for labour and the labour market was overwhelmed with applicants for employment. In Germany, the situation was such that the main function of the public employment exchanges was to register the number of unemployed. Under such conditions, it was obvious that the establishment of employment agencies would not constitute a remedy for unemployment.

The memorandum seemed to attach particular importance to the question of the exchange of workers to be organised by a European Labour Exchange. It was, however, probable that by the time that the Labour Exchange was ready to operate, the worst of the crisis would be over. Even if it could begin its operations at the present moment, it was doubtful whether it would prove really efficacious. All the labour markets of Europe were besieged by the unemployed, and only if the scope of the Employment Exchange extended beyond Europe and covered the whole world would it be possible to hope for any practical results.

With regard to the question of public works as a remedy for unemployment, it had been suggested as an example that if the German railways equipped all their rolling stock with automatic couplings approximately 100,000 unemployed could be provided with work for a period of five years. Even if those figures were exact, it was difficult to see where the necessary financial resources could be found to carry out such a scheme, which would cost approximately two thousand million Swiss francs in Germany alone. The other proposals for public works, such as the construction of roads, would encounter the same difficulty. All those measures would only have provided a remedy if they had been planned before the crisis and not when it was at its height.

In the opinion of the workers' group, it was necessary to deal with another aspect of the problem—namely, that of production and consumption. On this point, the International Labour Organisation should endeavour to suggest some means of finding an equilibrium between the purchasing capacity of the masses and production. It was true that the Office was bound by the instructions given by the Unemployment Committee and approved by the Governing Body. It might perhaps have been advisable to have held a further meeting of the Unemployment Committee before the present session of the Governing Body in order that it might reconsider the question as a whole and put forward new proposals.

The workers' group was also of opinion that one of the most urgent problems at the present time was to reduce hours of work and to increase real wages in order to bring hours of work into harmony with the productivity of the workers. Such an increase would not imply an increase in nominal wages, but rather a decrease in the prices fixed by trusts and cartels, calculated to increase the purchasing power of the masses. Since that problem appeared to fall within the competence of the International Labour Office, it was desirable that it should be considered without delay.

Mr. Wolfe said that the British Government had no general observations to make on the memorandum of the Office. He agreed with M. Picquenard's suggestion concerning the conditions under which the proposal to set up an International Labour Exchange should be referred to the proposed sub-committee. It was essential in his view that, before such an organisation was contemplated, national systems of employment exchanges should exist in the different countries similar to those already existing in Great Britain and Germany. Until the different countries had set up a system of employment exchanges it was not possible to organise such a system on an international basis. The sub-committee should also carefully consider the question of cost.

As the British Government had not yet had time to consult the Dominions with regard to the question of immigration into oversea countries, it must reserve any observations on that point until a later date.

M. de Michelis considered that the Office had carried out the work which the Governing Body had entrusted to it in the most careful and thorough way. He agreed with M. Yoshisaka that unemployment was a worldwide problem; but, though the Unemployment Committee was to continue to study it from a worldwide point of view, the only thing to be done at the moment was to consider what practical action could be taken to remedy European unemployment.

That action as proposed by the Office was made up of three elements. The first consisted of relief for the victims of unemployment by means of a system of compulsory insurance, as proposed in the resolution voted by the Governing Body at its last session.

Among the practical means of decreasing unemployment, the Office then suggested the organisation of an International Labour Exchange. M. de Michelis did not share M. Picquenard's apprehensions on this point. He had himself found that the greatest difficulty which existed in placing workers in foreign countries was the lack of knowledge of the conditions of the labour market in the countries to which the workers could be sent. The main thing was to ascertain the requirements in each occupation, so that the emigrants might be sure of finding remunerative employment. Not all countries were, however, equally well equipped for supplying or obtaining information of that kind. Thus, one of the most important functions of the proposed Labour Exchange would be the collection of information. It would need to be informed, so to speak, day by day of the labour requirements of the various countries. Such work could conveniently be undertaken by an international organisation. An institution of this kind could work all the better if it had the support of national employment exchange systems, but it was not necessary to wait until such systems existed in all countries before setting up an international labour exchange. Indeed, the establishment of an international exchange would probably promote the creation or development of national employment exchanges.

One question with which the future International Labour Exchange might deal, in addition to that of bilateral treaties to which the memorandum called attention, was that of individual or collective contracts which constituted the necessary passport for all workers going to foreign countries.
Difficulties would undoubtedly be encountered in the working of the labour exchange, and considerable preparatory work would have to be undertaken. Nevertheless, he thought that practical results could be obtained fairly rapidly in the organisation of the labour market.

In M. de Michelin's opinion it was impossible to separate the social from the economic aspect of the problem. The interdependence of economic and social phenomena was a fact which could not be ignored. Various attempts recently made in the specifically economic field had met with no success. For this reason, the Director's proposal to constitute a mixed committee in collaboration with the Commission of Enquiry for European Union appeared to be an excellent suggestion. All action taken to remedy unemployment should be of a concerted nature and should deal with the economic sphere as well as the social sphere. The proposal would admit of the creation of an international body working under the auspices of the League of Nations, but particularly in collaboration with the International Labour Office and with the International Institute of Agriculture.

Since the idea, put forward by M. de Michelin at the last session of the Governing Body, of adjusting labour to the requirements of the labour market had been accepted, it would be desirable that studies should be made on this aspect of the question and that the second idea which he had also put forward in the Governing Body, the question of colonisation and the remedies which it might afford to the economic disorganisation of Europe and of the world, should be taken into consideration.

He fully realised the difficulties which any practical action to combat unemployment was likely to encounter, but he felt that action must be taken without delay, and he strongly supported the proposals of the Office. He also supported M. Picquenard's proposal to widen the composition of the proposed sub-committee so that the Governments of countries of emigration and immigration should both be able to express their opinion.

M. Jouhaux, said, in the first place, in reply to M. Ćurčin, that, as far as he was aware, no workers' organisations, in France at any rate, had ever taken any steps in order to obtain the expulsion of foreign workers. On the contrary, they had always opposed such a practice. If they had asked for certain measures of a national character regarding the movements of foreign workers on French territory, it was precisely to avoid the expulsion of foreign workers. He asked M. Ćurčin to furnish the names of any organisations which might have asked for the expulsion of foreign workers.

M. Jouhaux shared M. Müller's regret that the memorandum of the Office on the question of unemployment did not deal more vigorously with that grave problem. There could, of course, be no question of finding a definite remedy for the whole unemployment problem, but simply of considering, with a view to Europe only, what immediate steps could be taken to provide some relief for those who were suffering from unemployment.

In this connection, he could not agree with M. Picquenard's criticisms. M. Picquenard had referred in particular to the bilateral treaties concluded by France in regard to the international exchange of workers. The French Government was about to enter into further treaties of a similar nature, but, even if such treaties were concluded between France and all countries of emigration, that would not constitute an international organisation. The question of bilateral treaties into which countries might enter to regulate the exchange of workers had no connection with the question raised in the Office memorandum.

It was obvious that the International Labour Exchange which it was proposed to set up could render great service. In the first instance, it would furnish statistics and collect information concerning the state of the labour market in the various countries and would thus fill a gap which existed at present. In addition to supplying information, however, it should do active work as regards the placing of workers. M. Picquenard had pointed out in this connection that the International Labour Exchange could not do useful work unless a demand for labour existed. It was true that the demand was now very small, but not as small as was often maintained, even in countries where unemployment was prevalent. That was particularly the case in France where there was still a certain demand for agricultural labour, with the result that the National Economic Council had been obliged to allow certain exceptions for agricultural labour to the general rules governing the placing and distribution of foreign labour in France. Other countries were no doubt similarly situated. It was thus possible that, with the assistance of a European Labour Exchange, the international exchange of workers might be organised more easily and with greater effect. But measures of that kind could obviously not suffice, in present circumstances, to provide an adequate remedy for the unemployment crisis.

The establishment of an International or of a European Labour Exchange and the organisation of a programme of public works, as was suggested in the memorandum, would doubtless prove useful, but it was evident that, since the last session of the Governing Body, the unemployment crisis, even in Europe, had become more acute. It must not be imagined that, because certain industries for their own particular needs had engaged a larger number of workers, the crisis had reached its apex and that a general improvement was about to be realised. Under these conditions, it was necessary to enquire what were the real causes of the further aggravation of the crisis, and this was a point with which the Office memorandum might have dealt more fully. It was true, as the Director had pointed out, that the financial aspects of the problem, and, in particular, the question of Customs, did not fall within the competence of the Office. But the
International Labour Organisation could not disregard the fact that the crisis was being aggra-
vated as a result of the reduction of wages, which entailed a decrease in the consuming capacity of
the masses in all countries. To reduce wages was an even greater mistake in time of crisis than in
normal times. A study of the possibility of finding work for the unemployed showed that the
demand for labour could only be increased by an increase in the consuming capacity of the workers.
Even without going beyond the European aspects of unemployment, the Office could not fail to
take this important factor into account.

Moreover, a careful study of the situation in the last few months showed, not only a decrease in
the consuming capacity of the masses, but also an increased tendency towards national
protectionism and of measures to reserve the markets of a country for its own national industries,
which amounted in fact to economic war. The International Labour Office could not refrain from
commenting on such a situation, which, if it continued, would render nugatory the efforts which
were being made to remedy the crisis. It could not be maintained that these were only for
which the Governing Body was not competent, even if the deliberately calculated decisions which
it had taken in the past had prevented the Director from dealing with the direct causes of the crisis
and the remedies which should be applied. The Governing Body could not fail to realise that if,
at the present moment, within a few days of the meeting of the Commission of Enquiry for
European Union, it refused to face the problem by calling attention to the dangers of the situation,
yet another failure would be registered; and that succession of failures was not calculated to inspire
confidence in the masses. Unemployment was a painful reality, and practical solutions must be
found for it. The two remedies proposed by the Office might be justified, and personally he was
glad they had been suggested; but they could have no effective result unless something was done
to combat the ultimate causes of the crisis.

The general question of unemployment would be discussed at the Conference; but the
Commission of Enquiry for European Union would have met before then, and if it did not devise
some means of bringing immediate relief to the unemployed of Europe, the discussions of the
Conference would produce little effect on the minds of the workers.

Mr. LAEMMLE said that the unemployment situation as a whole continued to be extremely
grave. Since January it was true that a slight improvement had been apparent on the principal
Stock Exchanges; but, even if a new economic cycle were about to be inaugurated, no hope could
be held out that the effect of the revival would make itself felt on the labour market for a long
time to come. The immediate future, therefore, remained gloomy; the financial burden of
unemployment insurance and relief of all kinds afforded to the workers was still very heavy, and
might even be still further increased.

