not engaged on definite wages, and who are working on their own. All kinds of professional workers,—artists, doctors, lawyers,—admit of no proper computation as regards their obtaining a living wage. And, of course, these figures have no relation to those other countries, which, like India, have to measure and compute, not those who are unemployed, but those who find any living at all, as being a much smaller number and so more easy to compute. Sir John Simon asked, at the last sessions of the International Committee for the Cultural Relations, whether it was a fact that in India there was no unemployment. As well might he have asked the ostrich, if there any was danger after it had buried its head in the desert sand. Prof. Radhakrishnan, who had been representing the conditions in India in July last, answered the Rt. Hon'ble gentleman by stating, in effect, that we had no record of the unemployed, but we had some calculations which showed that the gainfully employed in India barely numbered 1% of the population, while those just able to keep body and soul together, on the most meagre fare, scarcely numbered one in every three of the population.

Country.	Number of unemployed in the first quarter of 1929—1932 (in thousands.)				Unemployment in 1932 as compared with 1929.	
Germany	2,484	(16·91)	6128	(43.62)	2½	times as many.
Great Britain	1,204	(10%)	2809	(22%)	2⅓	,,
France	8.6		337		40	,,
Italy	309		1174		3	,,
Belgium	27	(4·3%)	333	(43%)	12	,,
Poland	170	(6·.8%)	344	(14%)	2	,,
Austria	225		362		⅔	,,
Canada	12	(6%)	41	(22%)	3½	,,
Japan	269	(4.1%)	471	(6.9%)	¾	,,

Such as these figures are, and bearing in mind always that they very much understate the case, the following statistics will help to understand more clearly the havoc wrought by the present depression.

In the U. S. A., the Index of Employment is shown to be 100 for 1926; 99 for 1929; and 66 for February 1932. If we could correctly total up the whole of the really unemployed people all the world over—including those who are only nominally employed, but find in their employment neither pleasure nor profit, neither leisure nor living,—it would perhaps be no over-estimate to say that fully one half of the human energy, profitable to the individuals concerned and productive for their fellows, is unable to find any such employment. Not being employed, it turns to waste, and proves a burden to itself and a menace to its neighbour. Thieves and burglers, beggars and prostitutes, are the least offensive, perhaps, of the perversion that results from this enforced idleness. Agitators and revolutionaries are the inevitable outcome of this smouldering discontent, who, when they begin to function, provide work for those more exalted parasites we call statesmen and soldiers.

These unemployed are not at all absolutely unemployable. In the highly industrialised countries, at any rate, a greater portion of these is directly traceable to this economic Depression, which has thrown them out of employment. I cannot stop here to detail the working out of this process which results in progressive unemployment, as we shall have to cast a glance at it in another place. But I must add that this phenomenon works in a vicious circle. Unemployment is caused in a large measure by the Depression; but, once it is brought about, it serves as a most efficient accelerator of the same. For the burden of the unemployed cannot be borne by the unemployed themselves. The community as a whole must shoulder it, whether in the shape of a dole—as they do in England—, or in the form of individual charities, as they do in most unorganised and unindustrialised countries. The provision for this dole or charity must, of course, be drawn from the collective purse of the community; and to that extent, industry inevitably becomes further burdened and depressed.

The effect is seen in full bold relief, if we view it in conjunction with the cost of living.

IV HISTORY OF DEPRESSION.

Having considered the nature of the Depression, and the several indices by which it is to be judged, let us now cast a glance at the history and development of this phenomenon.

In its origin, the Depression must be traced, ultimately, to the legacy of the World War, which had not only fundamentally affected the structure of the world's mechanism of exchange and all its accessories, but has also modified the productive organisation all over the world. Certain industries, needed particularly for the prosecution of the War, had been stimulated to their utmost capacity; while the rise in prices, due to this stimulation as well as to the gradual inflation of the Currency systems, led to other industries being indiscriminately expanded in the belief that the War-time boom would continue indefinitely.

When the War, however, came to an end, the industries brought into existence because of the requirements of the War, had to be abandoned or modified. Stocks of goods and materials accumulated for War purposes had to be liquidated; and large numbers of workers had to be diverted from the occupations they had been following for all the War years.

The War had also brought the less obvious, but not the less effective, legacy of Unrest and Revolution, which took concrete shape in many countries immediately after the War, and remained permanently established, not only in the most radical phase of it on a gigantic scale in Russia of the Soviets, but also in one form or another in Spain, Italy, Turkey and other lesser European countries, with its offshoots in non-European lands. The prevalence of revolutionary conditions, or the supercession of the ordinary constitutional machinery, permanently weakened the foundations of the old world credit system, and exchange machinery. The first years of the post-War period were, accordingly, affected by their own peculiar Depression, which the statesmen of the day called the problem of Restoration and Reconstruction.

Looking upon these matters as an easy restoration, the countries affected took measures and adopted policies, whose ultimate goal was insensibly modified in the years that followed. The political complications caused by the treaties of Versailles had brought about a new renaissance of intensive Nationalism, which expressed itself more and more in ever more formidable tariff barriers and other such impediments to trade; and in fresh developments of industries in regions, which, till the outbreak of the War, had never dreamt of industrialisation.

The new frontiers, moreover, had effected a divorce, in many countries, between the sources of supply of raw materials for established industries, and their final manufacture, as in the case of dismembered Germany. This also had its own influence on the development of the present Depression. For a time, however, the impressive appearance of the dominantly political phenomenon, such as the break between Germany and France, leading to the Ruhr adventure on the one hand, and unprecedented currency inflation on the other, so took up the public imagination that the more unseen and silent forces working below the surface escaped notice altogether. The settlement, however, of the Franco-German tangle, temporarily by the Dawes Plan; the restoration of German credit by the rehabilitation of the Mark; the gradual ra-approchment culminating in the Locarno Treaties and the admission of Germany into the League Council, all led to intensive prosecution of the plans for reconstruction which had been held up or defeated during the years immediately following the War.

The process of restoration did not stop merely at restoring. Germany herself led the way to a wholesale reconstruction of her industry, called by the impressive name of "Rationalisation," which economised enormously in the costs of production, and facilitated German competition in the world markets to a degree even greater than in the pre-War days. If Germany was at all to pay her Reparations to the erstwhile Allies, even on the Dawes Plan, she must be suffered to have a surplus in exports over her imports; for it is, ultimately, only in goods or services that one community can discharge its obligations of this kind to another. But Germany would not be suffered to pay her Reparations to the old Allies, in a manner and by expedients which, however inevitable, would prejudice the economic position of other countries like the United Kingdom. Hence, from the first, the British public opinion was averse to demanding such heavy Reparations, and exacting the full pound of flesh when the final day of payment arrived. Germany could achieve her purpose only by a steadily diminishing sale price; and that she accomplished by such a reconstruction of her industry, availing herself to the fullest of every new scientific discovery and mechanical invention, as well as in improvement of organisation by means of greater and more efficient cartellisation for her industry by reducing internal competition to the minimum, as made her industrial position by 1928 once more pre-eminent, second, if at all, only to that of the United States. Though she had been burdened by the Reparations, her people were relatively less taxed, mainly because of that period of intense inflation and consequent dislocation of all her industry, in which her internal debt had been wiped off. During the period of reconstruction, 1924-28, Germany regularly discharged her obligations, not so much by a veritable surplus of production over consumption, as by means of fresh capital brought into her industry from abroad, mainly from America. These were tempted by the chance of very high gains in the modernised, rationalised, cartellised industry of Germany. Her example was imitated, but rather late in the day, by Britain and France and Italy, which led to a veritable boom in the period ending in the Autumn of 1929.

Now begins a break, and the world prepares for a crash. The Amercian Securities Market had been booming all through 1929, partly because of the example of German industrial concerns showing big dividends, and partly because of the peculiar policy of cheap credit followed by the American

Bankers, which kept up the local American prices fairly high. The prosperity in American industry, however, was a purely paper affair; and so, when the first tension occurred, in the autumn of 1929, security prices came tumbling down. Within two months, they had fallen thirty percent, and by the end of 1930 they were halved; while the prices continued in 1931 to fall, at the end of which they had been reduced to a third of the level at peak.

Following this sensational decline in security prices, came heavy failures of American Banks. Their numbers, and the magnitude of their operations were staggering to those who did not know that American banking organisation is fundamentally different from that in the old world, so that failure of such a large number of banks does not really indicate a corresponding degree of weakness in the American money market. Be that as it may, the American financiers were forced to recall their own funds invested abroad, largely in Germany, if only as a measure of precaution. As the American money borrowed by Germany had been invested by her in long-term industrial stocks, the demand for repatriation could only be met by Germany by fresh borrowing,–this time from Britain and her European neighbours. Severe measures followed in consegnence in that country in a series of executive Decrees to avert a panic, and to prevent any needless export of capital from the country. The promulgation, early in 1929, of the Young Plan and the Hague discussions on the same resulting in an obdurate demand from Britain against any further reduction in her own share of the Reparations from Germany, had brought about a coldness and alienation between Britain and France, which, for the moment, compelled the latter to submit to the Hague decisions on pain of having to forego the Reparations in their entirety. But France never forgave Britain what she thought was a betrayal at the Hague. Germany, on the other hand, increasingly maintained the thesis that she had paid all the Reparations that she could possibly pay, and that, if it came to that, she was not really liable for any. France took the line of recovering whatever came to her from Germany, —and, because of German Reparations from other countries, through Britain. For this purpose, considerable French balances, payable in gold, came to be domiciled in the British banks, on which the latter paid little or no interest; while they used the same, and other similar funds deposited with them, for re-loaning to Germany and Austria with a substantial margin of profit. It was the business of an honest broker, or a careful Jew, which, however, left a slight chink in the door open to its own Nemesis.

The Nemesis came through Austria once again, as it had come seventeen years earlier through the same direction. The Sarajevo tragedy was not repeated in form; but in fact the failure of the Austrian Credit-Anstalt in May 1931, caused the first panic in Europe. The Bank of England had lent heavily to that Bank; and these funds were now locked up, frozen, if not written off altogether as irrecoverable. Germany being pressed for payments, mainly because of the returning tide of American capital investment, borrowed from Britain, who was herself already experiencing the difficulty of recovery from her own creditors in South America and Asia. The balance of payments due to Britain had shrunk, in 1930, from the usual credit figure of some £250 million to a little over an eighth; while the process of contraction was continuing. The free funds, which Britain used to possess, thanks to her position as the world's clearing house for international obligations, were greatly reduced; while the claims against Britain, due to the presence of French and other foreign funds, as well as because of Britain's own borrowings from America and France in 1931, were still more formidable.

The European situation was, therefore, in June and July 1931, tense with crisis. It was relieved, for a while, by the offer of President Hoover to suspend all payments of inter-Governmental debts for the year. As America was the world's creditor, her offer had a peculiar significance, while the other creditor countries, like Britain, could not with any grace refuse. France demurred for a while, so far at least as her unconditional payments from Germany under the Young Plan were concerned. But Britain eventually persuaded her to accept the Hoover Moratorium on the understanding that the amount due from Germany, in respect of the Unconditional Annuities, would be formally paid in the International Bank; but that they will be immediately re-lent by that very institution to the German Railways.

The Moratorium, however, was essentially a mere palliative. It satisfied no one really; for Germany soon declared her inability and unwillingness to pay any annuities by way of Reparations, whether conditional or unconditional. Her creditors had perforce to agree to "a standstill" arrangement; while, as for Britain, the continued shrinkage in her own balance of payments, coupled with the disclosures of the Macmillan and May committees on her own finances at home, led to a panic which was impossible to be stemmed by a reshuffling of the complexion of Government. Drastic economies in expenditure were recommended, and some of them carried out, all to no purpose, so far as the maintenance of British credit was concerned. The drain of the foreign deposits, and the incipient flight from the Pound could not be checked by a rise in the Bank Rate. The American Bankers declared their unwillingness to aid Britain so long as her unproductive expenditure, such as that on the Unemployment Dole, continued unabated. The Bank of England then informed Government of its inability to meet the demand for gold ; and the National Government, which had been reconstructed by the versatile Macdonald less than a month before to maintain the Pound Sterling on a gold basis, had to decree a sudden departure from the Gold Standard.

This was tantamount to a declaration that Britain would pay less than 15 shillings in the Pound, no matter by what learned and scientific terminology the action be described. It was a breach of faith, not with the nationals of Britain, but with those foreigners, who, trusting to British credit and good faith, had deposited large balances in British banks in sterling to facilitate liquidation of their international payments. Britain, however, could not secure the full benefit for her infidelity, so far as those claims against her were concerned which were expressly in gold, or gold equivalents. Her industry could not revive despite this dose of substantial, if secret, protection resulting from her depreciated currency; her trade could not recover, simply because other countries in positions equally weak promptly followed this laudable step, and went off the Gold Standard. It became the fashion to go off gold, and disown one's obligations, and thereby hope to bring about national recovery. Britain, therefore, soon found that going off gold was a game that could be played by a number of players at the same time, in which there was only one card with which every one could secure the decisive trick. The payments due to Britain were "frozen," even before she set the precedent in such impromptu default. Henceforth, she tried sharp revenue tariffs, and severe protective measures,—without any recovery of her exports, and much less any revival in her services.

Meanwhile, Germany demanded, as the Young Plan had already provided, a review of her position to show that she was unable to pay any Reparations, even if she was in justice bound to do so. The Experts declared that

Germany was really unable, and that, therefore, the whole of this miserable chapter of blunders in post-War history, dating and originating from the suicidal Versailles Treaties, should be wiped off. The Lausanne Conference,—postponed from month to month because of the growing divergence of viewpoint between two ancient allies in imperialism and exploitation, Britain and France,—at last was held in June last; and came to an arrangement, by which the Reparations and inter-Governmental debts in Europe would be cancelled, if America agreed to cancellation of her own claims against her European War debtors. America did not agree; and those of the European debtors, which, in their own interest, had to maintain a semblence of good faith, paid up the instalment falling due on December 15 last, subject, however, to a clear declaration that this would be the last instalment; and demanding a reconsideration of the American claims against Europe.*

*The question of further instalment payment, which because du e on 15th June 1933, is discussed in Chapter V, q. v.

The crisis and Depression, therefore, still continue. The main factors, which originally brought it about, remain effective as ever. India's place in that Depression is not the least significant, if only because she was not directly concerned, and has yet suffered most tragically out of it, simply because of the blunders, not to call them by a harsher though juster name,—of her rulers. Though not primarily concerned in the European War, she had all the burdens of the War Debt and Currency inflation, and the consequent post-War depression, which Europe for her own sins suffered from. And when the first spurt for Reconstruction came, she was burdened with such wastage as the Lee concessions to her services, the Bombay Development project, and the Five year Railway Development scheme. All this while she was handicapped with a steadily rising Exchange, which eventually was fixed at an abnormally high rate. India is the only country in the world, whose Government have deliberately *raised* the Exchange value of the local currency, against the interests of the local industry! And, of course, she is unique in such transformation of her direct War debt as brought her no relief, but only made her burdens greater. While other countries were rebuilding or rationalising their industry, we were making the first halting steps in what is called "discriminating protection",—which is so discriminating that it never protects. For, by the time the powers that be have realised that there is a case for protection in any given industry; by the time they have referred the case solemnly to their excellent device for procrastination, the Indian Tariff Board, to investigate the problem set to it, give its report, have that report reported upon further by the Department of Commerce and Industry, then discussed in the Legislature, and finally transmuted in the form, if any, of some measure of protection, the industry might have been sufficiently dumped upon to render the original measure of protection recommended utterly ineffective, as is the perennial case with the premier Indian Industry.

India, therefore, never regained her productive and commercial position as before the war; while such recovery as did take place unintentionally was effectively neutralised by the policies I have alluded to. When the blast of world Depression came upon us, we were already seasoned veterans in the annual excuse of our Government explaining away India's stagnant progress. In 1930, they discovered a new excuse in the shape of the effects of the Civil Disobedience movement, which, strange to say, never touched the export side of the Indian foreign trade at all, though during the years of Depression exports of Indian merchandise have fallen much more than imports. It was in the year 1932, that the ages old balance of trade in favour of India has been reversed. Realising at length that the gramophone-like reiteration of this eternal excuse of the "Civil Disobedience movement" would not do, the compiler of the Currency Review for 1931-1932 has at last admitted, as explanation of the phenomenal fall in the export trade of India, the fall in her people's purchasing power!

LECTURE.

II

CAUSES OF THE DEPRESSION.

In the last Lecture, we considered the origin and indices of the Depression the world over, and in India particularly. This Lecture I propose to devote to an analysis of the causes which have, directly or remotely, brought about this phenomenon, and a study of which would help us more effectively to devise remedies for the same.

The causes of this Depression have varied in its several phases and aspects. For the sake of convenience in analysis, we may study them, however, under two main groups, Economic and Political which, in their turn, could be subdivided into two groups each: *viz.* (*a*) the technical economic causes affecting the organisation and operation of industry; and (*b*) the Financial causes relating to Credit and Currency, in group 1. and the (*c*) Historical reasons and (*d*) Political complications, such as Tariff walls and Treaty re-alignments, in group II. Having considered these causes, we shall pass in brief review the consequences of each of these sets of influences, and attempt to assess their bearing upon the development of Depression. Finally, we shall examine particularly the significance of all these with reference to India, and try to understand the degree of the Depression in this country.

GROUP I.

Taking the first group of these causes, Economic, we find a most important aspect of it not sufficiently understood or emphasised in all the popular discussions of the Depression. This relates to the wholesale reorganisation of Industry, or rather the entire productive organisation, which we commonly call the Rationalisation of Industry. The term, however, is somewhat misleading, since the process indicated by it applies as much to Industry as to Agriculture; and includes, besides reconstruction and modernisation of old industry, the development of new industries, too. In this conception of the term, we have to examine, not only the creation of such new industries in the last decade or fifteen years, as the Cinema, and the Motor Car; the Radio, Petrol and the Rayon manufacture; the oil burning ship revolutionising shipping and ship-building; the electrification of plant and equipment in manufacturing and transport industry, mining and even cultivation of the earth, and the cold storage reconditioning altogether the marketing of the staple articles of world commerce. The teletype printing machine can serve printing presses from one centre hundreds of miles away, while the new automatic machinery in all the uptodate industry of the world have recast wholly the place of machine labour in the modern economic society. These and innumerable other minor, but not less important, changes have created new industries, or altered old industries out of recognition. As a Report on Recent Economic changes in the United States summarises it.*

3. "A distinction should be made between the disappearance of industries and tranformation, by the introduction of modern methods. The Census reports

*Op, Cit. Vol. 1, 34-5.

show that few industries have disappeared, the list given in 1900 appearing for the most part in the census list of today. These industries, however, have in many cases been greatly changed internally by modern methods. Thus shoe-making and clothing manufacture still bear the same name, but they are really, in most respects, new Industries.

Many industries that survive in the same form externally, such as ship-building, locomotive building and the machine trades tn general, have grown in size and capacity. The product is often much larger. No limit has yet been reached, apparently, to the size of product.

4. On the other hand, the last quarter of a centuary has seen a great increase in new industries the result of scientific discovery, and of mechanical development. These are illustrated by the Telephone, Radio, Automobile, Rayon, Refrigrators, Electric Welding, chemical and electrical industries. These are of more than passing importance, for many of them have grown into great enterprises, employing many thousands of men and producing new products in most quantities that have found ready markets. These new enterprises really constitute the most remarkable and

most important phase of modern industry, and their true economic significance probably holds the clue to our industrial and economic future."

Side by side with these changes in old manufacturing industries, and the growth of new industries, the most ancient industry in the world is being revolutionised before our eyes. Agriculture is an industry of slow turnover, conditioned even now by climate and geography far beyond the manufacturing industry. It has, moreover, social factors affecting it, like the laws of inheritance restricting the size of the unit of production, which render the introduction of economies relatively much more difficult than in manufacturing enterprise. The scattered character of the holdings, moreover, prevent concentrated effort, organisation and education of the workers, standardisation and mass production in agriculture, unless a community first accomplishes a social revolution as in Russia. Nevertheless, the scientist and the mechanician have contributed their mite to the revolution in agriculture, which has taken place in the last 20 years.

The intensive study of plant biology has led to the evolution of seeds even of staple crops which may be sown in soils and climes that were regarded only twenty years ago as inhospitable. Canada, for example, with its short summer, was deemed to be unsuitable for cultivation, despite the native richness of its soil for the purpose, until the biologist evolved a seed which could ripen in hundred days instead of 130. Canada has thereby become one of the greatest wheat producers in the world. Other countries, where the climate lacks the necessary humidity, have been similarly attended to by the scientist, and supplied with seed best suited for their requirements. New supplies of wheat have thus been created which twenty years ago were undreamt of.

Even if we set aside the case of Russia, with her fierce resolve to increase production according to a pre-concerted plan, the changes created by these developments are exceedingly significant. Every kind of crop and cultivation of importance in the world market, has been carefully investigated into by the scientist. In consequence, the plant life has been strengthened and its diseases and pests localised and counteracted. The result is an unprecedented growth in the volume and variety of agricultural products, at a steadily reducing unit cost of production The mechanisation of agriculture, by the tractor, the harvestor and the combine, is, though not equally possible in every country, growing. The application of chemical fertilisers contributes towards the increase in output; while the provision of special credit facilities, coupled with the growing use of the co-operative principle, lightens the burdens and handicaps of the farmer so as to enable him more effectively, to resist competition.

Side by side with these changes on the supply side or in the productive organisation, have taken place even more significant, though less noted, changes on the side of demand. As the American authority already quoted says.*

"Surveys of the use of food, manufactured goods automobiles, and housing, reveal radical modifications in the habits of American consumption. Physiologically, per capita food requirements have declined, and are still tending to decline, especially in view of

* Cp. *Recent Economic changes in the United States*, pp. 77.

the quantities required for maintaining body heat and furnishing energy for work. With higher incomes per capita, a higher standard of wholesomeness due to trade action and public inspection, a wider variety of foods availiable in all seasons and in all parts of the country, fuller knowledge of nutrition, and a more wide-spread information on dietetics, there is reason to believe that the actual diets of to-day more nearly meet the physiological needs than has ever been true for the population as a whole. By and large, a smaller proportion of the family income is required, under present conditions, to a safer, better balanced, more varied, more appetising diet than formerly."

The compilers of this most interesting document are fully aware of the limitations inherent in the very nature of their survey and investigations; and consequently of the reserve with which their final conclusions should be taken. What is true, moreover, of the conditions of consumption and demand in America may not be true of the corresponding conditions among other countries. Nevertheless, making every allowance for the fact that a greater proportion of mankind is neither as prosperous nor as progressive as that in the United States, the general conclusion will have to be admitted that the demand for primary goods for immediate consumption has not risen in the same proportion as the supply or productive capacity has increased in the post-War period. For one thing, the world population has not increased in the same proportion as productive capacity, which itself explains in considerable measure the disparity between demand and supply. And for the rest, other factors have operated on the demand side, *e. g.*, the growth in the variety of man's wants, the cultivation of leisure, and all the new demands in travel, recreation, amusement and culture, arising therefrom, which have heightened this disequilibrium. Not only has new production come into being to meet these new wants, but the production of these materials to supply the primary wants of man is stimulated for the same reasons which brought about these new industries. The disequilibrium, therefore, between demand and supply tends to grow; and our efforts at treating each separate phase or case of this dislocation only makes the gulf wider.

Add to these factors of productive technique and economic organisation, two other categories of forces working from different ends to the same goal; and we get the most considerable explanation of the extent and intensity of the present crisis. On the one hand is the operation of the new Russian economic system, which is based upon and worked on principles radically opposed to those motivating the economic machinery in other countries. Russia has abolished individual competition as the sole operating, directing as well as controlling lever of her economic system; and substituted in its place common effort under common control for a pre-determined goal. To her, therefore, the laws of demand and supply, as enunciated in orthodox economies, have little significance, whether in her domestic market or in her foreign trade. She is re-organising her economic system rapidly on the basis of production primarily for use rather than for exchange. Exchange in her system is not for gain but for getting rid of the unwarranted surplus, or rather for its exclusive appropriation by a small class for its own enjoyment. If, therefore, she produces wheat, or oil, or cotton, in quantities far in excess of her own needs,—and those needs themselves are carefully rationed and regulated, as per plan,—it is of the utmost indifference to her how much of these articles she gives in exchange for the tractors and the combines and the machine tools she needs to prosecute still further the main plan and programme. Dumping, therefore, is an inevitable corrollary of Russia's changed socio-economic organisation; and if dumping has to be, Russia sees no reason why she should not do it systematically and scientifically. The Russian factor, therefore, in the world Depression is of the utmost significance; and we shall not solve it simply by ignoring Russia, or abusing her rulers.