It was impossible to ignore the moral effect which the continuation of the crisis would
have on the workers and, in particular, on young persons. These considerations had led the
Committee set up in Germany to study the unemployment problem to propose that, during
the crisis, hours of work should be reduced by law according to the varying conditions existing
in the various branches of industry. The German Government had not yet taken a decision
on this point; the main question was whether the reduction in hours of work would or would not
be compensated by an increase in wages. If wages were not increased purchasing power
would be lessened, and if they were increased, costs of production would rise, and competition
would become more difficult. Either of these developments might be a fresh cause of unem-
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The memorandum submitted by the Office proposed a series of immediate remedies which
it was not suggested would entirely eliminate unemployment, but which represented interesting
practical suggestions. Different opinions might be held as to the immediate and practical effect
of the proposed measures, and it might be asked, for example, how far the proposed Labour
Exchange would contribute effectively to restore equilibrium in the labour market. The suggested
programme of public works appeared to be a more satisfactory proposal, and it would be
remembered that the German Government representative had already laid stress on this aspect of
the problem at the January session of the Governing Body.

The importance of the Office proposals did not so much reside in their details as in the
desire which they showed to quit the field of theoretical discussion and to deal with the practical
aspects of the question. It was to be hoped that the Commission of Enquiry for European Union
would also be inspired with a desire to find practical solutions.

Mr. Schürch said that, when unemployment had been discussed at the January session,
the Committee's report had been criticised as being too theoretical, but, now that the new
memorandum put forward concrete suggestions, it was criticised again. No illusions should be
entertained as to the immediate realisation of the proposed solutions, but it was satisfactory
that, on this occasion, practical proposals had been put forward.

Although it might be true that the unemployment crisis could only be finally solved on
worldwide lines, that did not mean that measures which might be taken in Europe on a continental
or national basis should be neglected. All possible measures which might result in a decrease
of unemployment should be put into operation.

It had been suggested that the remedies put forward in the memorandum would encounter
financial difficulties. That might be true for certain countries, but it could not be denied that
sufficient capital was available in Europe to carry out the programme proposed by the Office. What was required was increased international confidence. It was possible that the sub-committee of three members which would be set up to collaborate with the Governing Body might be in a position to bring together the countries with capital available and those whose financial situation constituted a real obstacle. Finally, it might perhaps be well to add to the Director's proposal concerning the placing of workers and emigration the words "and in the colonies of European countries". There were, in fact, opportunities of finding work for unemployed persons in the colonies.

M. Lambert-Ribot noted, in the first place, that the Director's memorandum contained certain rather theoretical formulae, and that certain statements, with regard to which the Unemployment Committee in its report had made prudent reservations, were made in a much more definite manner in the memorandum.

That was, however, no reason why something should not be attempted; he had no objection to an endeavour being made to settle the question of equality of treatment of workers and steps being taken concerning finding employment, insurance and relief. The Employment Exchange would doubtless prove useful as a centre of information. But, contrary to M. Jouhaux's opinion, it would not seem desirable to entrust it with executive functions. It would doubtless be better to leave such measures to the bodies already in existence.

M. Picquenard had already admirably said all that could be said on that subject.

The memorandum also dealt with the question of public works, which were generally recommended as a remedy in normal times and still more so during a crisis, provided that they had been planned in advance. Two things were, however, necessary: they must be economically productive and also, before their international aspect was considered, they must meet the real and often urgent needs of certain national economies. It would seem difficult to take any steps of this nature on an international plan as long as an economic crisis existed in the various countries.

Since it was essential that some practical action should be taken, the urgent needs of a certain number of European countries should be considered in order that means might be found to assist them. That was, in effect, the object of the League of Nations, the International Institute of Agriculture and the Committee which was at present meeting to study the question of setting up an International Institute of Agricultural Credit. The same applied to Industry. The public works which might be undertaken in certain countries might serve to improve the ground by irrigation or draining or to construct roads, railways, and so on.

It might be suggested that those were purely national necessities which should be dealt with in the usual manner. That was true in theory, perhaps, but it must be remembered what was at present happening as regards agricultural credit in countries in Eastern Europe. The credit of those countries was insufficient to enable them to obtain loans at reasonable rates of interest which would allow the work which they undertook to be profitable, and they could only obtain the credit they required if they could give guarantees that the work which they desired to undertake would really prove useful and profitable. If it was desired to assist them internationally, it was essential, in the first instance, to consider the general economic utility of the work proposed and to decide whether such work would provide sufficient security to allow the usual rates of interest demanded for such countries to be decreased by the action of international solidarity.

It should not be impossible to create such international solidarity, but in order to do so it would be necessary that international meetings of the kind proposed by the Director should decide on the utility of the proposed construction of waterways, roads and railways.

In the industrial sphere, works of this kind should find their place in the international arrangements through which production would gradually be organised in Europe and the value of which, in certain cases, might be greater than that of purely private arrangements. As regards electricity, for example, international solidarity might be displayed in favour of a particular country whose waterfalls had not yet been utilised. In the event of plans for the utilisation of water-power not being considered by the international advisory bodies as offering sufficient justification for financial assistance, it was of course obvious that attempts might yet be made to give effect to them, apart from the proposed scheme of collaboration, and it would no doubt happen that a country would not consent to become entirely dependent on a group of other countries.

Generally speaking, not many of the kinds of work referred to in the Office memorandum were, economically speaking, immediately practicable or profitable. As regards automatic coupling, for example, M. Müller himself had enquired where the necessary funds were to be found for its adoption, and in any case it was doubtful whether it would show any profit. As regards construction of roads, preliminary studies would first have to be made by the various countries in order to draw up schemes of work for which international credits would be necessary. Only then would it be possible, after comparing the schemes, to contemplate, as a last step, international action of the kind to which the Director referred.

The ideas which M. Jouhaux had put forward on the question of wages seemed to be an economic paradox. It was obvious that throughout the world an effort was being made to reduce the cost of production, not in order to reduce the purchasing power of the workers, but in order to allow consumers in general to purchase what they required under better conditions. M. Jouhaux had also referred to the question of Customs tariffs, which he regarded as a manifestation of
economic war. But, in point of fact, Customs tariffs were a defensive weapon and nothing more. Moreover, the remedy for the present crisis was to be found neither in an increase nor in a reduction in Customs barriers, but in the conclusion of economic agreements, and as soon as such agreements were concluded, Customs questions would be found to be of secondary importance and would be easily settled.

M. Krueger said that, in his opinion, the only remedy for unemployment consisted in steps of an economic nature which, owing to their character, did not fall directly within the scope of the International Labour Organisation. The proposals of the Office were doubtless interesting, but he did not think they were of great practical value, for they did not take sufficient account of realities.

The real solution of the question was to be found in re-establishing the normal situation of the money markets. It was necessary, as the British Government representative had pointed out at the January session, to secure an adequate distribution of gold throughout the world. Unfortunately, the transfer of gold was only too often decided by political and not by economic considerations. This question obviously did not fall within the immediate scope of the Office, but it was nevertheless possible to call the attention of the Commission of Enquiry for European Union to the question, pointing out that, although the International Labour Organisation had no concrete proposal to put forward, it did not consider that a solution to the crisis could ever be found unless financial problems were solved on a sound economic basis.

It should further be remembered that, however important purely economic remedies might be, they were not sufficient. A profound change of heart was needed. Only a change of outlook would make possible the economic measures which were necessary to remedy so acute a crisis as that through which the world was passing.

He proposed that, if the memorandum were to be submitted to the Commission of Enquiry for European Union, it should be accompanied by an account of the discussion which had just taken place in the Governing Body.

M. Sokal proposed that the Governing Body should adopt the following solution:

"Since it seems probable it will be materially impossible for the Commission of Enquiry for European Union to consider the question of unemployment at its May session: The Governing Body authorises the Director to submit the memorandum on unemployment to that Commission in his own name as a preliminary document, and decides, at the same time, to place the question of unemployment on the agenda of one of its next sessions."

The May session of the Governing Body would be a very short one, and the discussion would therefore probably not be resumed until the October session.

M. Lambert-Ribot supported M. Sokal's proposal, and requested that the memorandum should be submitted to the Commission of Enquiry for European Union as a document prepared by the Office and should be accompanied by the Minutes or an analysis of the discussion which had just taken place in the Governing Body in order that the League of Nations might realise the great interest which the Governing Body had taken in the question.

Mr. Kirkaldy said that, since an account of the discussion was to be attached to the memorandum, he wished to state that, in his opinion, the proposals concerning automatic coupling were premature while that subject was under consideration by a Committee of the Governing Body.

The Director said that the memorandum which he had prepared for the Commission of Enquiry for European Union had been criticised by various members of the Governing Body on opposite grounds. He would remind the Governing Body in what spirit the memorandum had been drawn up. He had endeavoured, in this case as in all others, to see that the Office did what it had been instructed to do. It had been instructeled to before the Commission of Enquiry for European Union practical proposals on subjects which fell directly within the competence of the Office and which were of a specifically European character. The two proposals which appeared as the conclusion of the memorandum exactly corresponded to those conditions. The reason why he had not dealt with the questions which M. Jouhaux and M. Lambert-Ribot would have wished to see discussed was that the Unemployment Committee had excluded them from the agenda of the Governing Body.

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Practical solutions were not necessarily solutions which could be applied immediately, or would be immediately effective. For the "European Labour Exchange", a period of organisation would be necessary. Its existence would not mean that unemployment would cease all at once. The Director had pointed this out more than once in his memorandum. It had been said that the European Labour Exchange would produce appreciable results. Further, the difficulties which workers in certain occupations experienced in periods of crisis, and even in normal periods, in going abroad to complete their training, as well as the controversies which arose between one country and another concerning foreign workers who were expelled or who could not be admitted, should also be taken into
account. If the Commission of Enquiry for European Union set up the mixed sub-committee, which the Director had suggested, and which might be enlarged, a first step towards the settlement of all these problems would have been taken.

As regards the programme of international public works, too much importance should not be attached to the definite schemes which he had mentioned. They had only been given as examples. Incidentally, he had not invented them; they had been suggested in certain publications. He had not said the time was ripe for them; the extent to which they were expedient or immediately practicable was a matter for consideration. Here, again, the main point was the proposal to set up a sub-committee of the Commission of Enquiry for European Union, on which the International Labour Office might be represented for labour questions. The sub-committee could be asked to consider the whole question of public works, international public works or national public works assisted by international credits. The Director had anticipated his critics by pointing out in the memorandum that such works should be economically profitable. The question which the sub-committee would have to consider, if it were set up, was whether there would not be great difficulty at the present time in finding international credits for national public works.

The main thing about the suggestions made in the memorandum was, in his view, that they were practical, even if not immediately effective. They provided a definite basis on which to work, and to try to create something of a European spirit. It was for the Commission of Enquiry for European Union to consider them with that aspect in mind.

He saw no objection to the procedure proposed by M. Sokal, according to which his memorandum would be sent to the Commission together with an account of the discussions on it which had taken place in the Governing Body.

M. JOUHAUX pointed out that what he had said concerning the reduction of hours of work was not inspired specially by his desire to find a remedy for the present crisis, but was based on a general principle.

He wondered how the two proposals contained in the memorandum would be received. It might perhaps have been desirable, since the memorandum was in any case to be submitted to the Commission of Enquiry for European Union, that the Governing Body should have expressed its agreement in principle with the proposals.

M. PICQUENARD, in order to reach an agreement, proposed that M. Sokal’s resolution should be confined to a simple decision taken by the Governing Body to submit the Office memorandum with the Minutes of the discussion which had just taken place in the Governing Body to the Commission of Enquiry for European Union. It was, in his opinion, unnecessary to refer to the fact that the Committee might be unable to consider the question of unemployment at its May session. It also seemed unnecessary to point out that the question was still on the agenda, since it was obvious that the question of unemployment would be one of the most serious preoccupations of the Governing Body of the International Labour Office as long as the crisis continued.

M. Sokal accepted M. Picquenard’s proposals.

The DIRECTOR, in reply to M. Jouhaux, pointed out that, if the Governing Body had been able to discuss the two proposals contained in the memorandum thoroughly, it might have been able to state its opinion on them. If the Commission of Enquiry for European Union thought they were likely to lead to useful practical collaboration, it could make proposals for action, and the Director could bring them before the Governing Body.

The Governing Body, by sixteen votes to nil, instructed the Director to transmit the memorandum on unemployment to the Commission of Enquiry for European Union, together with the Minutes of the discussion which had taken place in the Governing Body.

(The session closed at 8.30 p.m.)

INTERNATIONAL LABOUR OFFICE.

Report of the Unemployment Committee.

TEXT AMENDED AND ADOPTED BY THE GOVERNING BODY AT ITS FIFTY-FIRST SESSION,
GENEVA, JANUARY 1931.

I.

The Committee, which is greatly concerned at the increasing gravity of the unemployment problem and its consequences, both from the humanitarian and social point of view and from the point of view of the world economic situation, considers it indispensable to study the causes thoroughly and to try to find remedies capable of practical application.
Considered as a whole, this exceptionally grave unemployment appears to be the cumulative effects of economic and financial disturbances likely to affect more especially certain countries and certain industries. Among these disturbances, there are some which recur with a certain regularity while others have been introduced into the economic system of the world after the war-time and post-war upheavals.

Without wishing to make either a complete or a systematic enumeration, the Committee, desirous of showing the complexity of the problem, draws attention to the following factors which, rightly or wrongly, are often considered as causes of unemployment:

(a) Excessive production of certain agricultural products said to result partly from exceptionally good harvests and partly from an increase in the amount of cultivated land due to faulty estimates of the demand, which is sometimes diminished by under-consumption, leading to inability to sell, to a decrease in the purchasing power of the rural population and consequently to a contraction of outlets for industrial products;

(b) The maladjustment between the production of certain industrial products, such as raw materials and the industrial equipment, and the markets’ power of absorption;

(c) The alleged inelasticity in the links whereby effectively purchasing power, as expressed in currency and credit, is held by some to be connected with the world’s available gold supply and to have been a factor in the unprecedented fall in world prices;

(d) Lack of confidence which is often said to be the cause of an inadequate distribution of gold, of an imperfect circulation of capital and a restriction in the granting of credits and which by preventing the financing of countries which are in need of capital and the development of the purchasing power of consumers is said to have made it impossible to restrict the fall of world prices;

(e) The fall in the price of silver which is said to have brought about a considerable decrease in the purchasing power of countries whose currency is based on that metal, a purchasing power already reduced by the political conditions in some of those countries;

(f) Too high a cost of production in certain countries as a result of physical, geographical or other conditions;

(g) The disturbances in international commerce caused not only by the development of new industrial areas but also by artificial barriers put in the way of international trade and by the difficulties said to be associated with the problem of political debts;

(h) The difficulties in the way of adjusting movements of population to the possibilities of exploiting the resources of the world;

(i) The disorganisation of the labour market caused by the extra-rapid development of labour-saving machinery and of the process of rationalisation.

II.

These various causes of unemployment, which are in some cases generally admitted and sometimes the subject of controversy, should be thoroughly studied with a view to bringing out their real importance as well as the importance of methods suitable for mitigating them. These investigations will be carried out by the International Labour Office in co-operation with the League of Nations, experts and other organisations being consulted, if necessary, so as to show in a systematic form the known elements and factors of unemployment. The Committee urges, however, that the International Labour Organisation should immediately strive more than ever, with the help of the employers’ and workers’ organisations represented in it, to induce Governments to take all immediately practicable steps to preserve the world of labour from the consequences of unemployment.

The Committee therefore desires that the attention of Governments should be called with insistence to the following points:

(a) The need for the organisation of the labour market by public employment exchange services which should collaborate as effectively as possible in the drawing up of systematic schemes for the re-employment of the unemployed and the re-adaptation, if necessary, of discharged workers to the technical requirements of production

(b) The need of developing existing systems of relief and insurance against total unemployment and short-time and the creation of insurance systems where they are not yet in existence, with the means necessary to ensure that they are immediately financed by advances from the State, every effort being made to adapt them to the essential needs of the workers without interfering with the re-employment of the workers in industries capable of activity either at home or abroad.

(c) Undertaking extensive public works of national utility in accordance with programmes previously drawn up and at the same time expanding orders for supplies, so as to counteract the effects of the temporary falling-off of activity in private enterprise; the possibility of Governments coming to an agreement through the appropriate organs of the League of Nations with a view to joint execution of extensive public works of an international character;

(d) International co-operation which will make possible the free movement and placing of men in unexploited regions capable of utilising their activity, and with a view to increasing markets;

(e) The development of suitable methods for ensuring co-operation among the different national economic systems.
III.

With regard to the measures to be taken on the subject of the length of the working day or week and the remuneration of labour, in relation to unemployment, the Committee takes note of the fact that the representatives of the employers and workers hold different opinions at the present time.

The representatives of the workers, while maintaining their demands in connection with the forty-hour week, ask for:

(a) A reasonable shortening of the working day or week, taking into account the increase in output obtained by improved methods of production;

(b) Seeking suitable means of raising the remuneration of labour in countries where it is most inadequate at the present time with a view to eliminating one factor of unfair competition and to increasing the consumptive capacity of certain markets, without neglecting the development of social insurance which preserves a certain power of consumption to workers prevented from earning their living by causes beyond their control.

The employers consider, on the contrary, not only that the measures suggested by the workers would be of no avail, but that they would produce most serious disturbances. They are convinced, on the other hand, that one of the essential measures to be adopted in the effort to restore economic equilibrium should be a reduction of the cost of production and the expenses of distribution so as to enlarge markets by increasing the purchasing power of the whole body of consumers.

As a result of this difference of opinion the Committee invites the Office to pursue its investigations in order to lead at a later date, if possible, to a narrowing of the gap between the two points of view and to positive action.


ANNEX 15.

ECONOMIC DEPRESSION.

MEMORANDUM BY THE SECRETARIAT OF THE LEAGUE OF NATIONS.

Note by the Secretary-General:

The Secretary-General has the honour to communicate to the Members of the Commission a brief review, prepared by the Secretariat, of the world economic depression, with special reference to Europe. This document is submitted to the Commission in accordance with Resolution No.VI, adopted at its January session\(^1\), requesting the Secretariat to acquaint it at the May session with the first results of the work undertaken by the Economic and Financial Organisation on this subject.

Report on Enquiry into Course and Phases of the Present Economic Depression.

INTRODUCTORY NOTE.

The Commission of Enquiry for European Union, at its last session, requested the Secretariat of the League of Nations to "acquit at the May session with the first results of the work undertaken by the Economic and Financial Organisation and the International Labour Office referred to in Resolution 16 of the eleventh Assembly".

The relevant passages of the resolution of the Assembly to which allusion is made read as follows:

"The Assembly . . . resolves that the Economic and Financial Organisation of the League . . . should undertake the study of the course and phases of the present depression and the circumstances which led up to it, and for this purpose it should collect the information compiled by institutions already in existence in different countries, centralise such information and, where necessary, fill up any gaps that exist.

"It also recommends that, in connection with these investigations, account should be taken of the results of the enquiry conducted by the International Labour Office into

\(^1\) See Official Journal, February 1931, pages 209 and 473.
unemployment and the work of other competent international bodies on this subject, in order that the Economic and Financial Organisation, having collected all the available information, may examine at the right moment the advisability of international action, due regard being had to the economic, financial and demographic aspects of the labour problem, including the question of raw materials.

In execution of this recommendation, the following action has been taken. A document setting out the plan of procedure proposed was submitted to and approved by both the Economic Committee and the Financial Committee.

A meeting was held on March 2nd of representatives from a number of the national institutions alluded to above. At this meeting, the general plan or outline of the report to be prepared was agreed, and a number of the institutions further undertook to prepare brief special notes as material for this report. These notes are to be drafted on an approved scheme, and should reach the Secretariat during the course of the present month. The question will further be discussed by the Economic Consultative Committee when it meets.

It is proposed to hold a further meeting of national institutes in the early summer and to submit a report to the Assembly in September next.

It will be observed that the Economic and Financial Organisation, according to the last part of Resolution 16 of the Assembly quoted above, is to examine into the advisability of international action concerning unemployment when all the available information has been collected. In accordance with this instruction, the Economic Committee decided to consider this question when the definitive report on the course and phases of the present economic depression is ready.

In view of the fact that the final report will not be finished for some months yet, it has been thought that the Commission of Enquiry for European Union might desire to have laid before it a brief preliminary note on certain aspects of the present depression. It should be made clear that the attached note on this subject is essentially preliminary in character, and has been drafted before either the study of the information available or the consultations envisaged have been completed. It has been drafted, moreover, with special reference to European conditions. The depression is, however, worldwide, and it was impossible to confine the report strictly to Europe.

I. THE ECONOMIC SITUATION IN 1928.

(a) Economic Progress up to 1928.

The war and the political changes and disturbances immediately following it affected in many ways the basic conditions of economic life. State debts had been enormously increased, new frontiers had been created. Russia had changed its economic and social system, the United States of America, from being a debtor, had become a credit or nation, second in importance only to Great Britain. New industries had been built up in overseas countries, while in Europe an enormous destruction of capital had taken place. These and other new conditions called for a profound readjustment of the whole economic life. The necessary adaptation was, to a large extent, effected during the first five or six years after the war, but it could not be completed in so brief a period of unsettled years. At the beginning of 1925, the monetary systems of a number of European countries were still disorganised. Inflation continued in some countries, while others pursued a more or less deliberate policy of deflation. But, in view of difficulties which had to be faced, the degree of "normalisation" and balance in economic life obtained by 1925 or 1926 was perhaps more complete than might have been expected.

Indeed, this period of recovery laid the foundations for a world economic progress of a rapidity which had perhaps never before been witnessed. In the three years 1925 to 1928, the output of foodstuffs and raw materials increased by 8 per cent and the quantum of world trade by about 15 per cent. It is probable that the output of manufactured good rose at least as fast as that of raw materials—i.e., 9 per cent.

The progress was especially rapid in Europe. The increase in the production of raw materials on that continent was second only to that of South America, while the production of raw materials and foodstuffs taken together advanced more rapidly in Europe than in North America, Africa or Asia. Further, there is reason to believe that the activity in manufacturing industries increased at a higher rate in Europe than in other continents.