Radically opposite to the Russian factor at the starting point, but converging on the same goal, are the economies in the general economic organisatton introduced under the stress of intense and international competition. The process of standardisation and mass production hails from the intensely individualist America, which results in such obvious economies in the expenses of production to the individual concern, that its promoters and proprietors inevitably neglect the reaction of those economies upon the community at large. To introduce one machine may mean to displace ten human units of work, whose consequent unemployment is not compensated even by the combined action of increased wages to the workers still in employment, and the reduction in sale price to the consumer at large. And when the increase in production and supply renders the margin of profit to the producer ever smaller, he resorts to those other phases of Rationalisation, which are comprised in the collective term *cartellisation.* The combination of competing establishments in an industry, the concentration of connected industries into one gigantic vertical trust, the introduction of the producer's own selling agencies in the shape of chain stores, the evolution of the interlocking Directorate so as to co-ordinate the general policy and control the main levers of the economic system,—these are all intended to eliminate, or at least to minimise, competition, and safeguard the profits of the individualist capitalist producer.

In this process, the real, long-run demands of social economy, affecting the community collectively, are hardly attended to. I have no intention to deny the economies inevitably resulting as the first fruits of these manifold processes and devices, invented and employed by the capitalist to assure and maintain his own profit. The intensive application of modern scientific research to industry has resulted, according to evidence collected in America, in an increase of the net profit from 100 to 300 per cent. President Hoover, when Secretary of State for commerce, estimated the annual saving to American manufactures from simplified practice, based on the recommendations in a Report on Waste in Industry, at $ 600 million, while the total saving from all such economies has been estimated at 5000 million dollars from this movement alone.* The economy resulting from the growth of standardisation of parts and material, so as to avoid the waste due to incompatibility; the standardisation of sizes, dimensions and properties of manufactured products, has been estimated, by the

*Ibd. p. 119.

American Engineering Standards Committee, to amount, in a single case of the American Automobile Industry, to $ 750 million annually! The total saving to industry from the reclamation and reuse of the waste products is still more incalculable, though, in a single case of reclaimed rubber, the annual saving was estimated in America at over £ 20 million annually in 1925.

But making every allowance for these gains due to Rationalisation, Standardisation, and Modernisation in industry, the fact remains that their resultant dislocation in social economy is not duly attended to and properly provided for in the profit seeking individualist society. And it is this unintended and unwelcome progeny of Economic Modernism, which is responsible for the dislocation of the machine, and the creation of Depression. The London *Punch* recently gave a full page cartoon of a wonderful and gigantic Robot saying to the employer: "Master, I can do the work of fifty men". "Ah yes", says the employer in deep perplexity, "but what of the fifty men whose work will be gone from them?" The only comment that need be made on this, is that the Employer and the Statesmen seem to be awakening to this idea, a bit too late, if they have awakened at all! The evil genius has already been with us, and doing its fell work in misery, starvation, and premature death among the unemployed, their hopes and ambitions buried with them, their talents and powers unknown, untried, unused by society, their ambitions unachieved, their purpose unfulfilled, their lives embittered—a burden to themselves and a curse to their fellows.

In this particular category must be mentioned the sharp contrast, even in their common Depression, between prices of agricultural products, and those of manufactures. The former have fallen much more than the latter, as the statistics given in the earlier Lecture would show. Since the farmer strives to counteract the fall in prices by increasing his produce, the agricultural Depression becomes more intense and lasting than in industry.

Let us now summarise the results of these purely economic and technical causes of the

World Depression. There has been a distinct growth in the aggregate volume of production per unit, as the following table taken from a Report on the Recent Economic Changes in the United States shows:-*

Percentage changes for 13 Production Factors.

Factor	Total. 1899-1919	Annual. 1899-1919	Total. 1919-1927	Annual. 1919-1927
Production	112	5.6	46.5 (1927)	5.81 (1927)
Wage earners	103	5.15	—2.9 (,,)	—0.36 (,,)
Productivity	4.7	0.24	53.5 (,,)	6.69 (,,)
Primary Power	205	10.25	22.0 (1925)	3.67 (1925)
,, per wage earner	47	2.35	30.9 (,,)	7.0 (,,)
Cost of materials	1135	56.75	9.7 (,,)	1.62 (,,)
Wages paid	878	43.9	11.4 (,,)	1.9 (,,)
Value of Bldgs.	123	6.15	26.7 (1922)	8.9 (1922)
,, Machinery	129	6.45	28.7 (,,)	9.6 (,,)
Prime cost	1050	52.5	7.2 (1925)	1.2 (1925)
Unit cost	182	9.1	24.5 (,,)	4.08 (,,)
	1914-20	1914-20	1920-26	1920-26.
Hrs. per Week	—5	—0.83	0.9	0.15
Wkly. wage rate	134	22.33	1.94	0.17

These figures are not at all for the same year; they are for the United States of America, by no means typical of the rest of the world; and they do not include the years of Depression, which makes a considerable

* Op. cit. p. 101.

discount in their value. Nevertheless, if we bear in mind the corresponding experience in Russia, even in the period of the most intense depression, we would have to admit that in the world at large, while there has been a considerable increase in man's productive capacity and equipment, there has been nothing like a concurrent increase in the consumption capacity. The irrational, unplanned, spasmodic spurts and waves in our industrial activity lead to renovation or alterations in one industry, causing unemployment in another, without a simultaneously balancing factor in any other. Unemployment thus comes into being and grows inevitably, leading to a reduction in the purchasing power of the community in the aggregate. This widens and deepens the gulf already created between demand and supply. And because people are unable to buy to the limit of their needs, a growing proportion of new or enhanced production remains unsold, depressing the prices still further and ever more.

Finally, these low prices manifest themselves in the shrinking value and volume of the local as well as the foreign trade of each country affected, so that the vicious circle is completed, and Depression seems to be unending and irremediable.

So far, as India is concerned, the operation of this prime cause of Depression may be slow and unnoticeable; but its consequences as outlined above are undeniable. The creation of new industries, and the restoration or revival of the old is a programme hardly touched upon yet by the powers that be in this land. We have, no doubt, made our first steps in a policy of scientific protection to new and likely industries. But long before European and American writers discovered the limits of intensive economic nationalism, the rulers of India had showed such prophetic vision, that they do not even now seem to perceive the legitimate margin, recognised even by European and American writers, for the building up of a country's economic system. Without anything like an industrial revival and increase in productivity, India has nevertheless come to suffer most intensely from the world Depression, which she had no direct hand in causing, simply because her nascent industry is ill-equipped and ill-organised to meet the fierce competition of its foreign rivals. And her agriculturist is even more exposed and undefended than her manufacturer. Depression, therefore, in the shape of falling prices and stagnating trade, came to India more for fiscal, financial and political reasons, than because of strictly economic necessity.

Let us, therefore, now consider the second category of these causes, *viz.*, those relating to the financing of trade and industry, and rooted in the currency and credit systems of the world in general, and of this country in particular.*

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* Cp., G. D. H. Cole. *Guide Through World Chaos.* p. 62,

"The case of a vast country with huge and diversified resources and population may indeed be very different. But even such a country, though it can push the ideal of self sufficiency very much further than the small nations of Europe without disaster to itself, finds impassable barriers set to its pursuit of economic nationalism." Elsewhere in the same work the writer mentions India, China, Russia and the United States as amongst the countries of this category who can maintain the policy of self-sufficiency without harm much further than others. Prof. Cole has not, however, appreciated fully the wealth and variety of resources in men and material of India or China, so that his belief about "impassable barriers" even in these countries must be taken with a pinch of salt.

In the financial group are causes more spectacular, even though more superficial and temporary, and impressive than those already considered. While the group of economic causes hitherto considered have occasioned depression, not because it was in the nature of these influences inevitably to bring about such disorganisation and disequilibrium as they have done, but because the economic system and condition upon which they impinged were not tuned to meeting and benefiting by this impact ;—the financial influences to be now considered were in their nature such as unavoidably to cause the dislocation. The economic factors of a new revolution in production reviewed hitherto cannot be dismissed as essentially an evil which must be avoided by mankind, but which rather must be sought and welcomed like a spirited horse and tempered to the situation and conditions in existence, so as the most fully to reap their natural benefit. The financial circumstances on the other hand to be now reviewed will have to be condemned as blunders, arising not from the inventive genius and creative imagination of man, but rather from his blinding passions of greed and envy and exploitation. The former are, at the worst, faults in organisation, which could be improved without wholesale comdemnation; the latter are errors of ignorance, or incompetence, which must be condemned without benefit of appeal, if we would not repeat the miseries of the present Depression.

After this generic contrast between the two sets of what we have described as Economic causes, let us enumerate the financial causes proper. These are all related to the *Falling price level* in all countries affected by the Depression, and are themselves the outcome of: (1) the strain on the currency and credit system of the world generated by the decline in prices; (2) the abandonment of the Gold Standard by several important commercial countries in consequence of this strain; and (3) the disorganisation of the international Exchanges arising out of the freezing up of the streams and currents of international payments. We shall now briefly review these factors, in so far as they have affected, or brought about the present Depression.

The fall in prices due to the economic causes of the first category has already been reviewed as the result of a growing disparity between Demand and Supply, emphasised by the accumulation of stocks on the side of supply, and the loss of purchasing power on the side of demand. We cannot here view the same phenomenon in the light of purely financial circumstances, which, had they been suitably ordered and managed, would have minimised disequilibrium if not avoided it altogether. For, the prices of commodities are an expression in monetary form of their individual as well as relative values. There is nothing absolute and unchanging in the individual,—and much less in the relative,—values, as expressed in terms of the common medium of exchange. They depend, no doubt, upon conditions of supply and demand, not only of each commodity exchanged as well as of the totality of such exchanges, but also upon the corresponding supply and demand of the money material or money form itself. It is not impossible for a modern community, properly organised and fully alive to its own resources and requirements, to control and regulate the conditions of demand and supply in the commodities of exchange even in those cases which are undergoing the most revolutionising influences in their production or consumption, or both. Much more easy is it to control and regulate nowadays the demand and supply of the media of exchange, which are practically monoplised in all modern communities by their governments. Hence, if only the authorities controlling the monetary system of each country were sufficiently alive to their responsibilities and mindful of their obligations; if only they were familiar with the forces they have to control, and the changing circumstances they have to adopt those forces to; if only they had fully realised all the cogs and wheels in the economic machinery they would have to set into motion by operating the control levers, they could easily deal with the changing circumstances of production and consumption of material utilities and services in their community.

The facts, however, are otherwise in the modern commercial world, outside of Russia. So far as the process of production and consumption of material utilities is concerned, they have not yet accepted the principle of conscious and deliberate control of this organisation for a preconceived purpose and to a predetermined goal. The entire economic system is thus at the mercy of the chaotic forces of unrestrained competition, born of greed and motived by the insatiate search for gain. Such relief as has already been accepted and given effect to,—as in the case of the co-operative principle in agriculture, or the collectivist principle in supply of public utilities,—is rather by way of alleviation of a superficial evil than as a corrective of a fundamentally vicious basis. Our local and national transportation and communication; education and illumination; credit and conservancy; defence and health, are all assigned increasingly to public or co-operative enterprise, because the private profit-seeker finds in them ever diminishing opportunities for safe and certain gains, while the risks attendant upon such ventures are much too considerable. Think of a privately owned navy for Britain, or army for India, and you will realise the wisdom of the profit-seeking individualist who steers clear of these ventures.

In the absence of any proper regulation, control or co-ordination of the entire economic machinery of any given community, the problem of a fairly stable-price level is needlessly complicated. Nevertheless, even under those conditions, the task is not altogether hope less, if only we had proper men scientifically trained for their job. In this country, for instance, we have had controllers of currency whose only contact with the science of currency system was purely alphabetical, since they were members of the all powerful Civil Service that are presumed to be specialists in everything, and competent for any post of profit or promotion to themselves. We have had masters of mint who were army officers in their origin; ministers of Finance who were unable to make a simple sum in addition, without a margin of error varying directly with the pretences of the individual concerned, and inversely with the difficulty involved. How can we regulate on a stable basis prices with such an equipment?

In other countries, they have been more fortunate, so far as the human side of the control is concerned. Thus, for example, in the United States or Germany, though the productive organisation has been progressively rationalised, the banking and credit organisation have yet to be modernised and harmonised with the changing conditions of the economic system. The first steps in centralisation and co-ordination in the banking and credit organisation of the United States, the greatest money power in the modern world, were made just before the War; and so, however easily it might conceal its defects in boom times, in the hour of crisis it as readily proves itself obsolete and inelastic.

In Britain, the Bank of England has wider experience, greater authority, more direct contact with business conditions, more weight and influence with the rulers of land, than perhaps any other corresponding body. Its Governors are adepts in the highest mysteries of finance, and its directors honest, patriotically minded people who would govern the Bank primarily in the public interest. Nevertheless, Britain's currency system was, before September 1931, so inelastic; the credit organisation founded on that system so orthodox and obsolete; and the financial contact, knowledge and understanding of its real masters in this department so insular, antiquated and imperfect, that, with the best will in the world, they could not adopt their experience and authority to avert the crisis. In Germany, finally, they excell even in those Departments where Britain seems to be deficient. There is a more intimate and living relation between industry, trade and banking; deeper knowledge of international finance and exchanges; more adaptable credit and currency machinery. But they are helpless before factors outside their control. They are a heavily indebted people, who cannot regulate the world price-level from, their own country, though they have performed veritable miracles in maintaining their own internal price-level in the face of such heavy odds against them.

Hence, when the crisis began to develop, there was no means to check it, as from a common centre. The measures taken in the Annus Terribilis,—as Mr. Toynbee in the

Survey of International affairs, 1931, calls it, savoured of the *Sauve qui peut* to such a degree that talks of common counsel and concerted action were futile. Says this authority:-

"Indeed, in this historical drama of 1931, as in the Napoleonic drama interpreted by Thomas Hardy in the *Dynasts*, the psychological forces were the real actors in the stage, and the material forces,—nations and states and Governments, bankers and politicians, commodities and currencies,—were their creatures, which moved under the impulsion like manipulated marionettes, or like shadows thrown on a Screen".

Let us review this decline in prices as it occurred after the first steps had been taken for reconstruction, The following table shows the decline in the Price of securities.

Price of ordinary Industrial Shares or common stocks. (1924-100).

Average for the year.	U. S.	Germany.	Gt. Britain.
„ „ 1924	100	100	100
„ „ 1925	126	92	109
„ „ 1926	143	105	115
„ „ 1927	169	152	124
„ „ 1928	220	141	142
„ „ 1929	270	125	139
„ „ 1930	201	100	112
„ „ 1931	124	75 (to June)	87
„ end of 1931	77	stock exchange closed	81

The United States Index stood at 309 in September 1929, just before the crash, and fell to 207 in November 1929. It revived to 244 in April 1930, and fell sharply to 146 at the end of the year.

The British Index stood at 78 in August 1931, just before the suspension of the Gold Standard. After the Suspension it rose to 92 in November 1931, and then dropped to 81 in December.*

The *Economist* (London) Index of Commodity Prices, Sterling and Gold, is 101.3 (sterling) and 78.0 (gold) on the basis of Prices on Sept. 18,1931=100 (Economist, 28-1-33.)

The breakdown of the international credit system was essentially a psychological factor, though in its train came a horrible brood of bank failures, Stock Exchange crisis, departure from the Gold Standard, Exchange control, *et ad hoc genus omne*. As already observed, the seeds of the debacle are found in the sudden bursting of the boom bubble on the

* Cp. G. D. H. Cole, Op. Cit. p. 81. also Cp. *World Economic Survey* 1931-32 pp. 61-67.

New York Stock Exchange in October 1929, which not only caused heavy and numerous bank failures in that country, but turned the tide of investment from east to west. The failure of the Stock Exchange boom caused a sudden, sharp fall in the prices of industrial securities as shown in the table above; and these reacted on other prices forcing them downward for purely psychological reasons. Because prices fell, the expectation of return from stock exchange securities,—from industry in general–declined in sympathy, with the result that the whole credit mechanism of America was endangered. American credit was strained, if not weakened. To support it and strengthen it, America recalled her capital invested in Germany, and other European countries, despite a veritable glut of surplus production within her own frontiers. The reason for these panic orders to repatriate capital was the absence of any machinery to absorb, convert and utilise the surplus of production,—which, in the ultimate analysis, is the real source of all capital, as capital for local purposes. Devices, like the instalment selling, so peculiar a feature of American Economic system, had stimulated trade at the expense of a channel to convert promptly and effectively the surplus of production unto capital; and that, in its turn, to better and easier credit. Germany and other such debtors of America, having already locked up this capital in industry, were unable to part with it without a disproportionately heavy strain on other parts of *their* economic machinery. They had nevertheless to comply with the orders of their creditors,—by substituting other creditors in their place.

The root vice of the system was thus not cured, but only magnified. Instead of one country suffering a unit strain, two countries or more were exposed to a doubled strain for an indefinite period all through 1930. The Depression was growing by prices falling; and, as the expectations of industrial profits were declining even more sharply, the downward trend was emphasised by the most sensitive of the ingredients in the International price level. The remedies in the shape of manipulation of Discount rates did not help; and so a serious element of permanent weakness was introduced by the change in the character of deposits, notably in Germany.

Britain, who had largely helped Germany in her hour of need, had also helped Austria on the failure of *credit Anstalt* along with Germany. Britain was now put to the rack, financially speaking, by the rapid withdrawal of the French balances from London, which had been accumulating ever since the flight from the franc began in 1926, and which had been strenghthened by the French trader's practice in the intervening years to keep the active balance due to him in a growing proportion abroad. France had completed her task of reconstruction and restoration of her war-wasted country and people earlier than Germany, though French industry is even now not rationalised to the degree of American or German enterprise. But the social and economic ideals and ambitions of the French people render that relatively unimportant. France, moreover, had considerably reduced her internal debt by the inflation of her currency, and the devolution of the franc to practically one-fifth of its pre-war exchange value. Besides, in virtue of the Versailles Treaty, the Dawes and the Young Plan, she was a creditor country in Europe, doubly entrenched against all likely assaults upon her economic position. If we are to believe writers like Mr. Paul Einzig, she now began the offensive by a demand to bring back her accumulated balances, mainly in London, in gold. Britain could not meet this demand for the repartition of the French balances, after loaning so heavily to bankrupt Austria and tottering Germany, without reducing her own gold reserves to a dangerously low level, and imperilling her international credit.* Her own trade had been shrinking fast, the favourable balance of world payments due to her for interest on capital and shipping banking or insurance services was vanishing, and her surplus for investment declining. The Macmillan Committee on Finance and Industry (13th July 1931) had warned the government of the perilous position of British trade and finance in May; and now came (31st July 1931) the report of the Economic Committee, presided over by Sir G. May, which revealed a budget deficit in Britain of £. 120 million in 1932.*

It was a bombshell in Britain, in Europe, and the world. The American bankers had already been nervous about British Credit; and now they could show to the world their reasons for such nervousness. Unless Britain introduced

* Some idea of the world capital movements may be had from the subjoined table.

MOVEMENTS OF CAPITAL (MILLIONS OF DOLLARS) LONG AND SHORT TERM.

Leading Countries.	1923	1924	1925	1926	1927	1928	1929	1930
Exports.								
U. S. A.	—126	489	622	140	470	1036	233	547
Gt. Britain.	700	380	261	—29	482	667	672	190
France	——	——	——	——	504	235	—20	—234
Canada	44	107	277	173	51	164	—87	—161

(*N. B.* Minus sign shows imports of capital).

Borrowing countries.	1923	1924	1925	1926	1927	1928	1929	1930
Imports.								
Germany	——	421	816	169	1090	1017	567	145
Austria	187	220	110	170	257	193	166	187
Argentina	32	(170	)	31	134	131	38	——
Japan	——	226	74	128	22	54	—25	——

N. B. Minus sign shows export)

As the table shows the continued long and short term Capita movements, the real character of the change coming over Germany is not clearly shown in it (Cp. Cole. Op. cit. p. 90).

almost impossible economies in her public expenditure, she would get no aid from America. It was a dictation in internal politics, which was hard to stomach for a proud people, who had themselves been in India and elsewhere in the habit of giving,—not receiving,—such admonitions. But there was no alternative. Mr. Macdonald's Labour cabinet colleagues could not agree to some of the proposed economies, notably those in regard to Unemployment Benefits ; and so he formed the National All—Parties Government towards the end of August to cope with the situation.

Britain's assistance to Germany had only exasperated France, who had found her moves checkmated at every stage by Britain in 1931. When Germany, for instance, devised the expedient of an Austro-German Customs Union, Britain seemed to be sympathetic, if only because such an arrangement would mean some slight reduction in the European trade barriers. France not only opposed the idea, but effectually rendered it nugatory by suggesting reference to the International Tribunal at the Hague, whether under the Versailles Treaty, it was permissible for Germany to make such an arrangement. When France, in her turn, had suggested the organisation of a United States of Europe, Britain had thrown cold water on Briand's brilliant conception, and so made that attempt at European re-organisation futile. Hence, in 1931 May-June, when Britain went on lending to Germany in support of the latter's credit and currency system, French intluences succeeded in making a drain from Germany till Germany's ultimate gold reserve was reduced to the statutory minimum. 100 Million gold marks worth of foreign exchange were withdrawn from Germany on a single day, July 6th, while between September 1930 and June 1931 no less than 4000 million marks were so withdrawn. Germany seemed beaten to her knees, and France reigned supreme for the moment in the world of European finance.

When neither Britain nor America seemed to be able to help Germany, she turned to France, who offered to make a long term loan for ten years to Germany, not only fully secured on the Reisch Customs Revenue, but also reinforced by political concessions, such as a mortgage of her customs revenue and pocket battle ships, and abstention from any scheme of amalgamation with Austria, which, if conceded, would have made Germany a bond slave of France for a decade at least.

Neither Britain, nor America, could advice Germany to purchase national solvency at the cost of national enslavement; while the forces of resurgent nationalism in Germany herself forbade even a consideration of such outrageous terms.

In this situation, the United States had come to the aid of Europe, on June 20 by offering a suspension of all inter-govermental debt payments for one year to give breathing time to the distressed nations of Europe. President Hindenburg had telegraphed to President Hoover on June 19th calling attention to Germany's parlous state; and this was the reply of his American *confrere*. All debtor nations gratefully welcomed the offer; and even amongst creditors, Britain and Italy reechoed the sentiment. France, however, again demurred, voiced her suspicions, insisted on additonal conditions, and at last agreed at the last moment with the utmost hesitation. Forced against her will to grant this breathing time to Germany ; and balked of her prey as it were at the moment when she seemed to hold it in her clutches, France turned her attention to Britain to repay with capital and interest all the service the latter had done her in the whole of this episode.

To understand properly the position in International exchanges of the four leading countries of Europe and America cp. the following.

TRADE BALANCES.

	1929			1930			1931			1932		
	Imp.	Exp.	Bal.	Imp.	Exp.	Bal.	Imp.	Exp.	Bal.	Imp.	Exp.	Bal.
1. *United Kingdom.	£1111.1	729.3	-381.8	957.1	570.3	-386.8	798.2	389.2	-409.0	652.0	365.9	-287.0
2. United States.	$ 4339	5157	818	3120	3781	661	2092	2378	286	743	821	78
3. Germany.	13447	13482	35	10393	12036	1643	6727	9599	2872	2387	2989	602
4. France.	56687	48895	-7792	51696	41977	-9719	41770	29880	-11890	15138	9852	-5286
5. Japan.	1000	969	-31	744	707	-37	589	547	-42	—	—	—
6. India	24971	31899	6928	17306	22650	5344	13004	16120	3116	10185	9883	302

N. B.—Sign shows negative or passive balance of trade against the country.

*1. The figures are in millions £s. They do not represent quantum, which is much higher in the case of imports of retained goods than those in regard to exports; and both higher than prices. The figures for 1932 are taken from the economist, Jan. 21–1933, p. 111.