During these three years from 1925 to 1928, the readjustment of economic life to the new conditions continued. Almost all countries which had not already done so placed their currency on a gold basis, thus eliminating violent exchange and price fluctuations. Equally important is the fact that international capital and credit transactions on a commercial basis, as distinguished from State borrowings, reached large dimensions. British, American and French capital—to some extent also capital from Sweden, Switzerland and the Netherlands—flowed into the countries suffering from a shortage of capital on the Continent of Europe and elsewhere, making possible rapid readjustment and reorganisation of industry and trade. In 1928, the net foreign lending of capital-exporting countries amounted to about $2,300 millions, of which a little more than 40 per cent went to Germany. Indeed, a casual observer of world economic conditions in 1928 might well have come to the conclusion that everything was, if not well, at least improving rapidly, and that the prospects for the future were, in most countries at any rate, rather reassuring than otherwise. It is true that unemployment figures were in most countries substantially higher.
than before the war, but this was partly due to more complete and reliable statistics; it was partly due to the first effects of the process of rationalising industry, though in some countries the causes were more profound.

(b) Maladjustments in Production and Trade.

But, in fact, the position was much less stable and balanced than it appeared. It is quite possible that the impression of "normality" was to a large extent due to the fact that certain of the readjustments which new and profound changes in the structure of economic relations called for had not been made. Thus, so long as a tendency to partial over-production is met by increasing stocks the day when a troublesome shift in production has to be made is put off. In the case of many commodities this is what happened, stocks growing to unusually high levels.

A second factor which helped to conceal the elements of maladjustment in 1928 is the fact that in several countries, especially in the United States, business was enjoying a boom similar to those experienced during pre-war business cycles—e.g., in 1899 and 1906. This boom exercised a certain stimulating influence in other countries. The maladjustments in industries producing raw materials and manufactured goods did not make themselves fully felt so long as this state of exceptional demand lasted.

It may be convenient to review, first, the maladjustments in the production of crude food products and to begin with cereals. Here a tendency to over-production was evident in 1928. Supply tended to rise rapidly under the influence of several different factors. First, the technical improvements in the production of cereals in the last two decades, although not subject to so much newspaper discussion as the so-called rationalisation in manufacturing industries, had been of far-reaching importance. Farmers were better educated and used better methods of cultivation than before the war. The quality of the plants and the methods of fertilisation had been improved owing to a more lavish and well-balanced use of artificial fertilisers. In many countries the use of tractors, motor-harrows and ploughs and combined harvester and threshing machines had increased rapidly. The number of tractors in the United States of America was almost trebled between 1920 and 1928.

These changes tended in certain cases to increase the output of cereals on land already under cultivation, in others to make possible and profitable the cultivation of new land. The shortening from 130 to 100 days of the period required for wheat to mature had moved the northern frontier of wheat cultivation in Canada 200 miles north. Further, the cultivated area had already grown in the overseas countries during the war owing to the insistent demand from Europe. It is no wonder, therefore, that the output of cereals expanded rapidly in several of these countries. In Canada, the average for the years 1924 to 1928 was 433 million bushels, as against 197 million bushels in the period 1909 to 1913. In the Argentine, the corresponding figures were 250 and 147; in Australia, 144 and 90, and in the United States of America, 841 and 690 million bushels. Although the production of other cereals grew less rapidly, the total output of all cereal foods was certainly increasing considerably faster than the world population.

The tendency towards increased supply of cereals available for human consumption was strengthened by the fact that the number of horses in the world was reduced, their place being taken by motor-cars and tractors. Further, live-stock was fed relatively less on cereals and more on oil-cake, etc.

While production increased, for the reasons indicated, chiefly outside Europe, countries in Europe gradually restored their acreage under corn. After 1925, when the pressure made itself felt, tariffs, which at that date were generally lower than in 1913, were gradually raised, and in some cases export bounties were granted. These measures, which were intended principally to give economic assistance to the farmers, had the unfortunate effect of increasing output of the very goods—cereals—for which the tendency towards over-production was stronger than for most other food products.

During the period in question, not only supply but also demand did, of course, rise. Population continued to grow, although less rapidly than before the war. However, the consumption per head did not, on the average, increase. On the contrary, in the United States and several other countries the consumption of bread per individual declined as the standard of living rose and less muscular effort was needed in work. People needed less calories and could afford a more varied diet. According to a recent unofficial estimate, which does not claim to be more than approximate, there was a reduction in wheat consumption per head between 1909-1913 and 1925-1928 of 5 to 6 per cent in Germany and Great Britain, to 10 to 11 per cent in France and over 14 per cent in the United States.

The result of these changes was, as already indicated, a tendency to over-production of cereals. In 1928, this tendency was beginning to have its effects. Cereal prices were about as...
high in relation to the pre-war level as those of goods in general, but the trend of prices was downwards and stocks were rising. The good crop of 1928 brought the carry-over of wheat in December up to as much as 15.8 million tons, compared with 8.8 million tons three years earlier. Incomes of farmers naturally began to fall, which was all the more serious, as they had not, like incomes derived from manufacturing industries, been rapidly rising since the war. The financial position of many farmers was weak. In some countries money had been borrowed when its value was lower than in 1928, and in others the rate of interest was several times as high as before the war, two circumstances which contributed to weaken the financial position.

The situation was quite different as regards animal foodstuffs. Consumption of meat, butter, eggs and cheese grew rapidly as general purchasing power rose. Production increased also, but it was less affected by technical changes and artificial stimuli than the output of cereals. Prices in the period 1924 to 1928 were relatively higher than for cereals, and the economic position of farmers in countries specialising in animal foods was relatively favourable.

Sugar was subject to tendencies similar to those described for cereals. Rapid technical improvements in countries producing cane sugar, especially Java, led to a great reduction in costs and an increase of output to almost double the pre-war figures. In many European countries, beet-sugar production became unprofitable, but was maintained by various forms of duties and State subsidies. The tendency to over-production was very obvious in 1928, and prices were falling.

Among the leading colonial products, tea held a special position, its price being relatively high, in spite of a substantial increase in production. For cocoa and coffee, on the other hand, the tendency towards over-production was strong and prices showed a downward trend. Coffee stocks were accumulating rapidly, and the outlook for countries dependent largely on the coffee crop was clearly unfavourable.

**Table I. — Stocks of Certain Staple Food Products.**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>1924</th>
<th>1925</th>
<th>1926</th>
<th>1927</th>
<th>1928</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wheat (bushels, 000,000's)</td>
<td>192.2</td>
<td>139.3</td>
<td>145.7</td>
<td>181.1</td>
<td>227.5</td>
</tr>
<tr>
<td>Sugar (long tons, 000's)</td>
<td>2,758</td>
<td>3,799</td>
<td>3,034</td>
<td>4,062</td>
<td>4,727</td>
</tr>
<tr>
<td>Coffee (bags, 000's)</td>
<td>9,663</td>
<td>9,547</td>
<td>10,901</td>
<td>18,388</td>
<td>18,723</td>
</tr>
</tbody>
</table>

1 August 1st.
2 January 1st of following year.
3 Exclusive of interior stocks in Cuba.
4 July 1924.
5 Including 585,000 bags in the interior of Rio de Janeiro. Figures for stocks in this district were not available for earlier dates.


Thus, it would appear that tendencies towards over-production of cereals, sugar and certain colonial foods were evident, especially after the good harvest of 1928.

In the case of raw materials, the position was less clear. In many countries at any rate—the United States may be an exception—the prices of raw materials had been relatively low compared with those of manufactured goods during the whole period since the post-war slump of 1920-21. During the years immediately preceding 1928, however, this price discrepancy has been reduced. If for the majority of the producers of raw materials prices covered the costs of production, this price discrepancy would constitute no proof of over-production. Moreover, the reduction in the discrepancy would suggest that, in so far as it was an indication at all, the risk of over-production was gradually diminishing up to about the end of 1928. However, in the light of the subsequent experience it is evident that, for certain raw materials, there was already a tendency for production to exceed the demand. The following table showing the growth of stocks illustrates the tendency towards over-production which existed in certain cases.

**Table II. — Stocks of Certain Staple Raw Materials.**

<table>
<thead>
<tr>
<th>Commodity</th>
<th>1924</th>
<th>1925</th>
<th>1926</th>
<th>1927</th>
<th>1928</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lead (long tons, 000's)</td>
<td>78</td>
<td>93</td>
<td>113</td>
<td>139</td>
<td>144</td>
</tr>
<tr>
<td>Rubber (long tons, 000's)</td>
<td>181</td>
<td>182</td>
<td>259</td>
<td>272</td>
<td>239</td>
</tr>
<tr>
<td>Cotton (bales, 000's)</td>
<td>2,758</td>
<td>3,274</td>
<td>5,440</td>
<td>7,471</td>
<td>5,015</td>
</tr>
</tbody>
</table>

1 Lead and rubber: end of year. Cotton: stocks on August 1st.
2 United States of America.
3 Total supply outside plantations.

Source: London and Cambridge Economic Service, Special Memorandum No. 32.
The increase in output and stocks of these raw materials was accompanied by a fall in price. Even in the case of some raw materials which did not fall in price, there may have been some tendency towards over-production. Had this not been so, prices of raw materials might have been expected to rise during the boom period. It seems impossible to escape the conclusion that, in respect of the production of certain raw materials, as also of certain crude food products, forces were at work—forces which had very little to do with the disturbances caused by the war—which were bound to create a serious maladjustment as soon as the policy of increasing stocks broke down.

Table III. — World Smelter Production.

<table>
<thead>
<tr>
<th>Commodity</th>
<th>1925</th>
<th>1926</th>
<th>1927</th>
<th>1928</th>
<th>1929</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper</td>
<td>1,418</td>
<td>1,485</td>
<td>1,551</td>
<td>1,756</td>
<td>1,981</td>
</tr>
<tr>
<td>Tin</td>
<td>150</td>
<td>152</td>
<td>163</td>
<td>185</td>
<td>195</td>
</tr>
<tr>
<td>Lead</td>
<td>1,560</td>
<td>1,654</td>
<td>1,760</td>
<td>1,755</td>
<td>1,802</td>
</tr>
<tr>
<td>Spelter</td>
<td>1,133</td>
<td>1,219</td>
<td>1,307</td>
<td>1,406</td>
<td>1,459</td>
</tr>
</tbody>
</table>

Source: League of Nations, Statistical Year-Book.

The maladjustment in the manufacturing industries was of a somewhat different nature. It, too, was obscured by the business boom. Technical changes were taking place rapidly, increasing the capacity of production in almost all lines of industry and calling for a deep-going readjustment. It is now evident that this readjustment—e.g., the necessary transfer of labour from one industry to another or the closing down of obsolete and superfluous factories—was only partly carried out.

To the surplus capacity in certain manufacturing industries, due to the above-mentioned circumstances, must be added one of another sort if a true account is to be given of the situation in 1928. The establishment of new national frontiers and tariff barriers after the war had made it difficult or impossible for many manufacturing firms to sell in their former markets. In all European industrial countries certain industries were left with a surplus capacity due to the erection of new tariffs and the raising of the old ones.

A similar development took place already during the war as between Europe and the overseas countries and continued afterwards. Cut off from European supplies, these countries developed their own manufacturing industries, and demand for European goods was thereby restricted. This was felt, above all, by Great Britain, which had organised its industry for a large export to these countries. Even by 1928, complete adjustment to these new conditions had not been accomplished.

Finally, a maladjustment in the relation of the price and wage-levels in certain countries to those in other countries still existed. Thus, Great Britain and Italy had returned to the gold standard at a somewhat higher rate than that which corresponded to their interior price- and wage-levels. The corresponding deflation of domestic values proceeded very slowly, and does not seem to have been finished in 1928. On the other hand, domestic prices and wages in France and Belgium were still relatively low, expressed in gold.

In view of these circumstances, and the lack of balance which they reflect, any factors tending to weaken the force of general industrial activity might be expected to have a more far-reaching effect than they would have had in a better balanced economy.

II. THE TURN OF THE BUSINESS CYCLE IN 1929.

Profound changes in the technique of production, in commercial policy or in the politico-economic structure are usually regarded as being of a different kind from those which are involved in the so-called business cycle—i.e., the recurrence at fairly regular intervals of alternating periods of prosperity and depression. A failure to adapt industry and trade to the former changes is, therefore, often called "structural maladjustment" as distinguished from the maladjustments arising out of the business cycle, with its recurrent booms and depressions. As indicated above, tendencies towards a structural maladjustment had been at work during the years immediately preceding 1929—in some cases they date from many years back—but their existence had to some extent been concealed or forgotten, and their effects partly offset by the business cycle boom in the United States and elsewhere, which exercised a stimulating influence on the world economic situation in general. It is natural that the turn of the business cycle and the beginning of a business cycle depression should open the doors for the delayed effects of the structural maladjustment. This is what happened in 1929 and 1930.

Not all countries experienced a clearly marked business cycle. The boom was accompanied by—perhaps partly caused by—a great expansion of credit. Many countries succeeded in escaping the extreme speculation which was experienced in the United States in 1928-29. Further, in some
countries, unfavourable circumstances, of which some have been mentioned above, had been so potent that the upward swing of business was restrained or retarded. In other countries—for instance, in Germany and Finland—a falling off in business had made itself felt in the beginning of 1928, largely under the influence of credit stringency; while, in certain countries producing and exporting crude food products and raw materials, business in general felt the depressing effects of the heavy drop in the prices of their export goods.

It was in the early autumn of 1929 that the decisive turn came when the boom broke in the United States and gave place to a severe depression. Up to that time world trade and probably world production was expanding; since then they have been rapidly declining.

The Value of the International Trade of Forty-five Countries.

It is neither possible nor necessary to enter here upon a discussion of the various opinions held about the causes of the recurrence of business cycles in general or of the explanation of the turn of the cycle in the United States in 1929. It is more important at the moment to consider, not why a business depression followed upon the boom, but why that depression should be as intense and widespread as it is.

The answer to this question is partly given above: A delayed adjustment to the new structural conditions had to be made. Moreover, the existence of a profound structural maladjustment made the situation unstable and lessened the power of resistance to disturbing and depressing tendencies, more or less connected with the business cycle. An account of the course of events will bring this out more clearly.

During the twelve months before the crash on the New York stock market in October 1929, speculation in shares and real estate was growing more and more intense. Attempts by the Federal Reserve authorities to stop it failed. Money rates on the New York money market rose to exceptional heights. In the first nine months of 1929, call-loan rates averaged 8 to 9 per cent. They rose on occasion as high as 20 per cent. As a consequence, American lending abroad began to fall off and some of the money invested in other countries was called back. At the same time, European funds were transferred to New York, in order to profit from the high interest rates or to take part in the speculation. Money markets in Europe and elsewhere became stringent, discount rates were raised and credit in general was restricted. The effects were, of course, felt most severely in the borrowing countries, which had adapted their economic life and international economic relations to an inflow of foreign capital that was now suddenly checked. Unfortunately, a number of these borrowing countries—the Argentine, Brazil, Australia, Hungary, Roumania and others—were largely exporters of those food products, the prices of which had in previous months been subject to a heavy decline. Thus, in these countries, the supply of foreign exchange fell off for a double reason, and great difficulties in balancing their international accounts arose. The effects of the consequent credit restriction was that large stocks of staple commodities, such as coffee, wheat, etc., were thrown on the market. Potential buyers, however, under the influence of falling prices, restricted credit, and falling stock markets were reluctant to buy, thus further aggravating the fall in the prices of crude food products.
Table IV. — World Market Prices of Crude Food Products.

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Beginning of month</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>September 1929</td>
</tr>
<tr>
<td>Wheat 1</td>
<td>128 7/8</td>
</tr>
<tr>
<td></td>
<td>36s. Id.</td>
</tr>
<tr>
<td>Maize 2</td>
<td>16 1/4</td>
</tr>
<tr>
<td>Coffee 3</td>
<td></td>
</tr>
</tbody>
</table>

1 Winter in Chicago, cents per 60 lb.
2 Yellow Plate in Liverpool, shillings and pence per 480 lb.
3 Rio No. 7 in New York, cents per lb.


At the same time, the situation of manufacturing industries grew worse with the advance of the business cycle depression, in particular, after the crash on the New York Stock Exchange in October 1929. As always happens in such cases, traders and manufacturers reduced their purchases of raw materials, preferring to lower their stocks and buy only from hand to mouth. This curtailment of demand naturally led to a fall in the prices of raw materials also, which became all the more severe as a result of the widespread uncertainty and pessimism which prevailed.

Table V. — World Market Prices of Certain Raw Materials.

<table>
<thead>
<tr>
<th>Commodity</th>
<th>September 1929</th>
<th>December 1929</th>
<th>March 1930</th>
</tr>
</thead>
<tbody>
<tr>
<td>Copper 1</td>
<td>75.4</td>
<td>68.4</td>
<td>69.3</td>
</tr>
<tr>
<td>Tin 2</td>
<td>204.9</td>
<td>179.5</td>
<td>155.0</td>
</tr>
<tr>
<td>Lead 1</td>
<td>25.1</td>
<td>23.9</td>
<td>18.6</td>
</tr>
<tr>
<td>Rubber 2</td>
<td>10.5</td>
<td>7.9</td>
<td>7.5</td>
</tr>
</tbody>
</table>

1 £ per long ton, London.
2 Pence per lb.

Source—Kommersiella Meddelanden, Stockholm.

The mutual actions and reactions of the so-called structural maladjustments and the business cycle recession on one another are difficult to ascertain, but events would appear to have taken some such course as the following. A partial over-production of certain crude food products—wheat, coffee, etc.—led to a drop in their prices and in the incomes of many overseas and Eastern European countries towards the end of 1928 and in the following year. So long as considerable expansion of business and incomes took place in the manufacturing countries at the same time, the world price-level was largely maintained. When, however, incomes in the United States and several other manufacturing countries began to decline rapidly, the offsetting tendency disappeared. Consequently, the expected world income was reduced both in agriculture and in manufacturing industries. Potential buyers acted on the assumption that they would have less purchasing power than usual in the near future and restricted their purchases. In that way, the surprisingly heavy decline of the general price-level became possible. As it proceeded, not only crude food products but also most raw materials fell rapidly in price. Demand for raw products falls off more than consumption during the first period of a depression, as manufacturers and middlemen are anxious to reduce their stocks. Owing to this price reduction, the incomes of primary producers further declined.

The prices of manufactured commodities sank less rapidly, and in consequence, the incomes of the producers of primary commodities declined more rapidly than those of industrial communities—for instance, in Western Europe. The latter, however, could not but feel the effects of a reduced demand from countries dependent upon the sales of primary products. Output of manufactured goods was reduced and unemployment grew to appalling figures.

This difference between the rate of the fall in prices of primary commodities and of manufactured articles respectively is a common characteristic of all economic depressions, and is due, amongst other reasons, partly to the fact that larger stocks of raw materials than of manufactured articles are normally held, and partly to the fact that the agriculturist cannot curtail his production so rapidly as can the industrialist.

It is probable that some business recession would have come in 1929 and 1930, even had there been no structural maladjustments of the sort described above. On the other hand, even
in the absence of a business cycle, a difficult and troublesome readjustment to the new conditions of technique, demand, tariffs, etc., would have had to take place, and this readjustment would have adversely affected business conditions in most countries, at least in 1929 and 1930. It was the simultaneous occurrence of the two kinds of disturbance to which the severity of the depression must be largely attributed. Facts of particular importance would seem to be that international capital movements were completely changed in 1929, and that the countries most sensitive to this change were those which suffered most from the drop in price of important commodities.

While a severe depression in 1930 would seem to have been the inevitable outcome of these circumstances, it does not follow that a decline in the wholesale commodity price level to anything like the actual figures was inevitable.

Table VI. — The Wholesale-Price Level in Certain Countries.

(1913 = 100.)

<table>
<thead>
<tr>
<th>Country</th>
<th>1928</th>
<th>1930</th>
<th>February 1931</th>
</tr>
</thead>
<tbody>
<tr>
<td>United Kingdom (Board of Trade)</td>
<td>140.3</td>
<td>119.5</td>
<td>106.2</td>
</tr>
<tr>
<td>United States of America (Bureau of Labour Statistics)</td>
<td>140.0</td>
<td>123.6</td>
<td>108.1</td>
</tr>
<tr>
<td>Germany (official)</td>
<td>140.0</td>
<td>124.6</td>
<td>114.0</td>
</tr>
<tr>
<td>France (official)</td>
<td>126.3</td>
<td>108.7</td>
<td>97.8</td>
</tr>
</tbody>
</table>


The reasons for this unusually severe drop in prices, which has undoubtedly aggravated the crisis, will be discussed subsequently. Before that, however, it may be well to give a brief account of the actual characteristics of the development in 1930 and 1931.

III. AN ACCOUNT OF THE DEPRESSION.

(a) Production, Trade, etc.

In the autumn of 1929, many competent observers expected the depression to be of short duration. At one time in the spring of 1930 there seemed to be indications that this expectation would be fulfilled. In manufacturing industries in the United States of America there was a substantial revival, which exceeded the ordinary seasonal recovery. This recovery, however, was short-lived, and the depression gathered new strength in the latter half of 1930. The seasonal recovery in the spring of 1931 has been rather less than usual. In other words, production and price curves—after elimination of seasonal variations—have continued downwards, although the rate of decline was considerably checked towards the end of 1930 and the beginning of the present year. It is, however, too early to judge whether this slackening of the pace is due to seasonal influences or for any other reasons is a temporary phenomenon.

The following table shows the quarterly movement of the volume of production in manufacturing industries in some important countries.

Table VII. — General Indices of Production.

(1928 = 100.)

<table>
<thead>
<tr>
<th>Countries</th>
<th>1929</th>
<th>1930</th>
</tr>
</thead>
<tbody>
<tr>
<td>France (Statistique générale)</td>
<td>108</td>
<td>110</td>
</tr>
<tr>
<td>Germany (Institut für Konjunkturforschung)</td>
<td>95</td>
<td>109</td>
</tr>
<tr>
<td>United Kingdom (London and Cambridge Economic Service)</td>
<td>106</td>
<td>108</td>
</tr>
<tr>
<td>United States of America (Federal Reserve Board)</td>
<td>107</td>
<td>112</td>
</tr>
</tbody>
</table>

The reduction in world trade is illustrated by the chart shown above. Different parts of the world and different countries have, of course, been very differently affected. As was to be expected in view of the price movements which have been described, countries producing crude vegetable food products and raw materials seem to have suffered more than manufacturing countries. Consequently, Europe has felt the depression less than other parts of the world. During
the first nine months of 1930, the international trade of European countries fell short of the figure of the previous year by 12 per cent, whereas the reduction in the international trade of extra-European countries declined by 23 per cent. In the last quarter of the year the new reduction was, however, of the same relative proportions in Europe as elsewhere.