2. The figures in milliard Dollars. They represent, on the import side "goods for consumption" and, on the export side, Domestic produce of America. The Quantum fall in 1931 imports over 1929 was 24%, and in export 35%; while in prices the fall was 37½% and 54% respectively. The 1932 figures are only for the first 6 months of the year.

3. The figures in milliards of Reisch marks. The exports include payments in kind made on account of reparations, aggregating 819, 707, 393 and 62 million marks respectively. There is a greater quantum fall in the imports than in exports. The figures for 1932 are for the first six months. A credit balance is throughout kept up.

4. Figures in millard francs. The quantum of imports was maintained in 1931 at 7 points above 1929 level; but exports have fallen in quantum as well as in price. The figures for 1932 are for the first six months.

5. These figures are in million dollars converted at par while the gold standard lasted.

6. Figures are in lakhs of Rupees for the Indian official fiscal years, except in 1932, when the figures are for the first nine months. For the first six months of 1932–1933 the figures show a negative balance of 8.71 crores, while for the 12 months of 1932 (calendar year) the positive balance is Rs. 4,50 lakhs. These figures have been compiled from the report of controller of currency, and the monthly statistics, the latest available.

The following figures are on the same subject, but as gixen in the *Economist*, 28-1-33 p. 175. World Trade in 1932.

(Valuation of Mrch. Trade in Millions.)

France.

	Net Imp.		Domestic Exp.		Balance.
	France				
1929	58221		50139		8082
1930	52344	10.1	42829	14.6	9515
1931	42199	19.4	30421	29.0	11778
1932	29826	29.3	19693	35.3	10133
Germany, marks.					
1929	13447		13483		36
1930	10393	22.1	12036	10.7	1642
1931	6727	35.3	9599	20.2	2872
1932	4666	30.7	5738	40.2	1072
U. K, Pounds.					
1929	1111		729		382
1930	957	13.9	571	21.7	386
1931	797	16.6	391	31.9	406
1932	652	18.2	365	6.7	287
U. S. A., Dollars.					
1929	4399		5241		842
1930	3061	30.4	3843	26.7	752
1931	2090	31.8	2424	36.9	334
1932	1322	34.8	1618	33.3	295
Canada, Dollars.					
1929	1299		1208		91
1930	1008	21.4	905	25.1	103
1931	628	37.7	609	32.7	19
1932	452	28.0	493	19.1	111

Figures in Col. 3 & 5 are percentage variations on previous years.

The measures taken by the British National Government, immediately on its formation, were inadequate to maintain the pound on the gold basis, and so they decreed a departure from gold suddenly on the night of September 20th. The accommodation granted by France and America was continued; but still the strain upon the British Exchanges continued. A general election was held in October 1931 to secure a Doctor's mandate for Mr. Macdonald's Government, which resulted in such an overwhelming Tory majority in the new parliament, that the remaining margin for free exchange of commodities was doomed. A 50% *ad valorem* tariff was clapped on in November, as the first step in rectifying the trade balance on certain articles of luxury imports; an intensive campaign for "Buy British Goods" was started for the same purpose; another 10% all round *ad valorem* duty was imposed on the bulk of the British imports with a very restricted free list. All these measures, though they aid the depressed British trade, failed to secure the objective of lifting the world Depression, or even correcting the British balance of trade. And so, when Germany demanded, under the Young Plan, a review of her economic position, the certainty of the international experts finding Germany's utter inability to pay was so clear, that the knowledge of the true nature and complications of the Depression still affecting the world, and each country in it, could no longer be shut out from the public gaze.

The tale of Britain is the tale of other countries, except that, in these, action was on their habitual and traditional lines, while in Britain it was a radical departure from the known policy of that nation. And because it was a departure, it frustrated, neutralised, cancelled out as it were, the measures of other countries to prevent Depression from deepening. Exchange of commodities was more than ever impeded, and therefore declined in quantity and even more in value. The creditor countries, like Britain, made it impossible to receive the payments due to them by the barriers against trade they had imposed within their frontiers. And, because their goods could not be sold in the countries which had offered the best or the most extensive markets, the debtor countries could not only not pay their debts, but could not buy the goods of their creditors, either as they had not the wherewithal of making such purchases, or because their creditors refused them further credit. All through the reconstruction period of 1924-1929, the Debtors had been paying their debts, not out of any real surplus of production over consumption, but because their creditors had offered them further credits. The debtors' new investments were undoubtedly productive, and were certain to be profitable; but the profits would result after a period. They were meanwhile destroyed or suspended because of the tremendous fall in prices, caused by a glut in the market, due to the restrictive credit and trade policies of the most important nations in the world.

Hence the financial causes of the Depression, which were originally instituted as remedies— for a particular phase of the evil, the restriction of credit, the rise of discount rates, the abandonment of the gold standard, the control of Exchanges, the impedement to trade,— all operated as the world factors for making depression deeper.

In the second of the main group of causes, mentioned above, historical as well as purely political factors are involved. They explain the degree, if not account for the origin, of the crisis. Taking the former first, as being more simple and yet more explanatory, we must remember that the European War of 1914-18 had made a considerable indent upon the economic system of the world. Not only it directly bequeathed to the world, as a legacy, Debts and Reparations, which, in so far as they were carried out, profoundly affected the entire economic organisation of the countries concerned, as well as of all their neighbours; but had brought about a complete orientation in the economic position, relatively speaking, of the leading countries of the world. Those who were debtors, and were consequently obliged to maintain a regular surplus of exports of their produce over imports into their country, now became creditors, entitled, if they chose, to levy their tribute from their debtors; and those who were creditors before the war became debtors compelled to reorient their productive system so as to give them an exportable surplus. Britain, Germany, France were, before the war, creditor countries, having their investments all over, the world, developing the credit and commerce, the transport and industry of their more backward fellows. They used to have a considerable surplus of imports over their exports, the margin of imports indicating, not that their productive organisation was deficient, but rather the tribute, the interest, the profit, which countries developing with the aid of their capital were bound to make.

Britain was the oldest and the most considerable of these investors, her capital building or developing with equal impartiality the railways of America, the tea gardens of India, the gold and diamond mines of Africa, or the butcheries of Argentina. Thanks to these investments, she was easily the banker of the world, and had availed herself of this double advantage to become the carrier of the world. Her tribute, therefore, from these profitable investments in productive enterprises all over the world, came in ever growing volume, helping her to develop still further her own industry and expand her commerce. In the pre-eminent industrial position Britain had enjoyed in the greater portion of the XIX century, she was unconcerned about safeguarding her own local market. She, therefore, maintained a policy of free trade throughout that century, not only because she had to facilitate payment of these dues to her,—which could only be paid in goods to her, and if these goods were barred there would be no way to receive payment,—but also because the free field available for English wares was so considerable that Britain did not worry about the protective policies of her first industrial rivals. It was, she thought, task enough for them to secure their own local markets, which even the mighty Napoleon had failed to secure, despite his rigorous Continental System against the British manufacturer. British enterprise hit upon, at the same time, an excellent device to conceal from the tributories the fact that they were paying tribute, by returning part of this tribute in the shape of new capital invested in an expansion and further development of the productive process in old countries, and initiating it in new. The result was that the commercial and financial supremacy of Britain was assured and maintained all through the period ending with the European war of 1914-18.

France, on the other hand, had always followed a different policy in her foreign investments. Endowed with a richer soil and more agreeable climate; peopled by a race of prudent, thrifty, logical realists,—who limited their numbers long before the rest of the world perceived the need of such limitation,—she had never trusted her fate and future to the sea-born trade so much as the inhospitable climate, the unnatural industry, and the irrational commerce of her island neighbours had made them do. France was fruitful, but thrifty; progressive, but protectionist; cautious and conservative. And so, in contrast to Britain, when she invested abroad, she lent, at relatively lower rate of interest, to the governments of her borrowers, rather than to private entrepreneurs. She thereby secured a political leverage, which enabled her to control the fiscal and financial policy of her borrowers, the value of

See the result in 1792.

which British statesmen never realised, until quite lately.

Germany, on the other hand, when she had built up her industry to rival and surpass the British ; and when she had an investable surplus, sought investments in devoloping her own newly born colonial empire, where she had no need to depend for political control on the manipulations of the international politics. From the start she had followed a different policy in finance, by making her banks take keener and closer interest in productive industry than in parasitical commerce.

The tribute, therefore, which, before the War, France and Germany used to receive, was not quite so noticeably burdensome to the tributories as the British tribute used to be. France had, no doubt, made one miscalculation,—I mean in her heavy loans to the Tsarist Russia ; but to compensate for that, she has built up a ring of financial vassal states all over Europe, Africa, Indo-China, which make her a most formidable antagonist wherever she differed on question of policy. Britain, too, had succeeded for a long while, in concealing the force and meaning of the tribute she levied from the tributories. But when the latter had come to realise their own position as fruitful fields for British exploitation; when they perceived the need of their own industry to be built up on modern lines; and when they made a radical move and a determined effort in that direction,—the intrinsically irrational position of the British industrial organisation could not escape exposure, nor its penalty. It was essentially an organisation of a parasite. It had no place in its own country, for it was largely concerned with that for which the raw material was not available at home, and of which the finished products also could not be disposed of at home. Britain must, therefore, trade; and so foreign commerce became the life-breath of the British economic organisation.

The War radically affected this structure of the international commerce, credit and exchanges. Britain, Germany and France, who had been the great lending countries of the world, became debtors, thanks to their borrowings in war-time. Germany, and to a considerable extent, France also, have wiped out their immense internal war-debt, by an unprecedented inflation in their currency; so that the original debt, incurred at a time when the mark or the franc had a fixed statutory value, was paid off in the currency notes when the mark was not even one-millionth of its original value, and the franc between a fifth and a tenth of its pre-war value. Germany, therefore, cancelled wholly its pre-war internal debt. The payment of the interest on local debt is, after all, only a transfer from one pocket to another in the same country, and therefore, not a clear drain, a net burden, as the payment on foreign debt is. Germany has, no doubt, since 1924, incurred fresh debt, both at home and abroad; and, in addition, her obligation in respect of the reparations claim, fixed originally at some £ 6500 million (gold), of course remains. But the former is either for commercial purposes productive investment, or under arrangements with her neighbours in the crisis when it developed. The latter has undergone considerable modification under the Dawes Plan and the Young Plan; and a committee of international experts, which have finally declared that Germany is unable to pay.

I shall give you in a moment the comparative debt position of the principal countries of the world, as shown by the latest available statistics. Let me pass on to say a word regarding the debt position of France. She, too, has had currency inflation, and revaluation of her standard money at one-fifth its pre-war level, which has reduced materially the pressure of her home debt. She has received heavy payments, both in kind and cash, which have still further lightened the load, and enabled her to reconstruct her war-wasted regions that have improved all the more her ability to bear the burden. She has likewise obtained the most valuable concessions, particularly Alsace-Lorraine, whose mineral wealth alone suffices to build up heavy industries in which France before the war had been very much handicapped. Finally, she has received the most liberal treatment from her ally and associate as regards her own obligations abroad, and was, except in Russia, secured to the hilt in her own investments abroad. France, therefore, at the time of the crisis in 1931, was, in the matter of international debt payments, more a creditor than a debtor, and practically a dictator in Europe, without being much of a suppliant of America, either.*

Britain, in this regard, is in a remarkably different position. Her debt increased ten fold in and because of the War. And, though her critics and enemies may say that she too derived some advantage from the War, those benefits were more of name than of substance. She thought she had destroyed her great naval and commercial rival in Europe,—Germany; captured her navy and her trade and her market, and so secured a new lease of the industrial and commercial grip of the world. But alas for the plans of man. The captured German navy, brought tamely into a British harbour, was blown up by the fierce old Prussian who commanded it, before it could be made to blow the flag of a foe. And the new navy of Germany, born out of all the experience of the War, all

* As the World Economic Conference of June–July, 1933, has shown, France still retains her dominant position in Europe, if not in the world.

the advance in science, is the envy of the world, even if be it not yet a terror. German industry was rationalised and re-organised, so that the hope of keeping out German goods from world markets was anomalous, even if there were not the spur of Reparation payments applied to her by the self styled victors of the European War. The markets, were, therefore, lost even before they were attacked, for Germany's exports were the biggest in Europe in the worst year of 1931.! And as for Colonies and Mandates, Britain never had cultivated the policy of scientific colonisation and Development as Germany had, despite her short experience. So Britain's War acquisitions turned out to be more liabilities than assets. On the other hand, the influence of the plutocrats and of the squirearchy has prevented Britain from treating her enormously inflated war-debt in the manner that her continental neighbour did, by a skilful watering of the currency. On the contrary, thanks to the obstinate determination of that arch type of British squirearchy-cum-photocracy, Winstone Churchill, a steady policy of deflation was pursued with a view to an early return to the old gold parity of the pound sterling. When Britain officially restored the gold standard in 1925, she had already passed through years of travail to force up her internal prices to the gold level; and thereafter, too, since the intrinsic strength of the British Industrial position was not so great as it used to be, a heavy hand had to be kept upon the currency and credit system to keep up the prices,—which, of course, operated insensibly to cause depression in Britain. As for her foreign debt, she had more credits than debts, as the books showed. But on the credit side, the Russian block of investments proved watered stock, and loans to France became castles in Spain. For France was quite willing and ready to pay, if Britain would help her to recover the Reparations from Germany. But, in proportion as Britain forced these Reparations, her own trade and industry suffered. So she could not quite keep up the tune of Versailles; and had to grant very considerable reductions to all her debtors,—France, Italy and the smaller fry,—in accordance with the principle of capacity to pay. As for her own debt to America, she asked for some relief, and fixed the future burden at a considerable reduction by a special agreement made by Mr. Baldwin, the Chancellor of the Exchequer in the Bonar Law cabinet of 1922. From her own debtors, she declared through the Balfour Note, she would not take anything more than what was to be paid by her to her own creditors, meanwhile crediting to their account such values as were held by her, such as the French Gold deposit of £. 12 millions, as part payment, Do you remember the scene in *Monte Christo* when the Count pays a final visit to the banker Danglars, and pockets from the latter bonds of five million to save the latter the trouble of making such payment? Monte Christo even leaves a handsome balance of 100,000 francs as a commission to the banker, who was bursting with terror at the loss of his five millions. I cannot help recalling that scene whenever I think of the Balfour Note.

The debt positon, at home and abroad of the principal European countries, is as follows :—

	Internal.	External.	Total.
Germany (1931)@1	8784·1	3305·5	12089·6
France (1931)@2	283040·5	197781·1	480821·6
Britain (1931)@3	6516·2	1066·7	7582·9
U. S. A. (1931)@4	16801·5	———	16801·5

The position in regard to intergovernmental war debts and Reparations, under the several debt funding agreements of the debtors with their creditors, is shown, succinctly and admirably, in the following table taken from the Mr. G. D. H. Cole's *Guide through World Chaos*, (pp. 106–7)

I. War Debts. (In million Dollars)

Due to U.S.A.	Total debt incurred	Total sum payable in annuities.	Estimated value of total annuities at 4%.	Percent of cancellation already made.
Great Britain	4604	11106	3788	17.7
France	4025	6848	1997	50.4
Italy	2042	2408	528	74.1
Belgium	418	728	225	46.1
II. Due to Britain. (£. million)				
France	600	799	256	57.4
Italy	589	277	90	84.9
III. Reparations from Germany (Million gold marks)				
	136,000 (As fixed in 1921)	113905 (under Young Plan)	42,183	69.0

* The figures are in millions, of Reischmarks for Germany, of francs for France, of pounds for Britain, and dollars for the U. S. A. They are compiled from the *Statistical Year Book of the League of Nations* for 1931–1932.

The real significance of the burden of these debts is shown still better by the following analysis based on the same authority. If you bear in mind the changes in the price Index, the value of £. 100 of debt, on the 1913 prices, was equivalant to £. 33 in 1920 in Britain, £. 60 in 1924, £. 73 in 1929, and £. 95 in 1931. As the whole of this debt was incurred at a time when the British price level was about 75% above that of 1913 (i. e. between 1914–18), we may say that the real value received for every £. 100 of borrowing was about £. 60. As the prices in Britain at the end of 1931 were about the same as in 1913, the burden of debt in comparison to real value received may be said to have appreciated some 75%. There is, however, a cancellation granted to Britain of something like 30% under the Baldwin-Mellon agreement of 1923; so that the real increase in burden, at present sterling prices, is not much over 50%, without making any allowance for the increased period during which the payment may be made. To France and Italy much more liberal terms are granted, no doubt; but in consideration of Britain's productive capacity, the burden is by no means unreasonable or disproportionate, even on the assumption that in such matters we must consider, not the letter of the bond, but the capacity to bear the burden. But still they threaten not to bear it at all.!

Now consider the situation from the American standpoint. America has lent all these sums actually in good value,—with, of course, a war time profit; and she has made her own contribution, in men, money and material, after she joined hostilities on her account. But of the latter, she not only makes no mention, but asks for no share from the iniquitous Reparations calls made upon a helpless Germany by a cynical Frenchman and an unscrupulous Welshman. America has never approved of the Versailles treaty; she has never derived any advantage from it; and cannot, therefore, be held even morally responsible for the evils that have grown from it, as Britain must be, since she has shared to the tune of 22% in direct the Reparations, and benefited to an incalculable extent;—or had hoped to—from its indirect advantages. America simply seeks to recover, not the full face value of the bond given to her, but a very considerable scaling down of her actual payment. Her Government has lent nearly 70% of this amount by borrowing a like sum at home. Her budget position is very much imperilled because of this debt even today. She must tax her people and industry and face a daily growing army of the unemployed, because of this unfortunate legacy of European insanity. When she made those liberal and even generous agreements, no condition was ever made that the amount then agreed upon would be paid to her if the European Debtors of her debtors paid the debt to their European creditors, namely Reparations. She can, therefore, see no reason why her just and agreed and very much reduced claims should not be paid to her. Even so, she might have considered,—she would even now consider, I believe,—any suggestion for reduction, or even, cancellation, if only the European lunatics would not squander the benefits thus derived at the cost of America in their futile race for Armament, in their blind hatred of their neighbours. Europe is a Christian country, where they obey the Bible injunction "to love one's neighbour" mostly by loving the neighbour's wife. And so European Statesmen dislike this American idealism for a warless world, as an impertinence, distrust it as inspired by America's own growing Imperialism, and seek to defeat it by every subterfuge of diplomacy and chicanery they can think of. When American Bankers were reported to have dictated to British statesmen, in August.—September 1931, as a condition precedent to the dollar loan, that Britain should curtail her wasteful expenditure on unemployment, the present British Government tamely submitted to that dictation as wholesome advice. But when it became a question of abandoning intensive armament, how many British Statesmen would be calling it an impertinence? Be that as it may, America sees no reason to agree to any further reduction of her just dues, and penalise her own citizens, for the benefit of such people.

If America would not remit her claims, nor reduce them, let her at least, says the British politician, reduce her tariff barriers, and receive the goods of Europe in payment of her claims. American industry has now, I believe, got nothing to fear from any European competition,—except from a renovated Germany or reconditioned Russia; and so she might well abandon the tariff barriers without much of a danger to her own either in her own market at home, or in Europe, Asia or America for the matter of that. Her productive organisation, equipment, and yield is far superior to any in Europe. But if America is to reduce her tariff walls, would she have any guarantee that the Europeans would do the same? If European countries persist in their own petty trade barriers and jealousies; if Britain manœuvres a scheme of Imperial Preference and local protectionism; if the rest of the world go on in the mad war of tariff armaments, imperialism and exploitation of the weak by the strong, why should America take even what little risk there might be in exposing her markets, her industry, and her labour to such competition?

Apart from tariff walls and subsidising Europe, there is the old trick of monetary depreciation by deliberate inflation.

What guarantee has America that, if she opened her market to competition, a concealed handicap would not be placed upon her by this fruitful device of bankrupt Europe? She, therefore, asks for a fixed exchange, for a return to gold standard,—not merely verbal assurances but complete guarantees, such as adequate gold reserves being maintained in New York.* Europe has shown no willingness to offer those guarantees, and so the continuance of the Depression.

As for the purely political causes, I have already mentioned some of them while considering these historical explanations of the continued and prolonged Depression. The fact that a number of new states have been created as the result of the Versailles Treaty only brought about a multipiicity of frontiers, tariffs and exchanges which account in no small degree for the Depression. But we have already noticed these; and so need no longer dwell upon them. Let us only mention the political

* The American stand point seems to be slightly changed, in this regard, as shown at the World Economic Conference. cp. below, last chapter.

consequence of the War, which has a direct bearing upon the present Depression, and which consists in a divorce of the process of raw materials from their places of final manufacture, as in the case of dismembered Germany. This affects both costs and markets, and so is responsible in no small measure for the crisis. Add to these the feeling of insecurity, and instability engendered by the breakdown of parliamentary machinery and the growth of dictatorship in countries like Turkey, Italy, Spain, even in Germany and Russia—and you will have some idea, some reason, more subtle and less obvious on the surface, which has brought about this depression. Political considerations have also influenced, not only credit arrangements within their own frontiers by European countries; but they have also materially affected the international balance of payments. The flight from the dollar today is an illustration; while the decline in the price of silver has another aspect of this category of causes, not only as affecting the purchasing power of mankind, but causing grave dislocation in the banking and credit systems of the World.

There is one, aspect, however, of these politico-economic causes of the present Depression, which I cannot pass over without a passing note. Russia of the Soviets is undoubtedly a political cause of the origin as well as intensity of the present Depression; but Russia of the Communists is a still more potent economic factor to disturb and throw out of gear the orthodox economic system. Russia was the first to lead the way to a wholesale **repudiation of Public debts** on such a scale, without any pretence about the ability to pay. She was the first to bring about a scientific discredit and disuse of the orthodox and obsolete cash *nexus*, watering her currency so generously that it became a new Deluge to drown and end a sinful world. She was the first and is still unique to abandon the ideal of production for exchange, and the only one to recognise the need for a compehensive planning of the community, of the economic system collectively on all fronts, with due regard to the means of production as well as the ways of consumption; to introduce a definite, deliberate purpose in all her activities;

so that, provided she fulfills that purpose and carries out that plan to her own satisfaction, she is careless of the curses or compliments of the world at large. Hence it was that she decided to be industrialised on a large, intensive, standardised scale; to mechanise her agriculture; to Rationalise her credit system; to humanise her social system. The first Five Years plan aimed at doubling production taken in the aggregate. It was completed in four and a quarter years; and,—bar a few criticisms about the quality of the new production, a few reservations about minor incidents,—she has succeeded wonderfully. Not even the bitterest bourgeois critic of Russia,–prejudiced and purblind as he may be by the driving might of self-interest,—dare question the success of the plan in the aggregate. Besides, even if he dared it, the facts coming home to him every day would render it impossible. Producing all she can, but not primarily for exchange, Russia is indifferent about the price she realises of her surplus produce. To her it is an absolute surplus, unwanted, and encumbersome, which may be disposed of for whatever it fetches. So she dumps, dumps scientifically and persistently, dumps her wheat and dumps her oil, dumps in every bourgeois market, protected or not, dumps to knock the bottom out of prices, and incidentally to show the utter futility of all the checks and balances, all the delicate parts of the complicated adjustments of the bourgeois economic systems before a determined attack. You may call Russian goods the product of slave labour ; but you will buy all the same when you find them one half, one third, one tenth as cheap as the corresponding product of far more of certainly sweated labour, even if you do not call the wages system of the capitalist world the most abject form of unredeemed slavery, prostitution, and degredation.* And so she goes on merrily, laughing like some modern mephistopheles at the vain struggles, the futile assistance, the contemptible guards and shields of the cowering Dr. Frankenstein the entire bourgeois society of Europe and Asia and America. In

* On the question of whether any labour in Soviet Russia could at all be called Slave Labour, se ethe very illuminating articles in the *Current History* of November 1932 to March 1933, by Sidney Webb.

one way or another, she compells you to recognise her new ideals, the new purpose of living, the new meaning of life, casting off your old shibboleths of comparative cost and enlightened selfishness, to reach the safe haven at last of socialism. With Russia thus acting the rather enigmatic fairy god mother, the child of depression goes on ever growing, which will not be ended until we have radically altered the schemes of our social values, the ideals of our common life, the purpose of our human existence.