Up to that time, European industrial countries were suffering largely from the secondary reactions of the depression which at first affected more directly other parts of the world. As the depression increased in intensity, however, its effects became cumulative and the demand for manufactured goods, not only by producers of primary commodities, but also by the industrial States themselves, gradually fell off. As prices of manufactured goods have fallen relatively little compared with a drop of 40 to 50 per cent in most primary products, Europe evidently is in a position to exchange its manufactured goods against raw materials and crude food products at much more favourable terms than before the depression. To pay for a given quantity of the latter, a much smaller quantity of manufactures has to be exported. It is highly significant that the quantity of imports in European countries in 1930 seems to have been almost as large as in the previous year, whereas the quantity of exports was probably about 10 per cent smaller. As between European manufacturing nations and countries exporting cereals and raw materials, the change in the terms of trade to the advantage of the former is something like twice this figure. To a not inconsiderable extent the reduction of output in European manufacturing industries, and the consequent unemployment, corresponds to the decline in the quantity of such goods which Europe must send to other parts of the world to pay for imported food products and raw materials. That, at any rate, the industrial countries of Europe have not been so seriously affected as most of the rest of the world is corroborated by a closer analysis of the trade in different groups of commodities. According to the somewhat inadequate data available, the reduction in the volume of raw materials imported would seem to be considerably greater in extra-European than in European countries, which indicates a greater reduction of manufacturing activities in the former. Equally significant is the fact that the European exports of manufactured goods to European countries has declined comparatively little in 1930, whereas the export to other countries has fallen heavily.

Those European countries, however, whose economic forces are mainly devoted to the production of cereals have felt the full brunt of the depression and, in the majority of industrial States, there has been an unprecedented falling off in effective employment.

Table VIII. — Unemployment in Germany, Italy and the United Kingdom.

<table>
<thead>
<tr>
<th>Country</th>
<th>1929 February</th>
<th>1930 February</th>
<th>1931 February</th>
</tr>
</thead>
<tbody>
<tr>
<td>Germany</td>
<td>3,050</td>
<td>3,366</td>
<td>4,972</td>
</tr>
<tr>
<td>Italy</td>
<td>505</td>
<td>483</td>
<td>792</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>1,454</td>
<td>1,583</td>
<td>2,697</td>
</tr>
</tbody>
</table>

1 Number of unemployed registered.
2 Number of unemployed registered (totally and partially unemployed).
3 Compulsorily insured workers, wholly or partially unemployed.

In studying such figures, one must bear in mind that, for many reasons, they are not internationally comparable; they should be used rather for a comparison of the situation in the same country at different times. A study of figures from which seasonal variations have been eliminated shows that unemployment increased rapidly in the last quarter of 1930 and did not decline in the first quarter of 1931.

Even if it were possible to compare the national unemployment figures, they would give no certain indication of the relative severity of the crisis in different countries. The number of working hours per week has been reduced far more in certain countries than in others. Further, even if complete and reliable figures for short time and unemployment were available, it would be a mistake to suppose that countries with low figures necessarily suffer less from the depression than others. On the contrary, the national income in manufacturing countries has dropped much less than in cereal-producing countries, many of which have little unemployment.

It would fall outside the scope of this review to analyse the position of the different industries. Some of them are naturally more depressed than others. In 1929 and the first half of 1930, industries manufacturing producers' goods—iron and steel, machines, building materials, etc.—seem to have reduced output less than those producing consumers' goods. Especially in the textile industry, prices and output declined rapidly. After the summer of 1930, the tendency has, however, reversed, and the output of producers' goods has fallen off more than that of consumers' goods. This may be partly due to the fact that, in the first half of 1930, retailers reduced their purchases more than their sales in order to diminish stocks. From the third to the fourth quarter of 1930, the volume of production in the iron and steel industry of the world declined by about one-seventh. This development is, probably, to a large extent, due to the fact that the volume of real investment
kept up fairly well in the first half of the year; the building industry, for instance, was active in many countries. Later, when investments decided upon earlier had been completed and few new ones were started, the production of capital goods naturally declined rapidly. The development was not, of course, the same in all countries. The mechanical engineering industry in a country like the United States, where the boom expansion was great, has reduced its output in 1930 to half the 1929 figure. In Great Britain, the reduction was probably only about 10 per cent, in Germany about 15 per cent, whereas in France it maintained about the same level of production in 1930 as during the previous year. Similarly, the manufacture of motor cars has declined much more in the United States than in Europe—namely, by 37 per cent as against 11 per cent. The reduction was greater in Germany and Italy than in Great Britain and France. Among industries which increased their output during 1930 is shipbuilding; the total tonnage of ships over 100 tons launched rose by 3.4 per cent. In Europe, the tonnage launched was the same as in 1929. It seems certain, however, that it will decline heavily in 1931. In the beginning of that year the capacity of British wharfs was utilised only to 25 per cent. The world tonnage under construction sank from 3.3 million tons measurement at the end of the first quarter of 1930 to 2 million tons at the end of March last.

The violence of the crisis is clearly reflected in the Stock Exchange quotations. The level of shares in general fell from the various maxima reached in 1928-29 by the following percentages in the countries shown in the following table. It should be noted that, in several countries, the decline started as early as 1928.

<table>
<thead>
<tr>
<th>Table IX. — Percentage Reduction in Indices of Stock Exchange Securities.</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
</tr>
<tr>
<td>----------------</td>
</tr>
<tr>
<td>From September 1929 to December 1930</td>
</tr>
<tr>
<td>Per cent</td>
</tr>
<tr>
<td>52.8</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sweden</th>
<th>Switzerland</th>
<th>Netherlands</th>
</tr>
</thead>
<tbody>
<tr>
<td>From July 1929 to December 1930</td>
<td>From September 1928 to December 1930</td>
<td>From March 1929 to December 1930</td>
</tr>
<tr>
<td>Per cent</td>
<td>Per cent</td>
<td>Per cent</td>
</tr>
<tr>
<td>29.3</td>
<td>30.7</td>
<td>52</td>
</tr>
</tbody>
</table>


The stocks of staple commodities reflect at once one of the causal factors of the depression and its gravity. As indicated above, stocks of many commodities were exceptionally high before the autumn of 1929. Since then, the all-round decline in effective demand has been greater than the reduction of supply—in spite of a bad harvest of some cereals in 1929—so that stocks have been rising to still higher levels, as shown by the table below.

<table>
<thead>
<tr>
<th>Table X. — Stocks of Staple Commodities.¹</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Beginning of Month.)</td>
</tr>
<tr>
<td>Commodity</td>
</tr>
<tr>
<td>Cotton (1,000 bales)</td>
</tr>
<tr>
<td>Copper (1,000 long tons)</td>
</tr>
<tr>
<td>Spelter (1,000 long tons)</td>
</tr>
<tr>
<td>Rubber (1,000 long tons)</td>
</tr>
<tr>
<td>Sugar (1,000 long tons)</td>
</tr>
<tr>
<td>Coffee (1,000 bags)</td>
</tr>
<tr>
<td>Nitrate (1,000 long tons)</td>
</tr>
<tr>
<td>Wheat (1,000 metric tons)</td>
</tr>
</tbody>
</table>

¹ Except in the case of sugar and coffee, the series in this table are not as complete as those shown for previous years in Tables II and III.
² Total supply seasonally corrected, exclusive of European and Asiatic mill stocks.
³ Total supply outside hands of consumers, less Japan stocks.
⁴ Estimate of world's stocks by Rubber Growers' Association.
⁵ End of September.
⁶ Provisional.

The violent reduction of wholesale prices during the last two years has come as a surprise to most economic authorities. As prices rose very little during the upward swing of the business cycle, and in some countries even declined, they were led to expect only a moderate price decline during the downward swing. This expectation, unfortunately, was not realised. The heavy drop in the wholesale-price indices has been shown in Table VI above.

Of foodstuff prices, those of cereals have dropped much more than those of animal foods. Since the summer of 1929, the price of Canadian wheat has declined almost 60 per cent. The prices of rice and coffee have fallen by about 50 per cent. As many foodstuff prices began to decline rapidly as early as 1928, the reduction since that year has been even greater. In Great Britain, the whole group of food prices has declined by one-third, in spite of the fact that prices of animal foods, like butter, eggs and cheese, have been fairly well maintained. The price of Danish butter in March 1931 was only 23 per cent below the 1928 average.

But, when discussing food prices, the fact should not be overlooked that world market prices are not at all representative of conditions in most countries, owing to high and—in recent years—rapidly rising import duties on grain. In several European countries the prices of cereals in 1930 were almost as high as in the preceding year. The average price at which wheat has been sold by farmers in many countries on the European continent—but not, of course, in Eastern European countries—has probably not declined more than the prices of animal foods. The cereal-exporting countries have thus suffered both absolutely and relatively.

On the world markets, the prices of raw materials have shown a movement similar to that of vegetable foods. Prices of cotton, raw silk, wool, jute, rubber, hides, tin and copper have all dropped to about one-half those ruling two years ago. The important exceptions are coal and iron and steel. British coal (best large steam D.C.B., Newcastle) was quoted at 13s. 6d. per long ton in 1928, 15s. in 1929, and 13s. 2d. in the first quarter of 1931. British pig-iron has declined by about 50 per cent since 1920, while in the United States and Germany the prices have declined only about 10 per cent. In certain cases, the fact that the prices of some of these commodities, which during the depressions in the last two decades of the nineteenth century used to show reductions of 40 to 50 per cent, have declined relatively so little is largely due to the influence of agreements between producers. In others, such as coal, a contributing factor is that prices were already very low in 1928.

The effects of price regulation by producers is seen very clearly in Germany, where the prices of those raw materials and semi-manufactured goods which are more or less independent of world market prices dropped only about 11 per cent from the autumn of 1929 to the end of 1930, whereas prices governed by world competition fell about 32 per cent. While the prices of the former group were more than 20 per cent over the 1913 level towards the end of 1930, prices of the latter group were 15 per cent below that level.

Wholesale prices of raw materials have, as usual in periods of depression, dropped more than those of finished goods. In this respect, however, conditions vary a great deal from country to country. In Germany, the prices of consumers' goods fell 16 per cent from the autumn of 1929, and the prices of corresponding raw materials 45 per cent. In Sweden and Denmark, on the other hand, the prices of finished goods seem to have declined almost as much as those of raw materials. Other countries show figures lying between these two extremes. In several countries, prices of semi-finished goods have dropped more than those of raw materials.