It remains for me to review the reaction of all these causes upon India, to note the influence of her own peculiar circumstances and conditions, which have made her feel the Depression. In India there has not been that stimulus to production, that rationalisation of industry, mechanisation of agriculture, modernisation of the credit, and nationalisation, —or at least the naturalisation—of the banking system, which appear to have caused, each in its own way, the world Depression in other countries. We had our own currency experiments, no doubt, in the post-war as in the pre war period. Those who rule our financial and currency destiny decreed, immediately the war was over, that the rupee shall be worth 2 shillings gold. The decree cost us 50 crores in hard cash and Reverse Councils, and brought us the only benefit of destroying at one blow all our export surplus of something like 80 crores, and replaced it by an import surplus of a like amount in 1921. It was inevitable; for India was the only country whose government deliberately raised the exchange value of her currency when all others,–including the British, —were crashing. Then followed this expedient in currency rehabilitation, the Bombay Development scheme by way of reconstruction! King Canute could not ask the waves of the sea to recede; but Lord Loyd could and did. And so Bombay has been presented by a flowering wilderness at the cost of 30 crores! This was the Indian esssay in national reconstruction, to provide orders at top prices to British manufacturers, and employment at fabulous salary to the members of the British steel frame. As if that was not enough, we had a five years railway expansion programme, voted in one lump sum of rupees 150 crores, for extending and expanding an enterprise of which all raw materials and accessories must come from Britain. Next we had budget deficits, which have been covered by loans at 7%, when in the world money market the rate was three or four per cent, coupled with conversion terms which would automatically double the volume of the loan after ten years, and give 3½% on that doubled volume,—which is called conversion and an economy. If that be not enough, there were Services concessions and another go at currency reform, which again raised the exchange to the prejudice of Indian exporter and of the Indian producer.

Do you wonder then that India has a serious Depression? Do you still ask that the value of her trade has fallen to a third, though the quantity is not declining in anything like the same proportion? Take only the following facts. While our imports have fallen from the post war average (1924—1925 to 1928—29) of rupees 251·92 crores to rupees 130·64 crores, or by 48%. our exports have fallen from 353·51 crores to rupees 151·29 crores for the same period or by 55%. Contrast these with the quantitative positions.

QUANTITIES AND VALUES OF INDIAN EXPORTS. (000 omitted)

	Post-war. Average (1924–5 to 1928–9.) Quantity	Value	1931–2 Quantity	Value	Remarks.
Raw Jute tons.	334000	195277	587	111881	a fall of practically 50% in value for hardly any fall in quantity.
Gunny bags No.	404250	181062	388532	109387	
Cloth yds.	1230834	238248	995731	100517	
Total...		626844		331123	
Cotton raw tons.	521	647389	423	234472	for a fall of 20% in quantity, a fall of 64% in value
Grains, pulse and flour.	2099000	328265	2614000	203718	for an increase of 30% in quantity a decline of 40% in value.
Seeds (tons.)	92300	235364	988000	145883	for a 7% rise in quantity 42% fall in value.

Those four or five cases are eloquent, not only because they constitute the bulk of India's export trade; but they illustrate the rapid loss of purchasing power of the Indian producer as explaining in no small measure the world crisis. India is possibly among the six or eight greatest consumers of foreign manufactures. But she cannot now buy them because her policy in regard to currency and credit, taxation and expenditure, renders it impossible, notwithstanding that she gives more and ever more of her own produce for less and ever less of the foreign wares she needs. The authorities have, for the last two or three years, been blaming the country's political awakening for the deepening Depression. They call it the Civil Disobedience movement, of course, for purposes of awarding blame for this Depression. But it is a most remarkable thing that though not single spark of that movement has ever fallen upon the field of Indian exports, that field seems to have suffered much more considerably than Imports. How would you explain this paradox, if you do not accept the analysis I have given above?

LECTURE.

III

REMEDIES PROPOSED.

I have tried to examine, in Lecture I., the nature and genesis of the prevailing World Depression, while in Lecture II, I endeavoured to analyse its causes. As a result, we found that the Depression consists in a breakdown and dislocation,—in a society constructed primarily on Exchange,—of the mechanism for producing and distributing the material utilities. On the proper, smooth, regular functioning of this mechanism depends the welfare of mankind, because on it rests, as on a pivot, the whole of the modern commercial economic machinery; and so on its getting out of gear, Depression is unavoidable.

The present Depression, it was noted, is not a case of mankind having lost any part of its productive capacity or equipment, as happens after a great famine, epidemic, or war. The damage to life and property wrought by the World-War has been more than made good in almost every country affected by it; so that, that is no true explanation of the present Depression. Nor has our productive capacity and equipment suffered in proportion to the strain put upon the same by forces of demand. For, though world population has increased since before the war, the rate of that increase is considerably below the increase in man's productive resources. In this crisis, therefore, there is no question of man's inability to produce all the utilities he needs to ensure that standard of life and work, which is generally deemed to be necessary for the proper functioning of social economy.

The only point worth noting in this connection is: that though all the loss and wastage of war-time have been made good, man's passions of hate and greed prevent this accomplishment being recognised. The result is that the claims in respect of the alleged loss and damage, caused to some of the former belligerents by others, and required by the former to be made good by the latter, still continue to vitiate the dealings between man and man, and clog the machinery whereby these dealings have to be carried out.

Because of the existence of this man-made cog, the necessary parts of the mechanism, which, in practice, are indispensable for the working of the machinery, are also thrown out of gear. If there is not a smooth and prompt distribution of the utilities produced; if there is not a quick disposal, their stocks go on accumulating, what time the original productive mechanism goes on adding still further to the aggregate of these stocks. With this increase in supply, the prices of commodities are depressed; and, because prices are so depressed, the expected net return from the enterprise declines. As this is a material consideration in keeping the whole machinery of production going, the decline or disappearance in the profits of the entrepreneur leads to a cutting down of the expenses of production, which most commonly and easily takes the form of disbanding the worker, or reducing his wages. The workers, thus thrown out of employment, or with a reduced income, are unable to provide themselves with the necessaries of life; and this fact, reducing the demand, still further lowers prices. This is the essential explanation of the present Depression all over the world, whatever its special phase and particular occasion or origin may be in any given country.

Had this phenomenon been localised and isolated, it might have been remedied by removing the surplus population of one place, suffering from such Depression, to another free from it. Such a remedy is, I am aware, more easily suggested than applied. Labour, even under modern conditions of a free contract of service and rapid transport, is not so easily movable from place to place as Capital. Hence, despite all the effects of Depression and Unemployment, the affected Labour generally continues in the same place long after the evil has become manifest. When, however, the phenomenon is on such a world scale, from which scarcely a single country is exempt, that remedy is not even theoretically possible.

While prices remain thus depressed, and unemployment goes on growing, the other parts of the ecnomic machinery also cannot avoid being affected. The Currency. and the credit system raised upon it, as well as the general productive organisation, are the next to be involved. Credit gets strained first probably, because profits seem to decline, and the expected return does not materialise.

The movement of goods and services, next, do not take place with the smoothness and rapidity with which they were intended to take place. Now, as the Credit arrangements were originally attuned to a given rapidity of turnover, there needs must be dislocation when that rapidity ceases. A remedy for this specific evil, when manifest, is first sought in reconditioning and manipulating the Currency,—by changing the basis of the money material, by operating upon the volume of the circulation, and thereby seeking to regulate prices. But the remedy involves its own complications. If the volume of currency is contracted, with a view to reduce prices, the fall affects the trade all over the world, and so the solution sought for the original depression does not result. Wherever a country is particularly concerned in maintaining its foreign trade.—as most of the nations of Europe seem to be,–the local depression in prices, caused by an artificial contraction of currency, reacts upon the affected country's foreign trade, by making it unable to compete in the world markets. Not the least portion of the blame for the present Depression in Britain is assigned, by authoritative and well-informed opinion, to a premature return in 1925 of the Pound Sterling to its old gold parity. Because at the time the new rate did not correspond to the real state of affairs in the commercial world, it naturally compelled Britain to adopt a policy of deflation, with an artificially lowered standard of local prices, which only led to an unnecessary handicap on the trade of that country in the world at large. As Britain depends, more than any other country, on the maintenance of her foreign export trade, this unexpected consequence of that policy put her into a cruel dilemma. For, on the one hand, if she did not restore the Gold Standard, she would not regain her position as the monetary clearing house of the world, and so lose the free deposits of balances from other countries who must settle their international obligations by a "Bill on London." The absence of such deposits would not only mean a loss in banking commissions, but cause a still more formidable injury in the shape of the loss of credits which Britain at present can ill afford to sacrifice. If the volume of circulation is, on the other hand, raised, prices may rise for a time. But this method is so easy to adopt, and the occasions on which it might be adopted so numerous, that once it is tried at all, there is no limit to which it cannot be extended. Whether it takes the form of abandoning the Gold Standard, as it did in the recent crisis; or manifests itself in the direct watering of the currency, as during the period of Mark-inflation in Germany, the results are similar. The rise in prices, induced by this means, is not a rise controlled, as by the mechanism raising the sluice-gates on the .headwaters of a canal system, letting in just enough water-supply that may be needed. Prices are raised by this means indefinitely and uncontrollably, to the utter confusion and dislocation of the entire economic machinery. Besides, even when this remedy is applied within limited proportions,–*e.g.*, in a simple abandonment of the Gold Standard, without a concurrent watering of the currency,–if it is applied by a number of nations simultaneously,–as it is bound to be,–its effect is neutralised automatically. Money ceases to be a measure of value, and exchanges are made on the basis of the purchasing power parities. The result is that manipulation of the currency system, and of its offshoot–the rate of exchange –of a given local currency into other international media of exchange, vacillates between two extremes, each applied to correct a particular evil, but neither resulting in the end really sought, nor curing the disease intended to be remedied.

Contributory causes have also been at work to explain the arrival and deepening of the Depression. The existence of inaccessible tariff walls impeding trade and the movement of capital from country to country are among the most considerable of these contributory causes and subsidiary influences. The weakening of international credit, the birth of suspicion and distrust, intensifying the impediments, the obstruction caused by the legacy of the European War, in the shape, not only of War Debts and Reparations, but also in the guise of new nations and new frontiers,—with their intensive measures of self-protection and consequent obstacles to trade,—these all have led to the deepening and worsening of the crisis, when once it had been engendered. But, though we must assign their due place to each of these subsidiary factors, we must not overlook or forget the real genesis of the Depression,—the incompatibility between our present productive organisation and the distributive,—or consumption,—machinery.

The Depression is, in this conception, a man made phenomenon, which admits of a man-made cure much more readily than if it had been caused by superhuman forces working in depsite of man. Man has but to remove some of the impediments and obstuction of his own creation; he has but to modify the system of economic life under which he has been living hitherto; he has but to alter, re-adapt or discard some of the basic institutions and governing ideals of this age of commercialism,

—wherein the Montechristine philosophy of everything being open to sale, provided one has the means to buy it, reigns supreme,—and this particular trouble would vanish.

Let us, then, consider now the remedies proposed,—or those which we can think of from our own review of the social *malaise*,—to put an end to the present Depression. These remedies may be examined under 2 main groups: On the one hand, we may range these remedies, which, already suggested or adopted, in one place or another, relate to the particular disease that is locally supposed to be the root cause of the evil; and, on the other, are remedies, which, suggested or not, lie much deeper, concern the very roots of the present evil, and affect the very foundations of our present socio-economic system. These alone can assure us permanently against the recurrence of this economic pest.

But let us consider both these groups of solutions, one by one. In the former category are:

(*a*) Revision of the entire problem of international indebtedness, and the mode of affecting payments in regard thereto. This includes, obviously, the question of intergovernmental debts, hailing from the War days, and its connected aspect of Reparations expected to be obtained by the victors from the vanquished. But, deeper than this, lies the question of debts as between one country and another,—short term or long term,—which are not owed by the government of one country to that of another; but which are owed by the citizens collectively of one country to those of another, which have arisen in the ordinary course of commercial dealings or industrial investments or banking credits, and which nowadays form the most considerable difficulty in the way of remedying the Depression, being intimately connected wlth that collective phenomenon. By analogy, at least, the cognate question of internal debts, as between a government and its people, is also important.

(*b*) While the process of liquidation of the former class of debts is naturally different from that of the latter, they both affect ultimately and unavoidably the general state of international trade as between the countries affected particularly. The payments by the debtor countries, to the creditors must eventually come from the production surplus,—from the goods and services,—of the debtors. The creditors must, therefore, keep the door open to such goods or services imported into their boundaries for making those payments. But if the creditor keeps the door open to this stream, the danger is very imminent and considerable, that its own local producer may suffer far more from the receipt of these imports, than the country as a whole benefits from receiving them. This is a most serious matter of national existence and future in a country, which, having ample resources in men and material, is nevertheless impeded, by some accident of its history, from the course of natural, legitimate, intensive development of its own industry and agriculture. The right of each community to develop unhindered its own local resources to the utmost possible,—if only to add to the sum total the services and the material utilities for the greater ease and comfort of mankind,—is impossible to question, by anybody who has no desire to oppress, exploit, or defraud any section of his fellows for his own benefit. Given this right, on the one hand, and the necessity of effecting payments of international obligations of the type already illustrated, on the other, the dilemma proves extremely embarrassing. The nature, conditions and restrictions or impediments in the way of international trade, demand, therefore, close consideration.

(*c*) The consideration, moreover, of the problem of these trade payments, and the discharge of other obligations as between nations, leads to a serious consideration of the media, or mechanism, of payment; as well as of the streams of capital resources from one country to another,—from the more developed to the more backward,—with a view to a still further stimulation of the process of production.

Recent experiments by distressed nations in this behalf demand a revision of our present day institutions and methods of effecting these payments. The banking and credit organisation of the world, in other words, must be everhauled to make them more rational and smooth, better coordinated and adapted to bear the strain that must inevitably fall upon them.

(d) The reaction, by analogy at least, of all these upon private, individual relations,—at least in regard to their economic expression,—is, though not immediately neceseary, ultimately inevitable to consider. Private imdebtedness imposes a strain, not a whit less severe on man's productiveness than international indebtedness. Particularly is this the case in regard to long-term loans and investments in enterprise whose productivity is liable to considerable vicissitudes, as in agriculture in an ancient country with innumerable socio-economic considerations affecting and complicating that branch of production.

I have deliberately stated these remedies in their generic form, so as to facilitate the discussion of the specific expression of each under more than one category, if such inclusion is needed for a comprehensive and proper consideration of the same. These are, however,—when everything is said in their favour;

and when they have been applied under the very best circumstances and conditions imaginable,—only palliatives, mere tinkering with the problem, which barely touch the fringe of the real evil. It is the second category of remedies, which must prove the most efficacious in the long run. If we would consider, however, some means of permanent cure to this evil, and guarantee against its recurrence, let us search for the roots of the evil.

(*a*) They lie in the Social system, primarily, which lays such a disproportionate emphasis on Exchange, and which is therefore ready to throw the rest of the mechanism out of gear if it could safeguard its own fundamentally vicious basis. Society being founded on and for Exchange, the ideal of self-sufficiency is ridiculed and discounted, even for those communities, for which,—as in Russia, India or the United States,—it has more than a sporting chance of being realised. The result is a distorted distribution of the productive organisation, facilities or equipment, which, because it is initially unnatural, inevitably results in the aggregate volume of production being much less than man has, with his present command over nature, the right to expect. The doctrine of the Classical Economists about a Territorial Division of Labour, condemning the tropical countries, like India or Africa, to be for ever producers of raw materials; and reserving the temperate regions for their manufacture into finished goods,—had some semblance of reason if not justice, when the economic exchange of goods and services was to be regulated exclusively by free competition. Even, however, in the days when classical economics was at its height, this doctrine was of little more than theoretical validity. For competition, even if it was ever free, was nowhere betweee equals. But in these days of intensive nationalism by microscopic units, and excessive self-protectionism, the principle of a Territorial Division of Labour, as an ordination of providence, has no place at all.

(*b*) Side by side with the general organisation of the productive machinery as a whole, must be considered that particular aspect of it, which relates to the present emergency or Depression, namely a breakdown of the nexus by which production, as it takes place, should be absorbed and disposed of. As I explained to you last time, no one who realises the handicaps on the productive energy of man; no one who realises the strain upon that energy in the shape of the demand that has to be met, can question the wisdom of improving and perfecting and advancing our productive organisation and equipment to the best and the utmost we can. The cause of Depression lies, not in an excess of production,—as the orthodox economists often suggested,—but in the inadequacy of the means to liquidate the productivity, to dispose of the produce as and when it takes place. We are suffering, not from superabundance, but from maladjustment. It is a question simply of machinery, not of the basis. Large tracts of the world, and great blocks of its population, still live very much below the margin of the merest subsistance, let alone any claim to any standard of culture, comfort, or even decency. And so long as there are such regions undeveloped, and such peoples below the minimum of human life, we can never really be said to have absolute superabundance. Our present day plenty, in some countries, is only in appearance; while living below the margin of subsistance is a grim reality wherever it obtains. The problem, therefore, raised by the present Depression before civilised and thoughtful men, concerns the ways and means by which production, however rapidly increasing, should get absorbed as soon as it takes place. There must be no hiatus caused by unemployment due to disjointed production.

(*c*) The scheme of values, moreever, connected with this basic system, must also be reconsidered, in the light of our changed ideals and altered circumstances; and the motive force—the search for personal gain,—must be wholly remoulded. If production ceases to be exclusively for Exchange; if the motive of individual gain is abolished, the basic institutions of modern economic society,–like private property, –would undergo a radical change automatically; and the havoc, for which modern individualism and capitalism must be held responsible, will cease to be. Depression would be a thing of the past, as dead as the dodo, only when we have remedied these root evils of the economic system.

I shall now proceed to consider how far the remedies in Group I suggested above are practicable, how far the nations of the civilised world are prepared to face the real evils and determined to solve them. The Preparatory Commission of Experts for the World Economic Conference, meeting last month, have laid it down :—

> "It will not, in our judgment, be possible to make substantial progress by piecemeal measures. A policy of "nibbling" will not solve this crisis. We believe that the Governments of the world must make up their minds to achieve a broad solution by concerted action along the whole front. Action in the field of economic relations depends largely upon monetary and financial action and vice versa. Concerted measures in both fields are essential if progress is to be made in either."

We must never lose sight of this salutary advice. The present Depression being a world phenomenon, its solution by the isolated action of any single community, however powerful, must be despaired of. Common consultation and joint action are the *sine qua non* of any hope to solve the present tangle. We may, however, consider. Each of the several categories apart and individually, for the sake of convenience. The authority already quoted has laid out certain basic factors involved in each of the sets of remedies, which are intended to be applied immediately. In group I of their suggestions,—Monetary Policy, and Credit,—they include the following 4 main points: Viz.

1. Conditions under which a restoration of a free international Gold Standard should be possible;

2. Currency policy to be followed prior to such restoration;

3. Functioning of the Gold Standard:—

   (*a*) Relation between political authority and Central Banks;

   (*b*) Monetary Reserve—(i) Lowering of cover; (ii) Gold exchange Standard; (iii) Distribution of monetary Reserves.

4. Silver.

On each of these points, agreement has yet to be reached between the nations of the world, before any settlement in regard to it can be applied as a remedy of the present

Depression. As I told you on a former occasion, there has been a very considerable resentment in the world against the unilateral action of Britain,– and those other countries which have since followed the British precedent,—in discarding the Gold Standard all of a sudden. One of the indispensable conditions, therefore, for any amicable settlement of the differences that now impede the remedying of this world-wide Depression, is to secure a reversion of Britain and her imitaters to the policy of a fixed exchange. As the Gold Standard has hitherto been found unsurpassable for maintaining the fixity of exchange, there is a general consensus of opinion that Britain should revert to the Gold Standard as an indispensable preliminary to world recovery.* Britain, on the other hand, cannot revert to the *old* gold parity of her pound sterling, without inflicting an incalculable injury upon her native production, such as it now remains to be. For, the resumption of the old parity and its maintenance would necessitate such a heavy deflation, and consequently

* Since those remarks were made, the United States have also abandoned the Gold Standard cp. *Infra*, chapter V.

such a severe further fall in commodity prices, that Britain, already gravely handicapped in the world markets, would be still further handicapped in marketing the produce of her industry. The real handicaps on the British industrial position are to be found in those accidents of history during the last 150 years, which made Britain increasingly resort to industries whose raw material she could not produce within her own frontiers; and whose finished products she could not consume by her own people. Her prosperity, therefore, became more and more dependent on world commerce; and she unconsciously adopted measures and policies by which that commerce should be guaranteed to her. But the economic organisation of the world has been radically changed since Britain first established by industrial supremacy a hundred odd years ago. Hence, though today free world commerce is to Britain as important as ever, she has not the same equipment to benefit herself by it, even if it was unrestrictedly open to her. The only condition, therefore, under which one can conceive of Britain reverting to the Gold

Standard,—under which she would most probably revert,—is such a devaluation of the pound sterling, such a reduction of the gold contents of the Britain's Standard Coin, as would permit a reasonable hope of its maintenance in exchange value on a stable footing.

It is impossible to say at what precise point the Dollar-sterling Exchange can be stabilised, permitting Britain the greatest margin and facility for its maintenance. Judging, however, from all the indices one can see today, it seems impossible that the old rate, or anything higher than the old rate, could be restored. A lower rate is inevitable; and, given the present condition of British trade and industry,—of British productivity,—it would be most surprising if Britain consents to a dollar-sterling Exchange ratio at a point higher than 3·80 dollars to the pound. The lower limit need not be much below 3·20 dollars to the pound.*

* This was uttered before the crisis developed in the United States, and that country adopted measures which have resulted in a substantial depreciation of the dollar in terms of gold. For a fuller explanation of these measures see below, chapter IV.

But this is a secondary question. The more important question in this connection is: How is the rest of the world,—including America,–to be satisfied that Britain, even if she readopts the Gold Standard and a fixed exchange today, will maintain it honestly hereafter? How are they to feel sure that Britain would not find it inconvenient hereafter to depart once again from the new Gold Standard, as she did from the old? And, if she so departs, what is to be the world's remedy,—guarantee.—against her?

This is a very serious question; for any demand for such guarantees affects the doctrine of national sovereignty, to which British-orthodox opinion is so wholly wedded, that one is justified in calling it the greatest stumbling block. Britain is accustomed to give, rather than to receive, admonitions in regard to the proper conduct of her own internal financial machinery. She would, therefore, feel naturally aggrieved and insensed, the moment she hears a suggestion like this. But though British opinion may prove unsympathetic, the suggestion for guarantees for, a continued maintenance of the new parity is neither impracticable, nor unprecedented. Britain was herself party to the plan which led, in the case of Germany, to the institution of a Commissioner-General for Reparations Payments, and for the Bank of International Settlements, also in respect of Germany. Her history teems with examples of such intrusion in India, Egypt, Turkey, Persia, China. If these peoples had to accept the British advice and intervention, for the safe-guard of British interests endangered by the improvidence of the local rulers, Britain herself can now no longer escape the logic of *tu quoque* in this regard. She has given ample evidence, in the last fifteen years,—nay, in the last fifteen months,—in her own financial and currency management, which could justify a cautious friend and helper, like the United States, in demanding hostages for the proper maintenance of the new parity. The hostages, guarantees, safe-guards,—call them what you like,—may take one or more of these forms, *viz* :—the maintenance of a stated proportion of the British Gold reserve in some international financial centre, like New York;

the restriction on the British Government's powers of borrowing, at home or abroad, which could conceivably throw the British Budget out of joint, and thereby lead to some secret inflation in the volume of British currency, and so imperil the stability of the Dollar-Sterling Exchange. These powers are, no doubt, unusual and at first sight offensive. But they are demanded in common interest, for mutual safety, and particularly for the benefit of Britain herself, who would never regain her position as the banker of the world, so long as her faith is doubted, her credit shaky, her exchanges unstable, and at the mercy of the British treasury official and the British banker. Britain must certainly not demur to those guarantees being conceded, and those restrictions being imposed upon her, when she has been the first to set this fashion of demanding "Safeguards" from helpless peoples, like us, describing such safeguards to be entirely "in the interests" of those against when they are demanded. Especially should *she* not demur, if the alternative to these concessions lies in a complete anarchy and a lasting dislocation of the industrial and financial organisation, and supremacy that she has built up by two centuries of effort and sacrifice. You must not misunderstand me when I recall Moliére's classic phrase: "*Tu l'as voulu, Georges Dandin.*" It is the infallible law of fate for the proud and the arrogant; and I am only repeating a fact of modern world history which it is no longer possible to conceal even for the most ardent Kiplingian.

Even assuming that Britain and her associates consent to such safeguards being furnished by her, the problem is not solved immediately. Between the time that the policy is thus determined upon and its putting into force, there must needs elapse some time. What policy is to be followed,—what steps are to be taken,—for assuring that, when the time comes for giving effect to the settlement reached on the above lines, the ground would have been ready for its implementation. Would Britain and her fellow seceders from the Gold Standard have to revert to a regime of deflation, and gradual appreciation of the money-value at home, and a further fall in commodity prices? I have spoken of this problem of restoring the fixity of world exchanges, as though it was only an Anglo-American question. It is, however, a world problem; and the reasoning applies with even greater force to the other countries of Europe, Asia and America, who have followed Britain's precedent, and abandoned the Gold Standard or fixity of exchanges. The conditions and expectations of each country adopting this policy were essentially the same; and so the final results are inevitably the same. Each tried to steal a march on its fellows, to give a concealed encouragement to its exports; and each has found the advantage it had hoped for lost to it by the similar actions of the others. The remedy must, accordingly, be similar against all those who have offended in the same manner; and the specific mention of the Anglo-American aspect of the problem is only made because of its relative importance, which would be inevitable if exchange is to be fixed, and maintained at that fixed level.

That is our experience in this country; it is the experience of Germany, it was Britain's own experience in and after 1925; and, if she gives effect to such a policy of gradual retrocession, it must be once again her own experience. Would her industrialists accept that policy, which cuts them off from what little chance they have of a trade revival? For, any further fall in prices, unbalanced by any reduction in the costs of production, would prove the utter undoing of such prosperity,—such breathing space,—as has been brought about by the action taken in September, 1931.

The real remedy for Britain lies, of course, in a substantial reduction in the costs of production and the standard of living of her population. She has done something towards this end, by a compulsory reduction of the rate of interest, by debasement of her money-material, and by the reduction of her social services. But these are not enough to enable her to resume competitive exchange of her produce in the world markets; while her protection by heavy tariffs of her own markets has only made matters worse. The root misfortune of Britain's economic position is her unnatural industrialism; but that neither her economists nor her politicians would admit; for, to admit that, is to pronounce a sentence of national suicide.

On the other hand, a policy of further inflation, before the predetermined new level of dollar-sterling exchange is reached, is unthinkable, not only because the repercussions of such a policy would prove severe beyond measure for Britain herself, but also because they would be unacceptable to America and other countries. If the Pound Sterling is refixed in exchange at say 60% of its old par value, round about 3 Gold Dollars, the handicap Britain would place upon her Gold Standard competitors would be so heavy, that the latter will simply not think of agreeing to such an unfair arrangement. Internally, moreover, such a low rate of exchange, such a reduced value of the pound sterling, would cause labour and capital troubles, the discontent of all receivers of fixed income,—no negligible class in that country,—which must needs give her pause. Credit expansion to a degree which would necessitate such a further inflation as might render the rate of 3 dollars reasonable, would also prove strangely disturbing under the circumstances. The policy followed in the last few months,—gradual scaling down of the rate of fixed incomes, and no other meddling with the volume of currency, —might quite probably suit the British book perfectly well, if once the principle is accepted that the restoration of the Gold Standard is unavoidable. And the return, under that policy, to a fixed gold exchange of the pound round about $ 3 50 to the pound, is not difficult for Britain to uphold.

As for the functioning of the new Gold Standard, it would not be a matter of so much difficulty for Britain, though other countries may find it much more difficult to operate. Given the traditional policy and well-known patriotism of the premier British Bank, the Bank of England, the operation of the new Gold Standard,—on a mixed basis of the orthodox Gold Standard and the revised version of it styled the Gold Exchange Standard,—would be perfectly feasible. The guarantees Britain may be obliged to concede for the effective maintenance of the new fixity of exchange, may serve as a nucleous wherewith to maintain the new Dollar-sterling ratio. The Bank of England may hold in its foreign Bills portfolio Bills on New York of the required proportion; or the Old Lady of Threadneedle Street may bodily hold a proportion of her gold reserves with the American Federal Reserve Board; so that, at any time exchange shows a tendency to go against Britain below the fixed par, these reserves might be utilised to restore it to the agreed level. If this does not commend itself to British financial interests, some arrangements analogous to those made by Britain in August 1931, before her traditional Gold Standard first came to grief, might suffice for her purpose under all conceivable emergencies.*

For other countries, however, it may not mean the same thing; and this is a problem, in whose solution the whole world is interested. Unless they have reasonable surplus balance to their credit in some safe financial centre of the world; unless their productive and trade organisation is reconditioned, so as to assure them against unnecessary panics; unless their

* All this reasoning was based on the assumption that the United States was, and remained, a Gold Standard country. Since America's departure from Gold, that would have to be modified. But with the failure of the World Economic Conference, there seems now no prospect of a satisfactory settlement. See below, chapter 5.

budgetary conditions are secured, so as to avoid frequent and considerable deficits, tempting their Finance Ministers to resort to inflation as the best means of avoiding the deficit being known,—unless these and like conditions are secured, there seems to be little hope of making the solution final and satisfactory. All these, however, are conditions, which necessitate constant and considerable interference in what have hitherto been regarded as the domestic problems of each sovereign state. And so our first task consists in educating our generation out of any belief in the obsolete and harmful notion of national sovereignty, which is productive of so much mischief already.

Let me, in passing, cast a glance at this problem as it affects our own country. So far as India is concerned, the position, though gloomy, is not without its ray of hope. Her trade has undergone a depression more severe than that of any other country in the world,—largely because, in her own selfish interests, Britain made India, in the crisis of 1931, to keep her currency linked with sterling. Had the Government of India let the Rupee take its own natural value, under the altered conditions, it is possible the immediate fall in the exchange value of the rupee would have been both sharp and sudden. But would this depreciation have endured? Would India, if she had been free to manipulate her currency policy so as to suit her own local conditions, not have realised the fillip such a depreciation in the exchange value of the rupee had lent to India's exports? As I pointed out in the last Lecture, India still exports, in quantity, little less than in the peak years of post-war history; and in many notable cases actually more than before. Her total industrial production is actually more by 6 points than in 1929.*

INDICES OF INDUSTRIAL PRODUCTION.
(1928—100)

Country	1929	1930	1931	1932	Proportion of World Prod. 1928	1932
Germany	101	89	72	57	11·6	8·9
U. K.	106	97	89	89	9·3	11·2
Austria	102	90	81	71	0·6	0·6
Poland	100	82	70	52	0·8	0·6
Czecho Slovakia	103	90	81	...	1·6	...
Hungary	103	100	88	72	0·4	0·4
France	109	110	98	74	7·0	7·0

That should suffice to prove that the world still needs India's produce; and if India is willing to sell it at the rates the world would give her, she has still an ample margin for export. The world prices being the same,—or even falling;—but the Rupee falling in exchange value much more sharply, the realisation in rupees by the Indian producer would have been considerably greater. A hundred Dollar worth of India's produce, which, under conditions of the old Dollar-sterling parity fetched, let us say, Rs. 250 in India, would,

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Continued from page 157.

Belgium	101	90	81	71	1·1	1·1
Italy	111	103	95	78	3·2	3·4
Sweden	113	112	99	96	0·9	1·2
Chile	115	109	86	74	0·2	0·2
Canada	112	95	80	66	2·2	2·0
U. S. A.	107	87	73	57	44·8	34·5
Japan	110	103	102	114	2·4	3·7
British India	112	127	118	118	1·3	2·1
U. S. S. R.	124	156	208	334	4·7	14·9
World	107	96	87	74	100	100
World minus U. S. S. R.	107	93	81	67		

German Institute for *Konjuncture Forchung from the Economist*, Jan. 28, 1938. p. 175.

Also see ante. II. for statistics of the Foreign trade of India and other countries.

when the exchange is falling, fetch say Rs. 500, or much more, without any alteration in the world level of prices. For, in the first flush of release from gold, the rupee would have fallen in exchange value to a third perhaps of its old (Sept. 1931) gold value, even if the Indian Government had permitted no unlimited expansion in the local circulation. As, owing to the same reason, the rupee price of imported goods would have become prohibitive, the imports of foreign goods would have slumped; and the difference between imports and exports would have grown ever larger, leaving a steadily increasing balance of trade in favour of India. This balance must be liquidated by the only international means of settlement,—Gold. India would, then, have *imported* Gold, instead of *exporting* it, as she is obliged to do today, though the exchange market would have been far more free from control than it is today. And if this gold, coming into the country in settlement of the trade balance, had been purchased by the Indian currency authority at the market rate, the probability is very high, not only that the exchange value of the rupee would have gradually appreciated till it came back to the normal,—whatever that may have been,—as it did after the disastrous currency experiment of 1920–21; but, what is much more to the point, India would have provided herself with an ample gold reserve, that would then have rendered all talk of difficulties in building up a Reserve Bank, as a *sine qua non* of introducing the constitutional reforms, utterly nugatory. The gold thus brought into the Currency Reserve of India may even have been returned to England to pay off, as the Indian Government have actually done, the maturing short term sterling debt of the Government. But it would in that case have afforded all the aid to Britain in her hour of need we could possibly have rendered, without impoverishing India, and draining her of her gold reserve, and handicapping her primary producer,—the poorest in the world,—by an unduly high and an unnaturally fixed exchange. For India would have supplied this aid to Britain from a veritable boom, and not from her capital reserves, as she has done under the present policy. Her production would have been stimulated, her trade encouraged, her people contented and prosperous,—and the British receiving all the help India could render. But all this was undone or neutralised in the hasty, short-sighted, unsympathetic policy of imitating Britain, and keeping the Rupee linked to sterling. And now we are told we shall have no constitutional reforms unless we build up a Reserve Bank!!!

I must notice, in passing, the peculiar position to-day of India in this particular regard of a Reserve Bank. She has been the happy hunting ground for currency cranks to carry out their queer notions for reforming the world's currency system. She has, however, never got the benefit of doing whatever service she has done in this connection. When she had relative freedom in importing gold and silver, she was described as the world's sink of gold, inasmuch as she absorbed annually a goodly proportion of the new gold produced by the world, and so maintained a fairly stable level of prices, which would otherwise have been very much disturbed. To-day she has been made to impoverish herself by unrestricted gold exports, benefiting nobody worth mentioning, and depriving herself of the one source of rebuilding her gold reserves, which have been wasted and dissipated by the short-sighted, unnational policy of the Rupee linked to sterling, when sterling itself is dislinked from gold. The British die-hard, however, insists that not only must India have, a Reserve Bank of her own, as the *sine qua non* of constitutional progress; but that she must get that Reserve Bank, (*a*) by assuring her own budgetary position, (*b*) by reducing her temporary debt, (*c*) by building up adequate reserves, and (*d*) by bringing about an export surplus in her normal overseas trade. Not one of these conditions it rests with India to fulfill off her own bat; and, all together, they make an excellent exercise in *reductio ad absurdum*.

For (*a*), India cannot assure her budgetary position,—whatever that may mean,—so long as her Budget estimates are prepared in a manner that throw them out of order, within less than six months after they have been framed, with a margin of error sometimes reaching as high a percentage as 25%. Hardly any item in her national budget of revenue or expenditure has been left entirely within her control to shape and fashion, to control and economise in. How, then, can she assure her budgetary position, if that condition has any sense in it at all?

(*b*) As for reducing the floating temporary Debt, both in India and in London, the Budget shows not the remotest sign of showing any surplus which could be utilised in a *reduction* even of the short term debt. I have been told that "Reduction" in this case means, not necessarily making *less*, but "conversion" of short time into long time debt. If that explanation with reference to the context is correct, though reduction ordinarily does not mean conversion, the Government of India seem to be taking steps, no doubt, of effecting this conversion,—with what precise benefit to India they may calculate who have studied the terms recently offered for conversion. Any how, such as this process is, let us account it on the credit side.

As for the two remaining conditions of building up a Gold Reserve of our own, and restoring our normal export surplus,—those certainly do not rest with us. If they did, we would not need to be told twice, about them.

(*c*) Only, the policy of free Gold Export, under conditions of a Rupee Exchange fixed with a varying quantity, makes it impossible to prevent such of our local gold reserve as India already possesses leaving our shores, let alone any talk of replenishing our reserves by fresh importations. India does not, of course, produce any gold worth speaking of in her own limits. She may have gold reserves as the result of past prosperity, or surplus in her foreign trade. But these have been lost to the tune of over 140 crores in the last 24 months, ever since Sterling was dislinked from gold. The only hope, therefore, of restoring our gold reserves lies in fresh imports in payment of a favourable trade balance. And of this there seems no hope. In the face of this deliberate policy of Government, this condition amounts to asking for the impossible, adding insult to injury, and yet demanding that India should always turn the other cheek.

(*d*) Finally, the stipulation that India restore her export surplus, is even more fantastic than the last preceding condition. The trade barriers, which European nations have erected in self-defence; and the exchange depreciation which countries like Japan have been systematically resorting to, make any hope of India rebuilding her export surplus utterly absurd, even though her production show no sign of a quantitative decline.

India might have a nominal "reserve" to start a Reserve Bank with in the shape of a Loan granted by Britain,—though to start a Reserve Bank with a *minus* Reserve seems to be too grotesque to be even entertained as a serious proposition. Nevertheless, I have heard it mentioned in quarters which are supposed to be familiar with the mysterious working of the Indian bureaucracy; and so I think it but right and proper to draw your attention to this possible solution. But even the imagination of these mysterious links with the inner workings of the governmental machine fail to tell us how the export surplus is to be brought about, if the institution of the Reserve Bank is not to be treated as a joke. But perhaps that condition would, worst coming to the worst, be graciously waived, as a proof of the *bona fides* of the British authorities in forging ahead with the new Reforms, and in return for other more substantial concessions to British trade and capital in this country.*

We are, however, not utterly out of the wood, when we have complied with these conditions. What is to be the place of this institution in the future constitution of India, is the next most serious question. Is it to be a sort of an *imperium in imperio?* Is it to be a kind of an overriding authority, *vis-a-vis* the Government of India, so as to maintain a due and proper control over the financial policy and administration of India? What is to be its governing body, and how is it to be selected, or elected? What is to be the relationship between the Bank and the Government, as regards the functions with which the Bank would ostensibly be charged? Dr. Schacht was the ruler of the Reisch Bank from its darkest days to 1929, to whom Germany was immensely indebted for having re-habilitated the Mark, and restored German credit. But, when the same Dr. Schacht,—able, energetic, efficient and

* Since the above was uttered, exports of Indian merchandise have been showing surplus once again.

patriotic as he was,—rebelled against the authority of the Reisch Government; when he sought to undermine the policies of his constitutional superiors, he had to go. Would the managing Governor, for instance, of the Indian Reserve Bank be so amenable to the supreme authority of the Indian Government, or even the general power of the Bank directorate? So long as these vital questions are left unsettled, how can we expect the institution to meet with popular approval? How can we hope from it a smoother working of the new machinery?* This part of the Indian problem may, however, be left to be solved along with the main question affecting the world at large as shown above; and I shall therefore leave it with just this observation: that India will never for her own selfish reasons obstruct world recovery.

The problem has hitherto been discussed as that of Britain and India. But it is a world problem, and must be solved as a world question. The Credit and Currency arrangements

* Since the above remarks were made the report of the Reserve Bank Committee, and the Text of the Bill based on that Report, have been published; and both those documents amply bear out the fears implied in these remarks.

of each country concerned in international commerce must be placed under some international guarantees, which, in the ultimate analysis, would prevent the individual action of any single country, however important, or even a group of countries,—like the British Commonwealth of Nations,—from upsetting the world economy for their own immediate ends. The local sentiment connected with these matters need not, I think, be utterly ignored, much less need it be set at nought. But the experience of the present Depression must be taken to justify the suggestion that the credit and banking arrangements in each country should be nationalised, as a first step towards their functioning in concert as an international mechanism. Within each country, even if the banking organisation is not completely socialised in ownership and working, the authority of the Central national banking organisation must be made so supreme and unchallengeable, that the individual banks, if any, cannot afford to go counter to the national organisation in any essential matter, affecting the common well-being of mankind. The problem of regularising the relations between the political and economic machinery of a country,—particularly the banking and credit section of the economic machinery,—is serious only while we wallow in the trough of indisputed individualism, in theory at least. Once the principle of national control, if not also national ownership and operation, of the country's credit mechanism is accepted, there would be no difficulty in demarcating the respective fields of authority and function as between those two aspects of the State, itself an integral part of the international family.

On this basis, the details regarding the functioning of the restored Gold Standard, and the rehabilitated credit mechanism,—local as well as international,—will not present very serious difficulty. The national Central Bank of each important commercial country should maintain a certain proportion of its currency reserves with an international institution, acting as the world's clearing house for such claims and payments; and functioning also, on occasion, as the world's banker. The actual operation of the Gold Standard,—by whatever name it is called,—would then be robbed of much of its present complication and obstructiveness. Gold has, even at present, been sterilised so far as to render it innocuous *vis-a-vis* the prices of commodities, in spite of its disproportionate accumulation in certain places only, like France and the United States. The volume of gold has to-day no decisive bearing in any country upon its local price level; much less has it any real effect on the international price-level. For all practical purposes, this gold is non-existent. And it may be rendered still more ineffective, as a disturbing factor, when once the international institution of the type here envisaged comes into working order, and is loyally supported by all its member Central Banks of each nation. Given agreement on the main issue, the rest of the points raised in the Experts memorandum in this regard may be dismissed as relatively unimportant matters of detail that would be readily solved when the basis for common working has been attained.

The case of Silver is *sui juris*. It is yet a considerable factor in the currency systems of the most considerable countries in the world,—China and India. It is no longer, even in these countries, the unquestioned standard of money. But its use is still considerable enough to make it an important ingredient in the prevailing Depression. Its own cost of production, particularly as a by-product, has, however, fallen so sharply in recent years that its supply has, become far in excess of the demand for it. The continued use of silver as currency by India and China, and for purposes of plate or ornament by others, is not sufficient to offset this increasing supply, enhanced by the discontinuance of its use as money material by European and American countries. The rehabilitation of Silver is therefore a problem, which has a close affinity to the raising of the prices of agricultural produce in the face of a growing supply and falling demand. There is, however, this difference—in favour of agricultural produce,—and against Silver,—that, whereas, though diminishing, the demand for Agricultural produce is still a considerable factor and promises to continue as such, the demand for Silver is a steadily diminishing quantity, with no hope for its restoration or maintenance, except with the aid of very severe, unpopular, unworkable artificial measures of international control. The powers combining, if they do, to maintain the price of silver at a given fraction of gold; and desiring, on the strength of this international guarantee, to resuscitate Silver as a medium of exchange and a standard of money, would be doomed to disappointment by the continued excess of supply over demand, and the utter inability to absorb this increasing supply. The countries, moreover, who are most interested in rehabilitating Silver, are liable to be misunderstood regarding their own motives. For, their proposals and measures will be inevitably tinctured with a desire to protect the interests of their own Capital and Labour invested in the production of that commodity. Proposals are, in fact, already before the United States Legislature to offer a guaranteed price to Silver producers beginning with 40 cents per ounce, and rising to 70 cents, which look so much like a subsidy to American producers, in America's own national interests, that the rest of the world, including particularly silver-using countries, will be unable to see their way to any acceptance of such measures. America has tried this policy once before; but the guaranteed price has applied only to the Silver produced in the United States, and not to the Silver coming from any other country. The results of that war-time experience is a certain unavoidable suspicion and distrust of such American endeavours in the rest of the world; and the latter's consequent lack of hearty co-operation, without which such a policy cannot possibly be a success.*

There is another complication, in regard to the rehabilitation of Silver, which must also be noticed while discussing the reform of the world Currency systems and Credit mechanism. By adding Silver to Gold, as the medium of exchange and standard of money, the complications in maintaining a tolerably stable level of international prices and exchanges would be only increased, not reduced. The controlled working of the credit machinery is difficult

* Since these remarks were made, a Five Years silver agreement has been reached, for which see below, Chapter V.

enough, when Gold alone is the accepted international medium. But add to it Silver,—and we must abandon any hope of intelligently, rationally, satisfactorily controlling the price system in the common world interests. Silver must, therefore, be discarded from the repertoire of monetary reforms altogether. They would be making no violent change from the current practice, which has already put Silver on the shelf. There would, of course, be no objection to the present silver using countries adopting their own measures to ensure any level of silver-price within their own limits that they deem necessary in their local interests, and according to their local requirements; provided always that their local measures in this regard do not react injuriously upon the international policy of relatively stable exchanges. We would then be immensely facilitating the solution of the main problem,—world recovery,—by avoiding a needless complication, which has already been left in the lumber room of man's past failures.

Of the other remedial measures, considered by the Committee of Experts, the problem of *Raising the Price-Level*, is much more complicated than the two ingredients indicated by that Committee. The main problem, indeed, is that of restoring the equilibrium between demand and supply, between production and consumption, between costs and purchasing power. And this has been very much complicated by the measures of credit control, and exchange regulation, that, in their anxiety to minimise the effects of the Depression, the nations of the world have adopted spasmodically in several countries, without any comprehensive plan or difinite policy common to all the suffering communities. But the main issue is impossible to be solved merely by tampering with the outward crust of the problem, such as currency and credit manipulation. Mankind must devise a machinery by which production and distribution of material utilities and services will always be in tune with one another. Humanity cannot dispense with the aids to its powers and equipment for producing material utilities, which are collectively described as the mechanisation of production and rationalisation of industry in all its branches and departments. But, so long as there is no comprehensive planning; so long as there is no concerted arrangements, whereby any improvement in the productive technique in any branch is so applied as to cause no unbalancing of the general economy of the human family,—*i.e.*, no improved mechanical device or scientific discovery should be so given effect to as to cause unemployment, loss of purchasing power, and the resultant dislocation all round,—this particular difficulty will remain. It will, in fact, grow worse as our mechanical civilisation advances, and the alliance between production and scientific research becomes more and more profound. The remedy does not lie, I repeat, in banishing science, or eschewing all technical improvements in industry. It is short-sighted, to say the least, to resort to sabotage,—as exasperated workers thrown out of employment by the advances in machinery have done in the past; nor in a reversion to primitive, manual, economy, as is implied in the emphasis laid upon the spinning-wheel as a symbol of man's economic and political salvation, the cure for all economic Depression and malaise from which the world at large,—and this country in particular,—may be said to be suffering. The remedy lies only in welcoming and adopting all such advances and improvements, as they come to pass; but in consonance with a general, comprehensive, well-thought out plan for an all round development, which has yet to be realised outside Russia. When production in both Industry and Agriculture is considered side by side with the mechanism for distribution of the resultant produce, so as to assign its due share, not only to the producing factors, but also by way of replenishment of the exhausted resources or worn out plant, which is indispensable for carrying on and keeping up the main process; when the mechanism of distribution and exchange is adjusted to this general plan for harmonising both production and consumption, and kept always in tune; when no special attention is devoted to any particular industry which would unsettle, or disbalance, the rest of the mechanism, by cuasing needless variations in the price-level, or unemployment; when the reaction caused to labour and employment and purchasing power by the use of any scientific discovery or mechanical invention, or by the better organisation of the produce for distribution, or by the consolidation, syndication or rationalisation of all industry and commerce, is duly attended to and provided for;—when these essentials are kept in view, the happening of such a crisis as the present one will be a thing of the irrevocable and unwanted past.