Price agreements between producers are also partly responsible for the fact that the prices of goods which are not subject to international trade have fallen less than import and export prices.
Retail prices have lagged somewhat behind wholesale prices. A drop in the latter does not usually, at least not in the first instance, lead to a reduction in the retail margin—i.e., the sum the retailer requires in payment for his services. Thus, the percentage drop in retail prices is smaller than in wholesale prices. Further, the retail price at a certain date refers to a commodity which is purchased by the retailer at an earlier date when wholesale prices were higher. There is also an element of monopoly in the position of a retail trader which makes it possible for him to profit from the conservatism of his customers. In food-exporting countries, retail prices of foodstuffs have declined 15 to 20 per cent; in Hungary and Bulgaria, as much as 25 per cent from the 1929 average level. Elsewhere, the reduction has been a little less, chiefly owing to increased import duties.

The shrinking of the volume of international trade has, of course, meant a falling off in the demand for tonnage and brought about a considerable decline in freight rates. The Economist's index number, which lay, on an average, a little under 100 in 1928, was approximately 80 in 1930.

Nominal wages of manufacturing workers have remained almost unchanged in most countries. In Great Britain, the index number shows a drop of 2 per cent. In the United States of America, average weekly earnings had declined by about 10 per cent by January 1931; the reduction in nominal wage rates has, of course, been less. In Germany, where wages rose rapidly between 1926 and 1929, the reduction has since been small. The wage-index for industries producing capital goods rose by about 26 per cent from January 1st, 1927, to January 1st, 1930, and declined only about 1 per cent in 1930. In industries producing consumers' goods and in transportation there has, according to the statistics available, been no reduction at all. Even in countries where the greatest reductions have taken place, they have not completely offset the fall in the cost of living. Consequently, real wage rates of the employed workers have been rising, although probably a little less than the figures indicate, as in some cases wage reductions are not reflected in the wage statistics. In the spring of 1931, the tendency towards wage cuts seems to be gaining strength in several countries.

The influence on prices of the rapid growth in the output of certain classes of products is, however, only one aspect of the situation. Some reference must also be made to the monetary aspects of the problem, although it is not proposed on this occasion to do more than to refer to them briefly. A study of the forces or of the policies which have influenced the monetary situation in recent years could not be adequately given within the limits of this brief note. The effect of these forces is, however, largely reflected in the movements of discount rates, which themselves have influenced the movements of capital and the opportunities for profitable investment.

In the latter half of 1928, there was a general tendency for money rates to rise in the more important markets of the world, a tendency which was steadily maintained throughout the whole course of 1929 up to the Stock Exchange crash in New York in the autumn of that year. In London and Amsterdam the rates were raised from 4 1/2 to 5 1/2 per cent in February and March 1929 respectively. The German rate went up to 7 1/2 per cent in April. In August, the Federal Reserve Bank of New York raised its rate from 5 to 6 per cent, and in the next month the Bank of England raised its rate to 6 1/2 per cent. Then came the stock market crisis in New York. Immediately afterwards, the New York rate was reduced, and Central Banks in other countries followed suit. Since then, discount rates have been lowered several times in most countries, and in the spring of 1931 have reached an unusually low level—in Paris and Zurich, 2 per cent, in New York 1 1/2 per cent. Other rates have fallen simultaneously. Commercial paper rates have dropped to about 1 per cent in Amsterdam and Zurich, 1 1/2 per cent in New York, 2 per cent in Paris and 2 to 2 1/2 per cent in London. In Berlin, the rate fell to 3 per cent in the summer of 1930, but has since risen to 5 per cent. Interest rates on long-term loans have declined much less. It is one of the characteristics of the present situation on the capital market that the lack of confidence makes capitalists unwilling to invest their money on long terms—e.g., to buy bonds—and creates a preference for keeping it on the money market or as bank deposits. Nevertheless, bond yields have declined substantially or by 1/2 to 1 per cent since the autumn of 1929 in the leading countries, and the interest to be paid on bank loans has dropped in proportion.

Many financial authorities hold the opinion that this easing of the capital market has been too small to enable all current savings to be demanded by borrowers.

The incentive to borrow and invest during periods of falling prices and depression is, of course, very much less than at other times. If the total of current savings is to be lent and used for real investment, it must be offered on considerably cheaper terms than usual, though even the lowest rates may fail to produce the desired results. If the rates are not sufficiently attractive, or the anticipation of the future fall in priceschecked enterprise despite low rates, these savings will not all be used, the total purchasing power will decline and the price-level will drop. It seems not improbable that the whole of the last eighteen months has been characterised by such a lack of balance between savings and investments, a lack of balance which must strengthen the tendency towards a reduction of the general commodity price-level.

One reason why long-term interest rates have been falling so slowly is no doubt the conservatism of investors, who, in the last decade, have been used to obtaining a certain net yield and are
Investors have also been influenced by unsettled political conditions, which have tended to strengthen the other forces already mentioned, contributing towards a contraction of the international movement of capital. Doubts about the political outlook in certain borrowing countries and other factors have also kept the capital-exporting countries from expanding again their foreign lending, which had been contracted in the summer of 1929.

In 1928, the net export of capital from the United States, which had reached a record level of about $1,000 million dollars in the proceeding year, fell to about one-fourth of that figure; in 1930, the net outward movement was quite insignificant. The British export of capital was better maintained in 1929, reaching about the same level as in the previous year; but in 1930 it dropped by 70 per cent. France exported very considerable amounts of capital in 1926 to 1928, chiefly on short-term account. In 1929, this movement was considerably checked, and in 1930 there was probably a net import of capital into France; large amounts of liquid funds were taken home from London and New York. In the borrowing countries, corresponding changes took place. The German import of capital in 1927-28 probably amounted to as much as $1,000 million dollars a year. It fell off considerably in 1929, and was relatively unimportant last year. In Poland and Hungary, there was also a heavy reduction in capital imports in 1929-30 as compared with 1927-28. Argentine borrowed much less in 1929 than formerly, but, unlike most countries, succeeded in increasing its borrowings in 1930.

The money which owners of capital in certain of the capital-exporting countries have failed to lend to countries with high rates of interest in which it would have been used for real investments, has probably in part not been used at all. Borrowing countries, in consequence of the curtailment of their borrowings, have had to reduce their purchases in manufacturing countries, which has reduced production and increased unemployment. This reduction in their demand has not been offset by an equivalent increase in the demand for producers' or consumers' goods in lending countries, and prices have, in consequence, been depressed.

It is in this state of the capital markets that the maladjustments in production and trade previously described have been exercising their influence. The question which is often put whether the causes of the drop in prices are to be found on the side of money and capital or on the side of production and trade is falsely formulated. If any of the circumstances—monetary policy or industrial maladjustment—had been different, then the economic development and the movement of the price-levels might also have been different.

Thus the severity of the drop in prices and of the depression in general seems to be due to the existence of deep-seated maladjustments between production and demand and in international economic relations, especially in international credit transactions, and to the absence of offsetting factors in the credit situation. The credit situation itself is affected at all times at once by monetary policy and by the general economic conditions which exist, and monetary policy in its turn is not conducted in a vacuum, but is always largely determined by those same general conditions. But the lack of adaptability in the economic system and to some extent of flexibility in monetary systems, partly due to political instability and lack of confidence, have prevented such changes being made in the basic conditions, before and after the turn in 1929, as might have mitigated the depression.

Reference should also be made to a special monetary factor which has exercised a disturbing influence—the depreciation of silver and the consequent drop in the exchange value of the Chinese currency. As the internal price- and wage-levels in China have risen very slowly, the ability of that country to buy foreign manufactures has been considerably reduced.

A few words may be added by way of comparison with previous depressions. In the last two decades before the war—a period with a rising trend of prices—Europe experienced two severe crises in the years 1900 and 1907. These were of shorter duration than the present depression, and, further, involved a reduction in the output of manufacturing industries and in wholesale prices of considerably smaller proportions. The present depression bears far more resemblance to those of the seventies and 'eighties of the last century, when the general trend of the price-level was downward. At that time a maladjustment in agriculture, brought about largely by the rapid increase in the production of cereals in overseas countries and a cheapening of the means of transporting them to Europe, was an essential characteristic of the situation. Even then, however the upward swing seems to have begun not later than a year and a-half after the downward turn—a period which the present depression bids fair to exceed.
out that Europe suffered less than most other parts of the world, especially up to the autumn of last year. The national income of countries largely dependent on the production and export of cereals has been reduced more than that of manufacturing countries. Countries such as Denmark and Ireland, whose principal exports are animal food products, were relatively slightly affected by the depression until the autumn of 1930. The fall in the prices of animal foodstuffs up to that date was not great and was largely offset by a reduction in the prices of fodder. The exports of manufacturing countries, such as Germany, Switzerland and Sweden, which sell mainly in the European market, were less affected than those of Great Britain and the United States. The German export value of manufactured goods in 1930 was only 2 per cent lower than in 1928, whereas in Great Britain and the United States the corresponding figures were 20 per cent and 16 per cent. But for certain other unfavourable factors—in particular, political uncertainty and the serious contraction of capital imports—Germany would probably have suffered less than the two leading export countries. In the United States, the violent boom of 1928-29 had created a set of special disturbances which aggravated the effects of the crisis. The volume of production in manufacturing industries declined from the second quarter of 1929 to the fourth quarter of 1930 by no less than 34 per cent. The corresponding figure for Germany was 31 per cent and for Great Britain only 9 per cent. Great Britain has, indeed, been in a relatively favourable position, partly on account of the advantageous terms on which she has been able to purchase her foodstuffs and raw materials, either with her exports of manufactured goods or with the fixed interest on certain classes of her foreign investments.

Differences in the relative position of the various countries are also largely due to differences in the degree of the flexibility of their economic organisation, the adaptability of business firms, the mobility of labour, the flexibility of wages, etc. The Netherlands and the Scandinavian countries would appear to owe their relatively very favourable position largely to the flexibility of their economic systems.

In France and Belgium, the internal price- and wage-levels in terms of gold were low at the time of their return to the gold standard, and do not seem to have quite reached a normal relation to prices abroad by 1930. Retail prices in France were rising throughout the year 1930. These conditions naturally mitigated the effects of the decline of the world price-level. In this country, further, the large demand for real investments, especially for electrification, has maintained production in capital industries at a high level and helped to maintain a balance between saving and lending.

That the Eastern-European and oversea countries—large producers of cereals, coffee and raw materials—have suffered most seriously has already been mentioned. The agricultural countries in Europe have shown a marked power of adaptation and have succeeded in resisting the strain on their balance of payments and maintaining their currencies stable.

IV. The Economic Situation in the Spring of 1931.

Almost two years have now passed since the volume of production and trade turned decisively downwards, and as yet no clear signs of a revival are to be observed. As it has already been mentioned, this depression is of an unusual length, greatly exceeding those experienced in the last two decades before the war. In recent months, however, there have been indications of a decline in the rate at which the depression has been proceeding. Stocks of staple commodities have, on the whole, ceased to rise, and in certain cases have slightly sunk. Prices of raw materials have dropped but little from November to March, as the chart herewith referring to the United Kingdom shows. The curve for “materials and industrial products” represents chiefly raw materials and semi-manufactured goods.

However, in April, the tendency was distinctly downwards, and the situation seems weaker than it was a month ago. The indices of production in manufacturing industries continued to fall rapidly during the last quarter of 1930. From January to February of the present year, a considerable increase took place in certain countries.