In that state of things, the Price Index will synchronise and harmonise automatically with the planned activities and purposeful requirements of the organised community. Not that there would be no variations whatever in the Price Index. But such variations as do occur will not be, as today, utterly chaotic,—beyond the social machinery to control and regulate. Nor even would they be utterly unforeseen, unexpected, and therefore uncontrollable. Exchange would, under these conditions, be only of the net surplus of production in each region or community; and will not be left the helpless prey, as today, of archaic, chaotic, conditions under what is called differences in comparative costs. The regulation of international commerce, on the basis of exchange of real surplus or speciality, would automatically react upon and influence the domestic trade of each such community. The prime basis for each scientifically organised community should be: Production for use. This does not necessarily mean that each community should exhaust itself in a vain endeavour to reach self-sufficiency, no matter what its resources and equipment for the purpose in hand may be. It would rather result in that specialisation of each considerable community,—in harmony with the natural endowment and human compliment thereof,—free from any dangers of exploitation from such a specialisation by an industrially more advanced, or commercially more powerful, rival as happens today,—which was vainly dreamt of by the Classical Economists, and which is the only condition of rational and universally beneficial international commerce. Domestic trade would then be under large scale co-operative or syndicated chain stores, scattered all through the community, and echelonned with due regard to the peculiar requirements of each region within the country, and its produce. Prices within that country would be determined and regulated by all-round considerations of national economy in all branches of production. They need have very little connection with the international price-level of corresponding commodities, except in so far as the international controlling and regulating authority desires the local authority of each country to co-ordinate the local with the international price-level. International prices will be regulated rather by the relative values attached to the commodities exchanged,—a matter of real barter, only scientifically adjusted,—than by anything like the present mechanism of prices. On this basis, neither the local nor the international price-level will have any danger of being thrown out of gear by the insane and uncontrollable competition of foreign commodities in their local markets. International trade will be truly international,—*i e.*, between the several peoples collectively, as one Wholesale Co-operative Society even today deals with another similar national corporation. All danger of exclusive profit, or exploitation, by such exchange, of the weaker by the stronger will then vanish. Exchange,—commerce,—will thus be made both national and natural, as well as plentiful and frequent that it cannot be today, when the peoples of the world are dominated by greed and fear of being exploited, and commerce simply spells exploitation!

This kind of re-planning the entire world economy, as that of a single human family, may,—probably will,—result in such a redistribution in population, as will not only relieve the unbearable congestion that now obtains in some countries while other lands remain practically desert and barren; but as will be best calculated for the development of the inherent resources of each country most effectively. The world at large is certainly not overpopulated,—despite very considerable increase in the numbers during the last 150 years–if we consider the population of the world in relation to our resources for human welfare. But there is, as certainly over population,—or, maldistribution of it,—in certain countries. The most prominent symptom of it lies in the growing volume of unemployment and pauperism in the most industrialised countries. Australia to-day has a population averaging barely one per square mile; and so has many another country in Africa and South America; while country upon country in Europe and Asia is groaning with scores and hundreds of people per square mile, when they are, reasonably speaking, unable to support more than half the number, or still less. The economic and political evils, which result from such excessive local population, are not even now fully understood by the leaders of mankind. Australia is, to revert to our first illustration, so sparsely populated, not simply because a greater part of it is desert; but because the policy of "White Australia," adopted by its present rulers, renders it impossible for just that kind of people to settle in Australia who can best work the torrid portion of that continent. So long as Australia continues to be the exclusive home of the Anglo-Saxon race, it will be inhabited only along the coastal fringe in the more temperate parts; and will be economically developed on lines in harmony with the accepted traditions of the Anglo-

Saxon, *i.e.*, for certain itensive industrialisation backed by heavy tariffs to foster the growth of that industry. This would naturally be at the expense of more plentiful tropical products, for which the country is better endowed, simply because the proper human complement for that side of production is lacking. Mankind is the poorer for this narrow and exclusionist policy in Australia and other similar countries; and the latter,—not even the United States,—are not themselves the richer for such a policy. A world planning for economic reconstruction will, therefore, have to consider this problem of redistributing the world's population in the most economic and scientific manner, so as to promote most effectually the common welfare of mankind, so as to add most plentifully to our common stock of material utilities, and so as to admit of the best cultivation, development, or exploitation of nature's gifts of material resources, and man's labour and science, in utilising the same for his own particular purpose.

The Experts have given the third place, in their preliminary recommendations, to the "Resumption of the Movement of Capital" as between countries. This, they consider, is impeded by the existence of innumerable exchange restrictions—as in Germany or Austria; settlement of the problem of existing indebtedness as between countries, whether short-term or long-term; and involves the problem of the ordinary movements of capital. In this part, the Experts have considered as Capital that part of the factor of production, which is in the most ready mobilised form, *i.e.*, money. The movement of this form of Capital from country to country is an integral and important item in the settlement of international balance of payments. But just because it is such an important item, it is capable of being most easily interfered with, and affected by any country alarmed about its own credit and currency. Hence, at the present time, in innumerable countries innumerable regulations affect and deflect this stream; and the problem before the world is to avoid this deflection. The process of Capital movement has been impeded, no doubt, by exchange regulation; for some countries have found it unavoidable to maintain even an appearance of solvency.

The absence of a free, regular flow of capital from country to country, has rendered the working of the mechanism for the settlement of international balance of payments more than ever out of gear.

So long, however, as the existing international debts have not been satisfactorily settled and disposed of, any readjustment of this particular part of the mechanism is liable to be thrown out of gear. As the figures given elsewhere would show, this factor is nowadays too considerable to be ignored. And there seems to be no other way, except *an all round cancellation of these debts*, to ensure a real recovery and smooth functioning of this machinery.

There are, no doubt, innumerable complications in adopting this radical solution. America, the world's creditor, sees no reason to penalise and burden her own people, and their productive equipment, for the benefit of Europeans, if the latter will not afford any guarantee not to dissipate this benefit in fruitless additions to their Armaments budgets;

if they would not forget their racial rivalries and historical hatreds. America, no doubt, has been having her own particular difficulties with her own producers, who have been even harder hit than their competitors, because of the continued decline in prices in gold standard countries. The measures taken to stop the downward trend,—such as holding up stocks by loans or advances to formers, and restricting production,—are not bearing the desired fruit.* And in so far as the price mechanism is sought to be controlled through the banks, the organisation of banking in that country does not admit of a proper regulation and instantaneous response to it. The embargo on gold exports will only affect the outward flow of capital,—though it is difficult to see where else the world capital could feel more secure, and have better chances of profit-making, than in the United States. If the United States stop gold payments, it is impossible to see how that would remedy the world tangle. In that country, prices may for a while be raised, by this means, as in

* All this was said before the "New Deal" came in with the new President of the United States. See below, ch. V.

Britain. But unless they decide to demolish entirely money economy,—an absurd assumption, it would seem, for America—and water their currency wholesale, there can be no hope of a rise in prices, even in the United States, let alone the rest of suffering humanity. In any case, whatever measures America takes must first have reference to her own local conditions and requirements. If she must make sacrifices, she must wipe out debts, she would very likely do so, first, for the benefit of her own people; and only thereafter, if at all, for the world at large.

Debtors, again, like Britain, are looked upon in America, not simply as debtors, but as prospective and actual economic rivals. Relief to them from present burdens may only result in formidable resuscitation of that rivalry and competition, which must be to the further prejudice and injury of America's economic interests in the long run. Britain, freed from an annual burden of 30 million or more, might very conceivably use it in relief of her industry, or subsidising which may quite possibly neutralise such advantage as America enjoys today in production with her superior technique and better salesmanship,—if not in the local American market, at least in the world markets. Would America, on this view of the matter, be wise in acceding to the threats or requests addressed to her from the European States?

Britain's burdens, moreover, appear,—in American eyes at any rate,—to be very much exaggerated. For if Britain would really make up her mind to pay the already reduced amount of her War-Debt due to America, she has ample resources, in her foreign investments alone, which could be very easily hypothecated, or sold, to America in payment of the present debt. America would probably agree, if such an offer were made, to accept much less than even the present reduced demand in respect of the war-debt. Britain has been authoritatively estimated to possess overseas investments aggregating some £ 4,000 million; while her War-Debt to the U. S. A., on the basis of the agreement of 1923, has a present value of something like £ 800 million at par. If principal and interest are paid in one lump sum, in this form of foreign investments, Britain might very easily secure a settlement, complete and final, of this debt question, so far as it relates to her, by disposing of only £ 500 million worth of these securities to America, which would for ever free her from this menace of foreign indebtedness. The amount thus disposed of may be replaced by an equivalent in British Government bonds issued to those nationals of Britain from whom these foreign securities have been obtained by a sort of capital conscription. As these investments of Britain are scattered all over the world, in all sorts of enterprises, America getting a slice of it would have a pull over the debtor countries, so far as the latter's requirements of industrial goods—or machinery—are concerned; and, through that means, over the whole foreign trade of those countries. This is the main thesis of *America conquers Britain*, the author of which, Ludwell Denny, makes it abundantly clear how this mode of settling the Anglo-American War-Debt may prove perfectly acceptable to America,—even though in that work he does not concern himself with this particular problem of today.

But, though there are these obvious complications, the problem will really not be solved, —in so far as it is a world problem,—unless and until a completely clean slate is ordered. America, as a people, seems, at first sight, likely to suffer, almost without any quid pro quo,— if this policy of a complete all round debt cancellation is adopted. She has, as a people, received ample compensation in the expenditure of these very same amounts in her midst for the war-time necessities of her debtors. The amounts borrowed were spent in America at a time, when the general price-level was at least twice its present height. American industry thereby received a stimulus, which is responsible, in no small measure, for even its present excellent equipment. America may, therefore, very easily make a sacrifice, which, when all is said and done, would be more apparent than real. For, not only is it highly doubtful if she would be able to recover these her claims from her debtors, however much she persists in Shylokian policy. But, even if she does succeed in securing some portion at least of this recovery, it would load her debtors with such burdens, and for such a length of time, that they will never be able to furnish any market for her wares. They will, at the same time, be compelled to indulge in the most intense competition with American products in their own and in other markets of the world. This would, in the long run, be no advantage to America herself. On the other hand, if America comes to an amicable settlement, and agrees to cancel her present claims, she is still in a position to secure such conditions for that settlement, such assurances and gaurantees to herself, as would very effectively safeguard her own interests, and at the same time aid effectively the process of world recovery. Her own people need not, of course, be debarred in the least from the full advantage of this settlement.

The demand, in the Experts' recommendations, for a resumption of Capital movement will then be of a secondary importance,—though for some years to come it would not remain a merely dead letter. On the basis, however, of the world reconstruction that I have been envisaging in these lectures, the need for Capital movements from one to another country would be, if at all present, be hereafter of small proportion and short duration. Given a careful, comprehensive, concerted planning of the world economy, each considerable community would be able, in less than five or ten years, to create its own surplus of production over consumption, which will then form the capital needed for its industry, for maintaining the process of fresh production. If, for purposes of initial impetus in rehabilitating or modernising every community's productive organisation, and general economy, some capital is borrowed by the more backward from the more advanced, the same may be repaid quite easily when the surplus in production just mentioned eventuates. And when that comes to pass, the present need for permitting free capital movement will have very little significance, even if it remains at all, though, of course, the present restrictions and impediments will have no place in the reorganised world.

The same reasoning must, in substance, apply to the next category of the Experts' recommendations, *viz.*, removal of trade restrictions. These have resulted, in part, from the legitimate desire of each considerable people to develop all their inherent resources and capacities; and partly,—particularly latterly,—also from the belief that such protection is needed to safeguard against unfair competition the local industry, or against the undue strain on national credit. As the Experts have themselves observed:

> "Defensively intended, and in many instances forced by unavoidable monetary and financial emergencies, these measures have developed into a State of virtual economic warfare."
>
> * * * * *
>
> "If a full and durable recovery is to be effected, this prevailing conflict of national economies must be resolved."
>
> * * * * *
>
> "In essence the necessary programme is one of economic disarmament."

No doubt, there are countries in the world,—Russia, China, India, for example,—whose native, natural resources have not yet been developed to the degree they are suitable for development, owing to reasons of a historical nature that do not detract in the least from the possibility of such development. If such countries are to make up the lag they are today suffering from in regard to their economic equipment, and the development of their natural resources, it would be impossible, in justice and reason, to deny them that right, and prevent them from carrying out such development. That development need, however, cause no alarm to the rest of civilised humanity, if only it would be freed from its present dominating motive of greed and exploitation. For, properly developed and worked, those communities, now a source of menace to the peace of the world and the progress of mankind, will only add to the sum total of the wealth of man. For one thing, the addition, which would result from a full and proper cultivation of the natural resources of such communities, to the stock of the material utilities in the world, must raise very considerably the means of human happiness that are today unnecessarily withheld; and must thereby raise the available per capita share. For the rest, the real root of the present Depression lies, as already observed, not so much in any defect in our means, equipment, or organisation for production,–which, however, needs in every backward country to be improved by every means at our disposal, if we would not have any human being deprived of a decent standard of civilised living,—as in the very obsolete and defective machinery to distribute the production brought about in any community. The motive power of unrestricted competition, as applied to securing for each individual adequate purchasing power for obtaining the necessary standard of living,—individual greed or desire for gain,—is both obsolete and unworkable under present conditions,—assuming that it ever was. And the lack of adequate purchasing power, in large sections of every community, coupled with the unintended consequences of these remedial measures, which, in their haste, individualist statesmen apply to tinker with the currency and credit organisations in each country unilaterally, without looking to the real evil, make the soul and substance of the Economic Depression all over the world. Russia alone must be exempted; for there they have long since dealt effectively with this main sore of our capitalistic and commercial civilisation.

We may grant the right of yet undeveloped communities to develop their natural resources to their possible limits. We may also grant, as a corrollary, their right to adopt such measures, in a world ridden by the system of competitive greed, as would effectively assure them undisturbed prosecution of that main purpose of national development. But even so, the smaller units in the family of nations, like some of the new postwar states of Europe, which have already established conclusively the futility of their endeavours, in their very restricted sphere of activity, to adopt rigorous measures of intensive protection to their local industry, invariably act as barriers and obstacles to international trade, must be persuaded to moderate, if not abandon, those barriers and handicaps, so as to permit of a freer interchange of the world's surplus of production to make up for the excess demand in places where production is not ample for the purpose. The logic of this remark applies to those other larger communities,—like Britain, or Germany, or Japan,—

which have had their economic development forced by the accidents of history, rather than governed and determined by deliberate, scientific policy; and which now in consequence have their industry on a wholly unnatural basis that forces them ever into the role of the exploiter, and makes them distort the scale of values. These nations must revise fundamentally their basic policy in matters economic. They must learn to look upon themselves not as independent units,—but as integral parts of world economy; and must, as such, submit their present economic organisation for a radical revision in common interest. By no stretch of imagination can Japan or Britain be self sufficient, no matter what their present industrial importance may seem to be. And because they use their power to maintain this domination, they purchase that position at the cost, not only of the continued destitution of a large section of their own people, but at the cost of the enforced backwardness of other communities, like India or China. This must be radically altered if the happiness of mankind as a whole is any concern of our civilisation.

A new division of labour and production may result by such readjustment. But it will have to be natural, and not forced as today.

When the mechanism of international exchange is rationalised as indicated above; and when the presentday apprehension of being exploited no longer animates the larger but more backward, or smaller units to their own undoing, the possibility of persuading the communities concerned to abandon such futile measures of protection would be very much increased. This would be particularly easy if, simultaneously, arrangements could be devised whereby the size and scope of an economic unit are also considerably expanded. Just as in modern business, "rationalisation" of this type brings about innumerable economies, that, being given effect to, would reduce the cost to the producer as well as the price to the consumer, and yet ensure the largest volume of production, so, in these politico-economic units, a process of "rationalisation" by judicious combination among contiguous units and neighbouring communities may quite likely lead to economies by co-operative work, which may result in incalculable benefit to mankind, and which may assure us effectively against phonomena like the present Deppression.

The removal or modification of the trade barriers caused by innumerable tarriffs all over modern Europe, America and Asia, is thus the immediate and specific remedy, of which the root lies in a wholesale and radical reconstruction, as well as reanimation, of the political unit called the State, that has still retained its orthodox and obsolete style and purpose, and so become unsuitable for modern use.

With these changes, or remedies, the reorganisation of the system of production and exchange all over the world, with a view to their better mutual adjustment and harmony, will be a matter of course. I have, as you must have noticed, discussed the more fundamental remedies, while discussing apparently the immediate problem and its specific cure. I do not wish to minimise the importance of the immediate measures needed to rectify the world chaos. But I do wish to emphasise the fact that none of these measures will serve the turn, unless it is recognised that the root of the evil lies much deeper, and that the real, lasting remedy must be sought elsewhere than in these temporary makeshifts and specific palliatives. I have accordingly indicated, among the measures for a permanent cure of our present situation, and a final insurance against its recurrence :—

(*a*) The *principle of Planning*, as of a single unit, the entire socio-economic mechanism of the world, with a view to the fullest possible development of man's initial endowment by Mother Nature, in the shape both of the material resources and human skill.

(*b*) Given a proper, comprehensive planning, as of a single unit, and with a definite purpose, the world population as well as the world production may have to be wholly redistributed, as much to avoid local congestion as to exploit more fully, with the appropriate labour, the resources of large blocks of territories which today remain unutilised simply for want of suitable labour.

(*c*) To achieve this most ambitious programme of world reconstruction and human insurance against Depression and destitution, we must recast radically some of the most fundamental institutions of the modern commercial society, and revise its governing motive forces. We must substitute, as a motive force, the ideal of common service and mutual co-operation for the presentday anarchic action of individual greed and profit-seeking. We must, as an inevitable corrollary of this, abolish private property, and discontinue the principle of inheritance by children from their parents of material wealth. We must, finally, revise fundamentally our modern notion of a socio-economic unit, and particularly discard our ideal of the individual sovereign State. Common action is impossible to concert, and still more impossible to give effect to, while the individualist State endures. The world conferences of experts and representatives are no doubt the forerunners of the Parliament of Man; and the all-power treaties for some common end,—*e.g.* Disarmament, or regulation of traffic in intoxicants, or of juvenile or female labour,—are the harbingers of concerted action. But, in themselves, these, however promising, are ineffectual, so long as the spectre of the absolute sovereignty of individual states remains in the background, beckoning the erring and the misguided to return to the tree of temptation and eat the forbidden fruit. The State must, therefore, go the way of all flesh.

(*d*) The adoption of the Conscription of Labour for productive purposes, and the consequent abolition of the parasite class, must precede, as the unavoidable prerequisite of such social reconstruction and reinsurance. No one would put out his best effort, so long as there is a feeling that the real fruits of his labour may be enjoyed by another, as happens inevitably in the capitalisitic economy. The Weimar constitution of the German Reisch contains a specific clause enjoining upon every citizen of the Republic the duty to work, to give the full benefit of the mental or physical powers that each may possess for the common service. The analogy of this clause may be easily extended to embrace all mankind; and the Conscription of Labour, resulting in consequence, may be utilised to solve much of the present difficulty that seems so insoluble,

(*e*) Trade will not disappear, on this basis of social life and activity. It will, however, be made much more rational or natural; and will be shorn of its present sting of being suspected to be a form of exploitation. Exchange will have to be, both locally and internationally,—or interregionally. But that will be an exchange of veritable surplus and speciality, which today is only a figment of the imagination. It will be determined, after due regard to local needs, by the common council of each region; and it will be conducted on the principle of a co-operative or collectivist enterprise, in which there will be,—there can be,—no element of individual gain. Production will, at the same time, be rationalised and developed, so that there need be no crisis caused by absolute dearth or scarcity; while, because of this increased production, and a simultaneous rationalisation of the mechanism of distribution, there will be no accumulation of stocks, nor loss of purchasing power due to unemployment.

These are radical remedies; but without them there is no hope of a lasting solution of the world chaos. In it, India has a place, all its own. I have tried to show, in the preceding Lectures, how, without any fault of her own, without any considerable falling off in her productive power, this country has been most intensely affected by the Depression. Its way out of that Depression lies in developing its productive resources still further; but, still more, in its rationalising the currency and credit systems, which are worked in India on lines more obsolete than anywhere else. My claim for a greater industrialisation of India is not couched in any desire to repeat the follies and crimes of the exploiting capitalistic communities that are responsible for the chaos existing today. I would be no party to making our power and plenty a curse and an oppression of the rest of our fellow human beings. My demand for the development of the yet untried resources of India is as much with a view to increase the very poor share of the individual's wealth in this country,—so as to bring him up to the minimum of civilised life; but also with a view to make India contribute to her utmost of her ability to the common well-being of mankind. India is poor, to-day; and her poverty makes the world poorer by the absence of what India can contribute to its progress. But India has a margin, also, for development, which is beingi gnored and neglected today. Within a period of less than a generation, Akbar, after abolishing a number of taxes, and reducing the burden of the remainder, left a treasure at his death computed in hundreds of millions sterling. In the last three quarters of a centuary, India has been so ground down by taxation, that an official apologist, a well-known Professor of Economics, has to evolve a new theory of taxable capacity, making it synonymous with sqeezability.* Despite this increase in taxation, the national balance sheet shows a deficit which is made up of hundreds of crores of Debt. But that does not suffice to convince me that India is irretrievably ruined, without resources and without possibilities,

* Cp. Findlay Shirras's "*Science of Public Finance.*"

without a hope or a future. Just as in the days of Akbar, India recovered, as by a bound, from the darkness and depression of 300 years of gloom, so also, if only she would be enabled to put forth her best effort, she could today resume her interrupted contribution for the common well-being. If you will excuse my striking a personal note, I once wrote a book called the "*Splendour That Was 'Ind*". I now dream of another, which I would like to call: "*The Promise That is 'Ind*". I still believe in the future of this land of promise. And that not only for our own immediate good, or material wellbeing. Have our people got starved and maimed? Have our young men got blighted, despondent, and our young women ignorant of the beauty of life and the pleasure of living? Have our children gone hungry, untaught, unknown to fame, unaware of the *joie de vivre*? Let us not leave them any longer in that stage, scarcely better than the brute's. Let us wake them, and train them in determination, school them in suffering, and lead them to that temple of Humanity for worship on the altar of Service, which has ever blazed in this land of Harischandra and Bodhisatva, with willing oblations offered without stint or sorrow to the genius of mankind. And then there will be no Depression, no Unemployment, no starvation, I can assure you. Good Night.

CHAPTER.

IV

ECONOMIC CRISIS AND DEPRESSION IN AMERICA.

The force of the world wide Depression has been felt, perhaps most intensely, in the United States of America, though the more spectacular havoc has been caused in that country in much more recent times. Taking the statistics of Foreign Trade as the most obvious index of the extent to which Depression has affected the country, the following figures of the American Foreign Trade tell their own tale, unparallelled even in the case of the United Kingdom .—

The Foreign Trade of the United States of America.

	Imports (In Million Dollars)		Exports (In Million Dollars.)	
1929	4,339	100%	5,157	100%
1930	3,114	71·7%	3,781	73·3%
1931	2,088	48·1%	2,378	46·1%
1932	1,330	30·7%	1,577	30·6%

While the imports of the United Kingdom have fallen in these four years to 42·2% of the

1929 level, and Exports to 36·1%, in the United States the fall is much more serious and sustained, as the above figures indicate. As the "*Review of World Trade*, 1932," describes it:—

"The United States' total Trade has fallen in value by almost 70 per cent., or relatively more than that of any of the other fifteen countries, and the fall is evenly distributed between Imports and Exports."*

True, the aggregate of the foreign trade does not occupy the same place in the national economy of the United States that it does in Britain, or even in Germany, or France. The internal trade of that vast country is probably ten times as considerable and valuable as its foreign trade; and as the domestic market of America has been rigidly protected against the competition of the cheaper products of European economy, the fall in the aggregate of the foreign trade need not, at first sight, occasion the same uneasiness to the American statesman as it might do to his European *confrère*.

There are, however, serious reasons why the fall in the Foreign Trade should directly

* Op. Cit. p. 20.

affect the internal prosperity of the United States; and thereby react on the general prosperity of all those countries and communities with which that gigantic unit of our times may be directly or indirectly connected. Not only does the reduction in the Export trade of America cause Unemployment in that country, —at least 3 million of such unemployed are estimated, by the authority already cited, to be ascribable to this cause; but reduced exports prevent even this wealthy community from continuing to absorb the same value of other countries' produce that, despite its tariff walls, it used to consume. The imports have, accordingly, shown the same decline as the exports. And though, as already stated, the domestic market is sheltered by tariff walls, the tariffs have had to be still further raised because of the apprehensions of American producers regarding the influx of goods that were not fairly competing with them. The dutiable goods in the American Imports Schedule amount to a third of the aggregate; and the average import duty on these, in 1929, amounted to 40%. These were, however, raised, in 1930 to 45%;

in 1931 to 51%; and in 1932 to 58%.* This,—a remedy that only deepens the disease,—only helped to check still further the imports, and so affect the world trade and intensify Depression.

But the American people thought they had no alternative, when they saw the countries, like Great Britain, most vitally cocerned in the maintenance of free international exchanges, not only going off the Gold Standard, but also adopting fiscal measures and policies, which could only end in stifling the trade of the world daily more and more. The abandonment of the Gold Standard by Britain, in 1931, caused a severe strain on the economic and particularly the credit position in the United States. For, while in the middle of 1930, the exports of manufactured goods from the United States, Britain, and Germany,—three of the leading industrial countries of today,—were almost equal in the world markets, in the last quarter of 1932, these goods represented only

* Cp. Op. Cit. p. 38. The burden of Specific Duties,—a considerable item in the American fiscal system, —must be inevitably growing in the days of falling prices.

52·2% of the German exports, and 61·6% of the British exports of corresponding articles. It is significant, that while Britain had discarded the Gold Standard in the interval quite frankly, Germany had been imposing Exchange restrictions of an utterly unprecedented character. The United States thus remained alone with France to bear the burden of a rigid gold standard.

The trade position in the United States is significant, in any consideration of the present Depression, for another reason. Before the Depression came upon her, America was wont to maintain her international credit, and settle the balance of payments due to or from her, partly by the help of tariffs; but largely, in postwar years at least, by the exportable surplus, which generally took the form of capital investments abroad. As already shown in an earlier chapter, America had been a very considerable lender for the rationalisation of German industry. With the short-lived boom of 1928-29, the American capital invested abroad sought to be repatriated; and the process caused its own difficulties and dislocation to the European debtors of America, which have already been reviewed. In proportion as the flow of capital from America dried up, the balance of payments due to her became daily more embarrassing to her debtors to liquidate, especially as the high tariff walls of the United States rendered any penetration by foreign goods impossible. The increasing difficulties of America's private, commercial, debtors in liquidating their obligations rendered the American investor more nervous than ever in seeking foreign employment for his surplus; and though that surplus has fallen, from 818 million Dollars in 1929, to 279 million Dollars in 1932, the problem it created affected adversely both the internal economy of the States, as well as the international situation.

The first fruit of this reaction was the import of Gold, which, as it accumulated in the vaults of the Reserve Banks, served to depress the prices of American produce in the United States. The growing weakness of America's European debtors and customers only helped to discourage still further foreign investment, and so was brought about a decline in that portion of the American income from abroad, which represented the interest on America's foreign investments. Finally, the mechanism of a triangular settlement of international balance of payments, whereby the American payments due to African or Asiatic countries were set off against American claims upon the European creditors of the latter, was also destroyed, or put out of gear, during these hard years. And so the entire machinery of international credit and exchange, together with the internal economy of such a large unit as America, were thrown entirely out of order.

American capital was thus forced to seek employment at home. At first, the sheltered nature of the American domestic market, coupled with the birth of new industries, and the rapid rationalisation and modernisation of old industries, seemed to make investment at home much more attractive. It was more safe, even if less paying. But the continued fall in prices,—which, as in all Gold Standard countries, fell steadily and heavily up to February last in the United States,—made the American Security prices follow,—and sometimes lead,—

the downward curve with faithful accuracy. Other securities,—besides the Govermental Municipal, or established industrials,—when they came into popular favour, took the form of farm mortgages on landed property, which only added to the difficulties through which the community was passing. For the fall in the value of agricultural production was even more severe and precipitous than in that of industrial commodities. The agriculturist could not reduce his working costs or fixed charges of taxation, interest &c., so readily as to permit of a profit on land cultivation. Agricultural production could not, also, resort to the safety-valve of shutting off temporarily further addition to existing and accumulating stocks, as manufacturers could do. The result was, that American Banks,—from whom came the funds for financing these farm mortgages, in the last analysis, —began to carry a growing proportion of their assets in a form increasingly less and less realisable.*

* The actual process whereby the farm mortgages came to embarrass the Banks, and precipitate a banking crisis in the States at the end of February last, was somewhat as follows: The American

This gave the finishing touch, as it were, to the thickening gloom of Depression in America. American banking was always considered to be a weak spot in that otherwise fairly well organised country. It was, despite the institution of the Federal Reserve Banks, a wholly decentralised system, in which practically each Bank operated on its own, in a local area and

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Banks, were used to regard the farmer's chief possessions,—live stock, or produce—as the best, because the most liquid, security, had always loaned readily and heavily to the farmer on these securities, taking land only, if at all, as collateral. When the prices of agricultural, produce fell steadily,—as they did in America all through the decade 1921-31,—the margin of security was lost; so the real estate or the land itself became the chief security. The action of the Farm Board in loaning to farmers to enable them to hold up their stocks in the vain hope of prices rising made matters only worse. The "Frozen assets" of American Banks were thus of enormous dimensions. And so when, in their embarrassment, they tried to liquidate by calling in their loans and mortgages, they only found that the farmer had no means to pay up. The Banks, therefore, themselves failed; and their liquidators or successors affected the farmer still in debt even more adversely, because of their desire to foreclose the outstanding mortgages, or to call in the loans, and, of course, to curtail or refuse altogether further credit. It is perhaps because of this situation that the reform in the Bankruptcy law was effected as one of the last measures of the "Lame Duck" congress of 1933, whereby the process of bankruptcy was made much more economical and the principle of voluntary arrangement with creditors was substituted for compulsory judicial process.

clientele. The strength and solidity that are derived from co-ordination and centralisation were essentially lacking in American Banking.† When, therefore, security prices, bond prices, commodity prices, came all tumbling down, after the short-lived boom of 1928–29, the loans and

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†SUMMARY OF CONDITION OF U.S. BANKS.

	No. of Banks	Deposits	Loans	Investments (in Million Dollar)
Dec. 31, 1929	24630	55289	41898	16519
,, ,, 1930	22769	53039	38135	18074
June 30, 1931	21903	51784	35384	19637
Sep. 29, ,,	21294	49152	33750	19615
Dec. 31, ,,	19966	45821	31305	18399
June 30, 1932	19046	41963	27834	18237
Sep. ,, ,,	18794	41779	26985	18867

STATISTICS OF BANK FAILURES IN U. S.

Period		Banks Suspended No.	Suspended Deposits	Banks Reopened No.	Reopened Deposits	(in Million Dollars)
Jan.—June	1929	354	98	98	26	(in the whole year)
July—Dec.	,,	288	136	...	...	
Jan.—June	1930	468	209	147	62	,, ,,
July—Dec.	,,	868	655			
Jan.—June	1931	687	421	276	158	,, ,,
July—Dec.	,,	1611	1271			
Jan.—June	1932	818	490	166	101	
July—Dec.		635	240	124	174	

For detailed explanations and illustrative statistics, cp. "Why the Banks Collapsed" by Prof. B. Ostrolensk, in the Current History for May, 1933, p. 152–58.

investments of these isolated and unco-ordinated institutions caused the first serious alarm to the rulers of America as to the state of affairs at home. The growing number of bank failures all through the summer of 1931 could not all be explained away by the heavy unloading of American bonds by the British banks and investors, owing to Britain going off the Gold Standard, and the consequent depreciation of the pound sterling. In a single month in October, 1931, Bank failures rose to 522; and the remedy proposed in the form of a National Credit Corporation was applied to make the stronger banks assist their weaker bretheren. But this measure of self-help could not operate to hundred per cent efficiency in a strongly individualistic society, since the stronger banks were naturally unwilling to weaken themselves by taking over the frozen assets of the latter. President Hoover thereupon converted this Corporation into the Reconstruction Finance Corporation, by an Act of the Legislature, under which a total of $ 2,000 million was made available to assist foundering banks, and refinance industry, agriculture and commerce. But despite the liberal policy and action of this Corporation, which had advanced over $ 600 million to relieve American farmers, as against a total volume of farm debts estimated at $ 12,000 million—the seed of disaster had been rooted too firmly to be so easily eradicated. Country banks,—to use English phraseology,—began to close down, or suspend payments, with alarming frequency; and their weakness was reflected increasingly in the position of the stronger banks also.

The crisis came in February, 1933, when state after state found its banks unable to meet their obligations, and so forced to declare a general moratorium or banking holiday. The situation was at its darkest on Friday, March 3, the eve of the inauguration of the new President. He extended the Banking holiday, and called upon Congress to take energetic and radical steps to cope with the emergency. We cannot go into the details of the action taken by President Roosevelt to meet the financial crisis, and remedy the economic Depression in the States, at this point. Suffice it to note here that America *practically* went off the Gold Standard on the day the gold embargo was imposed by presidential decree, even though the Gold Clause in the Constitution of the United States was deleted later; that this action in itself tended to afford relief by the possibility it held out of an improvement in prices, thanks to an easier competition with countries which were no longer on a gold basis; and that more direct relief was resolved to be given from national resources, in a manner and to a degree, which, in comprehensiveness and thoroughness, compared most favourably with the haphazard action under similar circumstances in Britain.*

Amongst the causes contributory to the deepening of the Depression in the United States, mention has already been made of the departure of Britain from the Gold Standard, despite that country's immense stake in international commerce and credit. The conditions in Britain were by no means similar to those of the United States. As we have already noticed from comparative foreign trade statistics of the two countries, while Britain had a

* Cp. the March to August Numbers of the *Current History* for a detailed survey and explanation of these measures.

heavy adverse balance of trade, America had, even in the worst years of the Depression, a favourable balance. Britain's passive trade balance used, in normal times, to be liquidated by her "invisible exports" consisting of services in banking, shipping, insurance, and interest on foreign investments, all of which, however, had suffered so heavily owing to the World Depression, that a normally credit balance of over £250 million was converted in 1930 to a debit balance of about £40 million rising to £100 million and more in 1931, and being estimated at over £25 million on the wrong side even in 1932, despite stringent measures to correct this adverse balance. With this adverse balance of payments, Britain had to face a severe drain on her gold resources, which became unbearable and unrestrainable in the summer of 1931, leading eventually to an abandonment of the gold moorings of the pound sterling. America's position was, in all these respects, radically different. She had always had a credit balance in foreign trade; and since the war also in international payments. She had no remittances to make abroad to meet an adverse balance; but the growing competition of British commerce in world markets, thanks only to a depreciated local currency, was steadily reducing America's favourable balance of international payments. Even so, it remained a positive, or a credit-item to the last; and so avoided the strain on her foreign exchanges which Britain was exposed to in 1931 summer. The crisis, therefore, when it came upon America, was domestic rather than international. The American inter, nal situation was far from satisfactory,—again, not because the industrial or the general economic organisation of the country was weak,—but simply because the fall in prices, coupled with injudicious investments by American banks in local securities, had intensified the elements of weakness that scared the American financiers and publicists. America, moreover, was by no means so dependent for home prosperity on foreign trade and international credit, as Britain, claiming to be the banker and the clearing house of the world, was. America's foreign trade is less than a tenth of her home trade; while Britain lives on foreign Trade. The dismooring of the Dollar from gold had, accordingly, not the same dangers to American credit, which the corresponding action in Britain had to that country's credit. The measures of recovery in the United States could, therefore, well be mainly inspired by considerations of domestic prosperity, regardless, if need be, of their international reactions ; while the similar measures in Britain could not afford to neglect the latter factor.

This parallel with Britain is necessary to emphasise, because of two main considerations on which the economic crisis in Britain seems, in the perspective of history, to have a direct bearing on that of the United States. Because of the fall in prices, and the consequent decline in local prosperity, the national finances of the United States were showing a heavy deficit. This could be corrected, people thought, by economies and retrenchment in expenditure, by additional taxation, and, in the last instance, by additional fiat money. One item, however, in the American national budget consisted of receipts under the funding agreements with the debtors of the American Government, of which the British Government was the most considerable, and seemed to be the most solvent. The payment in respect of this war debt to America, in the days when Britain's own receipts from foreign investments were steadily falling, was a serious factor in weakening the sterling exchange, and causing a gold drain from Britain, which eventually forced that country off gold. Britain, however, has, since 1932, raised the cry of inability to bear this war debt burden, which, she has urged, has been materially raised thanks to a phenomenal rise in the value of money. America, on the other hand, cannot see her way to forego her claims under the Funding Agreements,—which had cut down substantially the original contractual obligation even with Britain,—since, to do so, would mean a corresponding increase in the tax burdens on her own citizens; and that, too, without any *quid pro quo*. Britain has urged, in vindication of her claim for reconsidering the debt agreement, that, even if the European debtors were to make these payments, they could do so only in goods and services in the last instance. But America keeps a rigid and high tariff wall, barring out these goods and services from abroad; so that, even if the debtors of America were willing and able to make these payments, the action and policy of the American Government renders that course impracticable.

There is no substantial reply to this on the American side, except the known inability of the European debtors to provide a real export surplus from their own resources, especially while they are committed to such heavy outlays on armaments, and other similar unproductive expenditure. America has, accordingly, coupled, —until very recently,—the question of international debts with those of Disarmament, which the European countries, in their turn, are unwilling to combine into one complex problem. In their eyes, therefore, America seems to pursue the policy of Shylock, when she refuses to consider the Debt agreements; and so their response has taken the form of a unilateral abandonment of the international Gold Standard which has only served to embitter and exasperate America. She justly regards such action as a sign of bad faith. Those who pursue such methods, the American inevitably comes to feel, can offer no guarantees of future good behaviour; and any concession to them would only prove futile, if not suicidal, to America. For, the departure from the Gold Standard has been sought to be utilised by countries like Britain as a means of economic and trade recovery,—a menace, undoubtedly, to American industry in the latter's domestic markets as well as in common international markets. The Debt controversy, and Exchange depreciation, are thus incidental to the American crisis, as it developed in the early months of the current year.

American authorities have, therefore, decided to treat the crisis in their country, not as a phase of the international Depression, but essentially as a local phenomenon. Their measures for currency reform and banking credit stabilisation,—including the embargo on gold exports, the abolition of the Gold Clause from the Constitution, the tendency to inflation, and the reorganisation of banking on sound lines,—or those for industrial recovery, seem to be inspired solely with a desire to rehabilitate America, no matter what the consequences to the world may be. America can afford to adopt this attitude, since she is able, should the worst come to the worst, to retire into her own shell and be self-sufficient. If her foreign trade, and even if her international credit, be destroyed, the United States care nothing for such consequences, if only American agriculture can be salvaged, American industry revived, sufficient for home market at any rate, and American finance and credit reconstituted.

Let us review, briefly, these measures of economic revival in America, which bear out the general criticism given above.

I. Leaving out of consideration the emergency measures of a banking holiday and currency control, issued in the first week of the Roosevelt regime, the first of the measures for National Recovery to become law in the United States was the Farm Relief Act. It aimed at raising prices so that the things a farmer has to buy would, in the matter of prices, be on a par, more or less, with the things a farmer has ordinarily for sale. Under the provisions of this measure, the Secretary of Agriculture would be empowered :

(1) to obtain a voluntary reduction in the area under the plough for certain crops, the producers being compensated by rental or benefit payments for this sacrifice;

(2) to make marketing agreements with farmers and processors and others to organise commodity councils, which would advise on the most effective method of acreage reduction and the scale of taxation on processed goods;

(3) to license "processors" and distributors where necessary to achieve the object of the measures;

(4) to tax the "processing" of basic farm products, the proceeds to be utilised in compensation to the farmers reducing acreage;

(5) particularly, to allow farmers of cotton, reducing their acreage by 30%, to take options on the cotton held by the Federal Farm Board &c. which the Department of Agriculture would buy;

(6) and, to refinance Farm Mortgages, so as to protect farmers against immediate foreclosure, and to enable them to regain some of their foreclosed property.

I. (A) It was hoped that, by a combination of crop reduction through the curtailment of acreage, and the process tax on certain important farm products, the prices of the staple agricultural commodities would be appreciably raised. This measure was also utilised to tack on a provision for Currency Inflation, whereby the President was granted power,

(*a*) to expand Federal Reserve Credits, through open market operations, to the extent of $ 3,000 million.

(*b*) to issue a maximum of $ 3,000 million Treasury Notes,

(*c*) to reduce the gold content of the Dollar by not more than 50%,

(*d*) to fix a definite ratio between silver and gold,

(*e*) and to accept war debt payments in silver upto a maximum of $ 200 million.

Price raising of the principal agricultural products,—wheat, cotton, hogs, dairy products, tobacco, rice, and beat and cane sugar,—was thus doubly assured, since their production came to be limited by domestic needs, and the domestic market was amply protected.

II. A relatively less conspicuous measure was the Home Relief Bill, passed into law in May, by which mortgages on homes valued at less than 15,000 Dollars could be exchanged for Government 4% bonds, to be issued by a special corporation to the extent of $ 2,000 million. This measure, coupled with the Farm Relief Act, would, it is hoped, bring down the rate of mortgage interest to a level of 4¼%, thereby permitting a very considerable saving to the farmer in his heavy burden of interest. This serves to place, by legislation, a limit on the rate of interest—a noteworthy measure in a hitherto highly individualistic country.

III. Measures for remedying the gigantic proportions of Unemployment in the United States took the still more radical form of the Muscle Shoals Act, which aims at manufacturing nitrate, and producing electric power, directly by the agency of the State, and so providing employment for a large number of the unemployed. An ambitious programme of public works and national development is envisaged in these measures, particularly the Wagner Act, allocating $ 500 million to the States and Municipalities within the Union, to enable the latter to take up such projects of public utilities and national development.

Another Act, establishing employment bureaux under the Federal Government, had the same objective.

IV. But the most ambitious project for national recovery,—and the one which seems even now to be straining the popularity of the President and the resources of his Government to the utmost,—is the so-called National Industrial Recovery Act. This measure confers on the President power to set up machinery for

> "*a great co-operative movement throughout all industry in order to obtain wide re-employment, to shorten the work week, to pay a decent wage for the shortened week, and to prevent unfair competition and disastrous overproduction.*"

The Act permits

(*a*) the suspension of Anti-Trust laws, so as to permit of a thorough rehabilitation of American industry,

(*b*) and provides for the drawing up of new codes for fair competition, including the wages to be allowed to the workmen,

(*c*) subject to the condition that the President would have the right to license business enterprises to meet exceptional cases of non-co-operation or abuse.

(*d*) Attached to the Bill is a public works programme, costing \$ 3300 million for the relief, or remedy, of Unemployment.

The suspension of anti Trust laws is a sop to the capitalist, which brought about a wave of welcome when the N. I. R. A. was first announced. The rights of labour seem to be safeguarded by the introduction of collective bargaining with labour Trade Unions, and by fixing maximum hours of work and the minimum rates of wages. Those industries which are concerned in export trade are to be given some rebate from taxation imposed now to give effect to the whole of the programme of national recovery. New taxes are imposed on the capital stock, on dividends, on surplus or excess profits, and on income, which may all be replaced by the Beer Tax if the Prohibition Amendment is abolished. Every considerable industry is required to work out its own code of fair competition on pain of the Government imposing their own code on default of the industry concerned to do so. It may, finally, be noted that this measure is a temporary one, *i.e.*, for a period of two years within which it is hoped the programme of the President would be accomplished.

V. Finally drastic economies in federal expenditure, including a 15% cut in Government servants' wages, and a substantial reduction in the number and allowances of War Pensioners, have effected savings totalling $ 1,000 milllon per annum in round terms.

Though this vast programme of Governmental economies might seem, at first sight, to reduce the purchasing power of the American citizen, the series of measures just reviewed, taken together, would effectually insure the country against any such development. For the purchasing power of the largest section of the population,—industrial workers and farmers,—would be more than proportionately raised, if all these measures bear the fruit they are intended to. America hopes, by these methods, to raise all round prices by about 25% at least; and, lest that aim be jeopardised, steps have been taken to prevent Speculation, or other such untoward factors, defeating the Government's purpose.

Though President Roosevelt has, apparently, the whole hearted support of the bulk of the American people, it would be idle to deny his plans are meeting with criticism, and even opposition. But though his Labour Codes may be set at nought by manufacturers like Henry Ford, it is not beyond the realms of possibility that the President may be obliged to go to the logical conclusion of his present policies,—a complete nationalisation of the means of production and distribution in the public interest. The transition from a haphazard, unco-ordinated organisation, to a planned economy, is, of course, not easy, especially in a country with the traditions and ideals of the United States. In the absence of a revolution—like the Russian or the German—the process is bound to be slow. But whatever the eventual outcome, the courage, foresight, and genuine sympathy and understanding of the real situation, in the authors of these policies, cannot be denied. The world needs a new social order; and they in America have already begun a "New Deal".

Equally clear is the position of the American Government in the international depression. These measures and policies are mainly,—even solely,—inspired and dictated primarily by domestic considerations and requirements. Their attitude in the World Economic Conference amply justifies this view, as the next chapter would show.

CHAPTER.

V

THE WORLD ECONOMIC CONFERENCE. ISSUES AND REMEDIES.

The problems reviewed in the preceding pages are common to the whole modern industrialised and commercial world, with the possible exception of Soviet Russia. In that country, they have no unemployed, nor any staggering fall in the price-level, which is made the collective symbol of World Depression. But Russia having abolished the money economy,—or production for exchange only,—and having discredited and disestablished the money material as the sovereign godling of our commercial pantheon, that country is not perhaps a fair sample to take. Even in Italy,—where a planned economy is rapidly taking the place of the haphazard development under the aegis of what is popularly called the "Lazy fairy", but what is known to the scientific students of Economics as the "Laissez faire" school,—the Fascist regime has been able to abolish strikes and lockouts, to keep unemployment down, to prevent violent fluctuations in the price-level, and to maintain the credit of their medium of exchange unimpaired. For the rest of the world, however, and particularly for that portion of it which has fallen under the domination of the Anglo-Saxon ideals or methods of Government these years of Depression have been a tragic period of unrelieved gloom.

The doctors appointed to diagnose the malady noted the complication caused by the existence of intergovernmental Debts and Reparations, hailing from the days of the European War. They have accordingly agreed at the Lausanne Conference, of June 1932, to cancel such debts, subject to America, the universal creditor, agreeing to the same process. But the United States, not being a party to the Lausanne Pact, refused to waive her own claims, and to make *her* citizens bear the burden of the European follies and jealousies. The impossibility of making payment of the December 1932 instalment was emphasised by Britain before the due date, as well as after the payment had been made. France was more logical and realistic; she refused to make payment, and so was instrumental, even though indirectly, in hastening the crisis in the United States. With their own experience of a first rate depression fresh in their minds, the United States authorities were quite willing to hold a World Economic Conference to see if a concerted solution of common ills could be had.

The Conference was agreed to be held in London in June 1933. Meanwhile a commission of International Experts had been considering the specific ills to be remedied by the Conference; and the following summary of the problems before the Conference is taken from their Report.

The Experts were convinced that "a full and durable recovery" would not be effected unless the conflict of national with international interests was avoided. They add :—

"In essence the necessary programme is one of *economic disarmament*. In the movement towards economic reconciliation, the armistice was signed at Lausanne, the London Conference must draw the Treaty of Peace. Failure in this critical undertaking threatens a world-wide adoption of ideals of nationa self-sufficiency which cut unmistakably athwart the lines of economic development.

Such a choice would shake the whole system of international finance to its foundations, standards of living would be lowered and the social system as we know it could hardly survive. These developments, if they occur, will be the result, not of any inevitable natural law, but of the failure of human will and intelligence to devise the necessary guarantees of political and economic international order. The responsibility of governments is clear and inescapable.''

The Experts prepared the Agenda for the World Economic Conference under the following main and sub-heads :

I. *Monetary and Credit policy.*

1, Conditions under which a restoration of a free international gold standard would be possible.

2. Currency policy to be followed prior to such restoration.

3. Functioning of the Gold Standard :

(*a*) Relation between political authorities and Central Banks.

(*b*) Monetary reserves :

i. Lowering of cover ratios.

ii. Gold exchange Standard.

iii. Other methods of economising gold.

iv. Distribution of monetary reserves.

(*c*) Co-operation of Central Banks in credit policy.

4. Silver.

II. *Prices.*

1. Disequilibrium between prices and costs.
2. Measures for restoring equilibrium.

III. *Resumption of the movement of capital.*

1. Abolition of foreign exchange restrictions.
2. Existing indebtedness:
   i. Foreign short-term debts.
   ii. Foreign long-term debts.
3. Movements of capital.

IV. *Restrictions on international trade.*

1. Economic causes and effects.
2. Exchange controls, clearing agreements, etc.
3. Indirect protectionism.
4. Possibility of abolition of restrictions.

V. *Tariff and treaty policy.*

A. 1. Cessation of tariff increases.
   2. Reduction of tariffs.
   3. Special aspects of the tariff problem.
   4. Method of procedure.

B. Most favoured nation clause.
   (*a*) Permanent exceptions.
   (*b*) Temporary exceptions.

VI. *Organisation of production and trade.*

1. Economic agreements.
2. Wheat.
3. Other products.
4. Transport.

I. MONETARY AND CREDIT POLICY.

The Lausanne Conference laid special emphasis on the necessity of restoring currencies to a healthy basis; and in this connection the restoration of a satisfactory international monetary standard is clearly of primary importance. The World Conference, in the absence of another international standard likely to be universally acceptable, had to consider how the conditions for a successful restoration of a free gold standard could be fulfilled. The restoration of equilibrium between prices aud costs, and, in the future, such a reasonable degree of stability of prices as the world measure of value should properly possess, are regarded as essential.

The time when it will be possible for a particular country to return to the gold standard, and the exchange parity at which such a return can safely be made, must necessarily depend on the conditions in that country, as well as those abroad; and these questions can only be determined by the proper authorities in each country seperately.

1. *Conditions under which a restoration of a free international gold standard could be possible.*

(*a*) The solution of major outstanding political problems would contribute to that restoration of confidence, without which countries who have departed from gold would hesitate to return to it.

(*b*) A satisfactory reserve must be built up for countries whose reserves have been depleted, *e.g.* by

i. A settlement of inter-Governmental debts.

ii. A return to a reasonable degree of freedom in the movement of goods and services.

iii. A return to freedom in the foreign exchange markets and in the movement of capital.

(*c*) A general understanding about measures to ensure a better working of the gold standard in the future, which will give the assurance to each country concerned that, as long as it pursues a sound monetary and economic policy, it will be in a position to acquire and maintain the necessary reserves.

(*d*) Each individual country must back up such international action by steps to achieve internal equilibrium in the following matters.

i. Revenue and expenditure not only of the State budget proper, but also of the budgets of public enterprises (railways, etc.)

and of local authorities should be balanced.

ii. Creation and maintenance of healthy conditions in the internal money and capital market, and avoidance of any inflationary increase of the note circulation in order to meet Government deficits.

iii. Flexibility in the national economy without which an international monetary standard, however improved, cannot function properly.

Certain countries, it was recognised, were in a key position in that the re-establishment of a free gold standard by them would influence action in a number of other countries. The Experts were, of course, aware of the difficulties of countries who had departed from the Gold Standard in returning to it; as also of the inadvisability of a premature and hasty return. They, therefore, considered the question of currency policy to be pursued in the interval.

2. (*a*) They suggest, accordingly, that countries with a *free gold standard and with abundant monetary reserves*:

i. Should pursue a liberal credit policy, characterised by low money rates in the short-term market, and a reduction of long-term money rates by conversions and other operations as far as feasible.

ii. As far as market conditions and central bank statutes permit, should maintain an open market policy designed to provide a plentiful supply of credit.

iii. Should allow gold to flow out freely.

iv. To permit the greatest freedom possible to outward capital movements to facilitate sound foreign investments.

(b) *Countries which have left the gold standard.*

i. Efforts should be made to avoid a competition between States to acquire a temporary advantage in international trade by depreciating the external value of their currency below such a point as is required to re-establish internal equilibrium.

ii. Under present conditions, exchange rates are liable to be constantly disturbed by speculative movements. In a period prior to the adoption of a new parity, it is advisable for the authorities regulating the currencies concerned to smooth out, so far as their resources permit, day to day fluctuations in the exchanges due to speculative influences by buying and selling foreign currencies.

(*c*) *Countries which have introduced exchange restrictions, whether they have abandoned the gold standard or not:*

i. It is desirable that these restrictions should be totally abolished as early as possible; or they should be relaxed or abolished in the first instance as applied to foreign trade even though it may be necessary to maintain them for a time with regard to capital movements.

ii. Such relaxation may in certain cases, where the external value of the currency has depreciated, necessitate the abandonment of existing parities.

In such cases it would seem particularly valuable to maintain close relationship between these countries, the Financial Organisation of the League and the B.I.S. in order to devise and apply the appropriate policy in each case.

In the case of certain countries which are heavily indebted abroad, more especially on short-term, *e.g.* Germany, a solution of the debt problem is necessary before their Governments will be in a position to modify existing monetary policy.

3. *Functioning of the Gold Standard.*

It is important that any declarations in favour of the restoration of an international gold standard would at the same time indicate certain essential principles for its proper functioning under modern conditions, without interfering with the freedom of action and the responsibility of Central Banks in determining monetary policy. The Experts, however, suggest, as regards

(*a*) Relation between political authorities and Central Bank, the monetary organisation be so arranged as to make Central Banks independent of political influence. Also Governments, in their economic and financial policy, should avoid increasing the difficulties of Central banks in the discharge of their responsibility.

(*b*) Monetary reserves:

The modern tendency is to concentrate gold in Central Banks. Before the war more than 40 per cent. of the total monetary gold stocks consisted of gold in circulation or with private banks, while at he present time only 9% represents gold not in the hands of Central Banks. This development is welcome, as it tends to enhance the power and the freedom of action of Central Banks. Gold reserves are now primarily required to meet external demands for payment caused by some disequilibrium on the foreign account. At the same time it must be recognised that present day legislation in many countries renders much gold unavailable for international use. The Experts believe the following steps can be taken-without in any way diminishing public confidence-in order to permit more effective use of the reserves of Central Banks.

i. *Lowering of cover ratios.*

A great advance would be made if legal minimum requirements of gold (or of gold and foreign exchange) were substantially lowered below the customary 33 or 40% ratio. The margin available for payments abroad-representing the difference between the actual holdings and the legal minimum-would then be considerably greater. However, a change in the minimum cover requirements must not be taken by countries with limited resources as an excuse for the building up of a larger superstructure of notes and credits. They also suggest that the provisions regarding the proportion of reserve should be made more elastic.

ii. *The Gold Exchange Standard.*

In addition to those countries which allow foreign exchange to be included in their legal reserve requirements, Central Banks in nearly all countries supplement their gold holdings with foreign short-term assets, in order to be able to influence the exchange more directly and more speedily than by gold exports.

The Experts are of the opinion that this system of holding foreign exchange balances, if properly controlled, may for many countries hasten their return to an international standard, and will form an essential feature in the permanent financial arrangements of the countries which have no highly developed capital markets. It is very desirable that foreign exchange holdings in Central Banks should be invested with or through the Central Bank of the country concerned or with the Bank for International settlement.

iii. *Other Methods of Economising Gold.*

In countries where bank-notes of small denominations are in circulation, these small notes may be withdrawn and replaced within proper limits by subsidiary coin, which will to some extent reduce the strain on gold reserves through the decrease in note circulation.

Improvements in clearing House Mechanism are also suggested.

iv. *Distribution of Monetary Reserves.*

The present abnormal gold situation, with nearly eighty per cent of the world's monetary gold concentrated in five countries, cannot be explained by any single factor, but should be regarded as a sign of profound disequilibrium which have influenced the numerous elements in the balance of payments.

Besides lowering the Reserve requirement, and making it elastic; and besides the holding of Gold Exchange in National Central Banks, the Experts recommend:

When countries with deficient reserves return to the gold standard, the new parities should be such as to be consistent with a favourable balance of payments and so attract an adequate reserve without undue effort.

In some cases an automatic adjustment of the situation will take place by a return movement of previously expatriated capital, which has been invested in countries with large monetary reserves. To prevent an outflow of foreign capital by credit restriction might not only retard the redistribution of gold, but might also have a deflationary tendency.

(d) *Co-operation of Central Banks in Credit policy.*

While the responsibility of each one of them for the measures taken on their own markets must be left unimpaired, continuous consultations between Central Bank of each country, should help to co-ordinate the policy pursued in the various centres, and may indeed enable the intervention of an individual Bank to become more effective if supported from abroad.

The B. I. S. represents a new agency for Central Banks, and should be able to play an increasingly important part, not only by improving contact, but also as an instrument for common action, of which several indications can be found in this document.

4. *Silver*.

After keeping relatively stable from 1921 to 1929, the price of silver in gold currencies fell abruptly by more than one half in less than three years. There is no doubt that this sudden decline must in the main be attributed to the same causes as have acted on the general level of prices. Some special factors can, however, be found which have accentuated the downward trend; and these were to some extent already operating before the depression set in. Such factors are: The demonetisation of silver; the reduction of the silver content of token coins, and also the disposal of surplus stocks.

The Commission of Experts has considered a series of proposals which have been discussed in recent years with a view to raising the price of silver, and makes in this connection the following observations:

1. It has been suggested that some form of Bimetallism should be introduced, They point out that a bimetallic standard, which presupposes a fixed relation between the value of gold and that of silver, could be safely introduced only if the most important countries of the world agreed to such a measure. As the only international monetary standard, which is at present likely to command universal acceptance, is the gold standard, the idea of introducing bimetallism must be regarded as impracticable.

2. It has been proposed that Banks of Issue should be allowed to hold increased quantities of silver in their legal reserves. On the assumption that no form of bimetallism will prove acceptable, silver is unsuitable for extensive inclusion in the metallic reserves of a Central Bank.

3. Governmental action should be taken for the purpose of improving the price of silver.

The Commission refer in this connection to the suggestion made earlier that, in countries where bank-notes of small denominations are in circulation, these small notes might be withdrawn and replaced within proper limits by subsidiary coins, *e.g.* of silver if found practicable. Whatever sales of Government stocks of silver may be deemed desirable, these should be made so as to avoid any unnecessary disturbance of the market. They also advise consideration of methods for the marketing of silver, and new industrial uses of the same, by producers and currency authorities with a view to their improvement. They think trade interests would be best served, particularly with silver using countries, not by a rise in the price of silver as such, but by a rise in the general level of commodity prices.

Conference Results on I.

The Conference considered the whole of this group of suggestions, as well as in parts; but no useful result or general agreement could be arrived at. The Conference opened ominously, when a reference was made by its Chairman, the British Premier, to the thorny question of intergovernmental Indebtedness. The American delegation took exception to it, by remaining bodily absent from the Sessions of the Conference on the first day. The moment was critical; for the negotiations were even then in progress between the British and American Governments as regards the June instalment of British payment. The Dollar had meanwhile fallen so that the actual payment of the instalment was not so hard in June, as it was in the previous December; and, in addition, the American President had obtained authority from the Congress to receive payment in silver at 50 cents per ounce, as also to receive payment on account. The British Government took advantage of all these concessions in their June payment, and have also managed to keep the broader question open. Reference to this problem on the first day of the World Economic Conference was, accordingly, as ill-judged a demarche as it was ominous in the immediate consequences attending it.

Starting so ominously, the very first hurdle the Conference met with was in connection with this question of the Currency stabilisation. Though before she herself went off the Gold Standard, America was an ardent champion of an immediate return to gold, at the Conference, the United States Delegation took up an attitude of unintelligible hostility to the suggestion of the Gold Bloc to require an early return to the fixed gold exchanges. The latter were perfectly willing that the return may be made, by those countries which had departed from gold, at such time and at such parity, as each country's local conditions demanded; but they were uncompromising in their emphasis upon the general principle of fixed exchange. The United States was fresh in the game of an artificially depreciated exchange; and its delegation could not say what was the just exchange value of the Dollar under the altered condition of world production and trade. Moreover,—even if that point was not specifically mentioned,—America had noted the advantage derived by Britain from a depreciated exchange; and she was unwilling to forego such advantage in bargaining as she might derive by keeping her Dollar free from the gold handicap. The restoration of the price level, again, was one thing if considered from a local or national standpoint for a country like the United States; but a totally different thing, if looked at from a world point of view. The unbending opposition, therefore, of the American Delegation rendered agreement impossible on this most crucial question before the Conference; and the Conference accordingly was itself doomed to failure.

The only item salvaged from the disastrous shipwreck,—if even that could be said to have been salvaged,—was in regard to Silver. An agreement has been arrived at between the Delegates of the silver producing and consuming countries, whereby the sales of silver are to be restricted for the next five years; and the price of the metal is intended to be raised by that means. The agreement still requires to be ratified by the Legislatures and the Governments of the country concerned; but even if there is no hitch in that ratification, and the programme of the agreement is carried out as per schedule, there is little indication that an abiding rise in the value of silver has taken place, or will take place, because of this agreement; or, further still, that even if such a rise does come to pass, that would afford a substantial solution for the world Depression by an all round rise in the price level.

II. PRICES.

The next item in the Experts proposed agenda for the conference was:—

1. *Disequilibrium between prices and costs.*

The decline in prices of recent years has created a series of difficulties which must by one method or another be overcome in order to make progress in the monetary and economic field possible.

In the *first* place the burden of debts has increased considerably in terms of real wealth, and made it more and more difficult for debtors to discharge their obligations and avoid a breach of contract. With regard to international debts, a special difficulty concerned the transfer problem. *Secondly*, as a rule costs fall more slowly than prices, making enterprises unremunerative, with a consequent disorganisation and reduction of production, and an increase of unemployment. The reduction in earnings will, in its turn, diminish the purchasing power in the hands of the public. Moreover, a restriction of sales will make further sound extension—or even the upkeep—of industrial plant seem unnecessary and arrest activity with regard to new investments. *Thirdly*, the decline in prices has not proceeded at the same pace for all classes of commodities: Manufactured articles falling more slowly than natural products, and retail prices falling less slowly than wholesale.

The decline in production, superimposed on the decline in prices, has reduced the national money incomes of some of the largest countries in the world to less than 60% of what they were three years ago. In countries which depend for their export on primary products, the gold prices of these products have in many cases fallen to a third, a quarter, or even less, of the former price. The precipitous decline in world prices has had its disastrous effects on the foreign position of these countries, particularly by so substantially increasing the burden of their external liabilities.

Furthermore, difficult budgetary problems of great concern to Governments have arisen, in particular as grants for Unemployment benefit and other social purposes are added to the expenditure, while revenues are falling.

2. *Methods of restoring equilibrium.*

(*a*) Obviously, one method of restoring a lost equilibrium between costs and prices is to reduce costs. As a rule this will not be possible without reducing money rates of wages. Some reductions in wages have recently been effected, in certain countries to the extent of something like 20% to 25%. But such reductions differ from one country to another, and each further substantial reduction meets with increased resistance. That expedient, therefore, cannot be relied upon to correct the world wide Depression.

(*b*) Equilibrium may also be restored by a rise in prices, i. by limiting supply. This will be discussed later.

ii. A liberal credit policy, including low short-term interest rates.

iii. In order that a liberal credit policy may have the desired effect on prices, it is necessary that a demand for credit should arise.

In the first place, there is some reason to expect a spontaneous demand for goods, as many industrial firms have not only abstained from enlarging their plant, but have also postponed repairs, owing to Depression. Moreover, Governments and other authorities should actively increase the purchasing power in the hands of the public by extensive schemes for public expenditure, financed by borrowings from the market.

iv. Finally, a recovery of sound international lending, which would put purchasing power into the hands of countries with a limited supply of domestic capital, would have a helpful effect on prices.

Results on II.

Nothing tangible, however, could be achieved in the Conference on this group of problems placed on its agenda. Each country concerned pursues its own credit policy; and some conversions of long term public loans have been made at lower interest. In private credit, likewise, reduction has been effected, in individual countries, by executive decree or mutual agreement, in the rates of interest. But these measures have not yet been translated into such an improvement in the public's purchasing power as would help to raise general prices. Even the deliberate depreciation of the local currencies has not achieved this result, in any considerable degree or in an abiding manner. The proposal to reduce supply, culminating in the Wheat Agreement, will be discussed in another place. Resumption of international capital movements remains yet only a desideratum.

III. RESUMPTION OF THE MOVEMENT OF CAPITAL.

A return to a normal situation will be dependent, *inter alia*, on a resumption of international capital movements. Apart from the instability of exchanges, which we have dealt with above, some of the major obstacles to capital movements are: the control of foreign exchanges; and, in certain cases, the existing burden of debts.

1. *Abolition of foreign exchange restrictions.*

The adverse balance of accounts in many countries, aggravated by the drop in prices and the falling-off in foreign trade, has obliged those countries, when they could no longer re-establish equilibrium by means of foreign credits, to choose between abandoning the stability of their currency, or instituting exchange control as an aritificial means of balancing imports and exports of foreign currency. Certain countries have even adopted both systems simultaneously. The majority of the countries which have recently suffered the disastrous consequences of unrestricted inflation have opted for currency control. Such control has enabled them, to some extent, to prevent or limit exports of national capital and the withdrawal of foreign credits. Further, foreign currency control has frequently been adopted in order to improve the balance of payments by refusing to pay in foreign currency for those imports which do not appear indispensable. But in the long run this reduction has not had the expected effect of improving the trade balance.

A return to normal conditions presupposes the disappearance of these restrictions, which is itself conditional, in each of the countries concerned, on the permanent restoration of equilibrium in the balance of accounts.

2. *Existing indebtedness.*

After all these measures have been taken, permanent equilibrium in the balance of payments cannot be restored owing to the threat of mass withdrawals of short-term deposits, or owing to the heavy charge resulting from the service of long-term debts. In that event, arrangements relating to foreign debts will have to be made between the parties concerned.

i. Short-term debts:

The present regulation of the short-term debts of various countries by means of "standstill" agreements, exchange control, and transfer moratoria, is, in its very nature, only a temporary measure. That is why the existing system, which presents the danger of placing good and bad debtors on a footing of equality, and thus tends to destroy the credit of the good debtors, should be brought to an end as soon as possible, and be replaced by a definitive solution which would take into account the circumstances of each individual case. Trade could thus revive by utilising its normal channels. The banks of issue in every country should support such a measure of restoration by every means in their power.

ii. Long-term debts:

In the case of those long-term debts, the burden of which has been so aggravated by the present level of prices as to be incompatible with the equilibrium of the balance of payments, agreements should be concluded between debtors and the bond-holders.

3 *Capital movements.*

The resumption of the movement of capital throughout the world—in other words, the re-establishment of international financing—should be effected through the normal credit channels. The creation of a special credit institution may promote this resumption.

To this end, the establishment of a Monetary Normalisation Fund, which was contemplated at the Stresa Conference, may be worth considering.

In view of the fact that the object of the establishment of such a fund is to facilitate monetary normalisation, the B. I. S. would appear to be the most appropriate body to administer this fund, since it is desirable to avoid any political influence in its administration.

It has also been suggested that help might be given by means of the establishment of an International Credit Institute. An institution of this kind—the object of which would be to set in motion capital which is at present lying idle—should only grant new credits under sound conditions, and subject to strict supervision with a view to preventing any inflation. It should not refund the old credits ("frozen" credits), and should be free from any political influence. It might with advantage be affiliated to or administered by the B. I. S.

Another method of encouraging capital movements is a programme of public works on an international scale. The Experts, however, do not think it probable that public works can be internationally financed in the immediate future to any considerable extent.

RESULTS ON III

In this group of the Expert's suggestions, placed on the agenda of the Conference, that body drew an utter blank.

IV. RESTRICTIONS ON INTERNATIONAL TRADE.

Restrictions on international trade, whether they take the form of prohibitions or of quotas or licences, have in recent years become exceptionally widespread and numerous, and make an insurmountable barrier to international exchanges. International trade is threatened by it with complete paralysis. The extension of this system of restrictions tends to nullify the advantages resulting from commercial treaties.

The abolition of these measures, which have grown up around and in addition to Customs tariffs, constitutes the most urgent problem from the point of view of bringing world economy back to a more normal condition. The situation has been aggravated in recent years by the restrictions and control of the foreign Exchanges.

Possibility of abolition of restrictions.

International trade will not fully revive until these further impediments have been removed, and it can again flow in its natural direction. The Experts were aware that—although in a different economic situation—attempts have been made for several years past, particularly under the auspices of the League of Nations, to abolish import and export prohibitions and restrictions by means of multilateral conventions.

A Convention was signed on November 8th, 1927, after lengthy and careful preparations, which, while allowing temporary exceptions, was designed to bring about this general abolition. But it has remained ineffective, owing partly to these exceptions, and partly to special circumstances which resulted from the relations between certain countries whose accession was necessary.

RESULTS ON IV.

Here also the Conference has achieved nothing substantial.

V. TARIFF AND TREATY POLICY.

The tariff policy which has been followed by many countries in the past has been greatly aggravated in recent years. This tendency has contributed largely to the disorganisation of world conditions.

Positive action in this direction is assured important support. Countries compelled to dispose of a large proportion of their products, whether agricultural or industrial, on the world markets, are most deeply interested in checking the increase of tariff barriers and in securing their reduction. An improvement in the world economic situation would be facilitated if the debtor countries were enabled to pay their debts by the export of goods and services, and if the creditor countries framed their economic policy in such a way as to maintain the capacity of debtor countries to pay by these means.

Any lowering of tariffs must, however, be effected in successive stages, and should, so far as possible, be simultaneous: no country can afford to adopt or maintain a really liberal tariff policy, if other countries persist in the opposite policy.

The Conference must, accordingly, aim at an agreed and an all-round reduction of Tariff barriers.

RESULTS ON V.

In this chapter of the Experts' suggestions, also, the Conference could achieve nothing worth recording. The interests of the more backward countries are much too deeply involved to permit them to agree to any relaxation of protection to their local industry. And even the more advanced countries are suffering from lack of foresight, moral courage, or *vis inertia*, so deeply as to be unable to make a move in the direction contrary to their traditional policy of protectionism. Hence, agreements, like the British Imperial Preference scheme of Ottawa, are bound to be looked upon, not as steps in the direction of a greater freedom of trade; but as a new menace to the still surviving margin of international exchange. Even bilateral treaties between individual countries,—such as those recently concluded by Britain,—do not aim at realising the suggestions of the Experts; and so the Conference in this regard must be pronounced to have proved wholly abortive.

VI. ORGANISATION OF PRODUCTION AND TRADE.

Some have felt that a greater freedom of international trade is not the sole remedy for the present crisis, that the crisis has revealed profound disorganisation of production and distribution, and that on this point also joint action by the Governments is necessary for the recovery of an economic system threatened by bankruptcy.

1. *Economic agreements.* re-production of, and trade in, certain commodities.

The present crisis has put international economic agreements to the test. Some of them have disappeared: the more solid have held their ground; while new agreements have even come into being under the pressure of events.

Undoubtedly, in certain cases economic agreements have tended, at least temporarily, to maintain and stabilise prices.

The desirability of inter-Govermental agreements in the case of *wheat* has been advocated on these grounds, and has been the subject of international discussions for some time past.

2. The basic idea of such agreement seems to be: reduction of the areas sown in the chief exporting countries, and their limitation in importing countries, as a means of absorbing gradually the abnormal stocks which have accumulated through the failure of supply to adjust itself naturally to demand.

3. *Other products.*

International agreements have also been contemplated in the case of certain commodities, the production and sale of which are controlled to a greater or less extent by certain Governments, particularly timber and coal.

4. *Transport.*

Among the agreements to be considered, the Conference might endeavour to ascertain whether it would not be possible to conclude agreements in connection with sea, land or river transport, which might improve the economic condition of the transport system, while considerably reducing charges, which at present represent a heavy burden on the State budgets in the case of certain methods of transport.

In the case of shipping, the most urgent questions arise in connection with direct or indirect subsidies to national mercantile marines and premiums on national shipbuilding. This policy has certainly contributed towards the creation and maintenace of a much greater tonnage than is required by existing international trade, so that in many countries shipping has become a burden on the national economy instead of a contribution to its prosperity.

The Experts agree with the shipowners that it is impossible to return to sound conditions in the shipping industry so long as the policy of Government subsidy continues.

RESULTS ON VI.

Agreement has been reached,—but after the Conference was over,—between certain countries producing and exorting *wheat*, and others consuming it, to restrict the area sown as also the quantities exported, so as to permit of the present accumulated stocks being absorbed, and prices being thereby raised. But credit for this achievement cannot be given to the World Economic Conference.

The situation thus remains still one of unrelieved gloom, except perhaps in the United States where the local measures for recovery seem to be taking effect. But their reaction on the world position it is yet too early to assess.

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