In the absence of later figures, it is as yet impossible to say whether this increase was more than a temporary improvement. The feeling in business circles seems to be that, as yet, no real upward movement has begun.

But it is, unfortunately, too early to judge whether such indications as may be found that the depression is being arrested are substantial or whether they are the outcome of the normal spring revival. In quite a few months’ time the situation should become very much clearer. On previous occasions, for instance in 1921-22, a definite revival began within a few months of those during which the major decline was gradually arrested; but judgment concerning the situation at the moment must necessarily be suspended, in view of the further decline of prices which has taken place during the last four weeks. The course of events will therefore require very careful watching between now and the early autumn.
Table XI. — General Indices of Production.

(1928 = 100)

<table>
<thead>
<tr>
<th>Country</th>
<th>1930</th>
<th>1931</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>October</td>
<td>November</td>
</tr>
<tr>
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</table>

1 Quarterly figure.
2 Provisional.


But the date at which real recovery begins and the rapidity with which it progresses will depend, not only on such natural forces as the gradual consumption or decay of stocks, but also on events of a non-economic origin, and upon the economic policy pursued.

The whole post-war development brings out very clearly the economic importance of political conditions, both international and domestic. When these are disturbed and confidence is shaken, international credit transactions are immediately affected and trade conditions vary rapidly. Economic life suffers, and recovery cannot but be impeded by political uncertainties.
The world is in fact, more closely knit to-day economically than politically. The actions of individual countries, not only with regard to monetary or commercial policy, which are immediately international in their reactions, but also with regard to what may seem to be purely domestic or purely political affairs, inevitably entail far-reaching economic consequences.

The free movement of capital on which so much depends will be determined, not only by the security which is foreseen, but by the adequacy of the mechanism available for capital transactions. In this connection, the Gold Delegation of the Financial Committee, in its last report, remarked:

"Lending must not be impeded by artificial restrictions, such as discriminatory rates of taxation or exchange control. We believe that any measures designed to improve the mechanism for the issue of foreign loans, or to promote international transactions in existing securities, would contribute to the smooth working of the gold standard, granted the powers of Central Banks to control temporary disequilibria are adequate. We have in mind such measures as the improvement of facilities for foreign investments, the quotation of foreign securities on national Stock Exchanges, the equalisation of taxes on domestic and foreign investments. We also attach particular importance to the discussions now taking place with a view to the solution of the problem of double taxation. The high rates of taxation in certain countries constitute an insuperable barrier to capital movements in cases when, owing to the absence of any international understandings, the owner of foreign securities is liable to be taxed twice on his holdings."

They add, however, that all these various measures designed to facilitate long-term lending and the international purchase and sale of securities will require time for their perfection. On the other hand, the effective demand for capital must depend on the price which has to be paid for it. That price will be determined largely by the element of insurance against risk, which it incorporates, and therefore by those conditions to which reference has been made above. It is believed by many authorities, however, that the average price to-day of long-term investments is unduly high owing to an exaggerated conception of the real risks which exist, and any action which would result in the reduction of the price of capital would no doubt expedite economic revival.

The maladjustments which require to be righted, however, demand freedom, not only for the movement of capital, but for the other factors of production. The more readily labour can be transferred from one industry or occupation to another in any country, the more quickly will that country be able to adapt itself to those more profound changes which lie behind what has been described above as structural maladjustment. This, of course, holds good for agriculture as much as for manufacturing industries. Indeed, every action which increases the flexibility of the economic system as a whole must facilitate the readjustments which are required. It is for this reason that many economic authorities maintain that co-operative efforts to uphold the price of this commodity or of that are likely rather to prolong than to alleviate the depression. Such measures of control, it is maintained, are likely to involve an undesirable delay in the adjustment of the relative prices of different classes of goods.

It does not follow, of course, that an international competition with a view to a reduction in the price of labour—wages—would have beneficial effects. Such a general lowering of wages may, in certain circumstances, lead to a general lowering of the whole range of values—the world price-level—or rather weaken the normal tendency to a rise in that level after active trade conditions have been established. Such a permanent lowering of values would, of course, tend to render the burden of fixed charges on industry higher than they would otherwise have been. From this it must not be assumed, however, that the relationship between wage-rates in different industries or in different countries which existed prior to the present depression was in any sense of the word either normal or permanent. Some change, either upward or downward, is at all times demanded by the inevitable changes in general economic conditions.

The control of the prices of commodities can, of course, only be achieved by means of the control, direct or indirect, of their production or sale. Such control is, or may be, exercised by industrial associations; but that particular form of impediment to the free movement of goods or the rapid adjustment of prices is only one, and perhaps not the most important, of the many impediments to commodity movements and price adjustments that exist to-day.
WORK OF THE SECOND CONFERENCE ON CONCERTED ECONOMIC ACTION, DURING ITS SECOND SESSION, HELD IN MARCH 1931.

REPORT BY M. COLIJN, PRESIDENT OF THE CONFERENCE.

The Commission of Enquiry for European Union after hearing the report of the President of the Second Conference on Concerted Economic Action on the results of the first session held in November 1930 adopted the following resolution on January 31st, 1931:

"The Commission of Enquiry for European Union:

"Being strongly of opinion that the result of the putting into force of the Commercial Convention of March 24th, 1930, would be to create such an atmosphere of stability and confidence as would enable the execution of the programme of future negotiations also drawn up on March 24th, 1930, to be usefully prosecuted and extended;

"Counts upon its members to do all in their power to ensure that the said Commercial Convention is speedily put into force;

"And trusts that the bilateral negotiations opened in consequence of the Conference with a View to Concerted Economic Action of November 1930 may be actively pursued."

At the time of the January meeting of the European Commission the situation as regards the Commercial Convention was as follows:

Out of the twenty-six European countries represented by delegations at the Conference of February-March 1930, eight did not sign the Convention at all, and out of the eighteen signatory States only eleven had deposited the instruments of ratification at the time of the January session of the Commission—viz., Belgium, Denmark, Finland, Great Britain, Greece, Italy, Latvia, Luxemburg, Norway, Sweden, Switzerland.

In the hope that the resolution of the European Commission would have a beneficial influence, the second session of the Conference was approached with a certain amount of confidence. When the Conference met on March 16th, however, the situation proved to be much the same as in January.

Although the Government of the Netherlands had deposited the instrument of ratification on March 10th, and Spain had presented a demand to adhere to the Convention, important adhesions or ratifications (e.g., those of Austria, Czechoslovakia, France, Germany, Poland, etc.) were still outstanding. It is true that during the Conference information was received from the German delegation that the Reichstag had approved the Convention, but even this did not improve the situation substantially, so long as the other ratifications and adhesions were lacking.

In these circumstances, the Conference which had met to fix the date of the putting into force of the Convention, was faced from the very beginning with grave difficulties. The thirteen States which had ratified or adhered were not prepared to put the Convention into force as between themselves. Not only were important ratifications missing, but the bilateral negotiations for the reduction of tariffs, on which certain countries made their adhesion dependent, were not sufficiently advanced to enable these countries to envisage the immediate putting into force of the Convention as far as they were concerned.

The President of the Conference felt, however, that this ought not to be the last word, and that an attempt should be made to keep the Convention alive if only for a few months, so as to give the European Commission an opportunity of dealing with the matter afresh at its session in May. With this end in view the President suggested that the Convention should be provisionally put into force with a resolving clause to the effect that the Governments would regain their freedom if certain conditions had not been fulfilled by, say, June 1st or 15th, 1931.

During the discussion which resulted from this attempt it was clear that two different opinions prevailed. On the one hand, there were those who held the view that, as the Convention was concluded for a fixed period ending March 31st, 1931, the putting into force ought to take place before the expiry of this period and therefore not later than March 31st, whilst others maintained that it was possible to keep the Convention in a state of what might be called "suspended animation" and that a decision with regard to its entry into force could just as well be taken after April 1st, 1931.

There was no unanimity on this main point and it was therefore not possible to fix a date for the putting into force of the Commercial Convention, and the Conference had to state in its Protocol that it has been unable to come to an agreement on this point.

Whatever the legal position may now be, it seems clear that, from the practical point of view, the possibility of putting the Convention into force at some not too distant date is very remote.
Apart from the difficulties which may arise for certain Governments in connection with the necessity of obtaining new Parliamentary approval, the Conference, if it meets again, may find itself confronted with new difficulties. The situation prevailing at that time may not be the same as it was when the Convention was concluded in March 1930. Considerable changes may have taken place in the meantime which might easily cause further difficulties preventing the putting into force of the Convention of March 24th, 1930. It seems therefore very unlikely that this old Convention, even if considered to be in a state of "suspended animation", can come to life again, and certainly not within a few weeks from now, and this quite apart from the fact that the bilateral negotiations now pending will necessitate a considerable time before the interested Governments can see whether they are likely to come to a successful issue.

What then can the European Commission do in these circumstances? Can it take any effective steps to alter the present situation regarding the putting into force of the Commercial Convention?

The European Commission, consisting of responsible Ministers of the highest authority, may make a strong appeal to the different European Governments to do of their own free will what they have not been able to bind themselves to do under the terms of the Convention.

If in the meantime the bilateral negotiations are brought to a successful issue, the very serious consequences of the failure of the March Conference may still be avoided, and the continuation of the work of the League for an economic rapprochement of the people assured.

The importance of this latter point is clear enough. Although there is, according to my opinion, no legal tie between the Commercial Convention and the "Protocol regarding the Programme of Future Negotiations", it cannot, however, be denied that the carrying out of this programme would be seriously hampered if the Governments were going to make use of their freedom to denounce existing commercial treaties. The negotiations stipulated in the programme can only be undertaken in an atmosphere of comparative tranquillity, and in a state of affairs where the status quo is more or less maintained.

I am glad to state that from the debates at the March Conference I have the impression that the wish to continue these further negotiations is still existent, more particularly as far as the bilateral negotiations for tariff reductions are concerned. But, although the desirability of continuing these negotiations was acknowledged, there was also a fear that a deviation from the present situation might do great harm to the chances of successfully carrying on these negotiations.

It is exactly for this reason that the maintenance of the present situation is of such importance and I therefore venture to suggest in conclusion that:

1. The European Commission should address an earnest appeal to all the European States to do their utmost not to aggravate the present situation in the sphere of Customs tariffs, and to this end to apply the principles of the Commercial Convention of March 1930, and
2. That the Commission should once more urge the Governments concerned in the bilateral negotiations for tariff reductions to pursue these negotiations with the utmost activity.

If such an appeal is responded to, the serious consequences of the failure of the last Conference may still be avoided, and the work of the League and the European Commission for the improvement of international economic relations be continued.

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REPORT OF THE SUB-COMMITTEE FOR AGRICULTURAL CREDIT.

Note by the Secretary-General.

The Secretary-General has the honour to communicate to the Members of the Commission of Enquiry for European Union the report of the Sub-Committee for Agricultural Credit with its appendices.

He desires to draw the particular attention of the Members of the Commission to the last sentence of the report which reads as follows:

"In view of the desirability of a prompt execution of the scheme and the Council's wish that a definite result should be attained as rapidly as possible, the Sub-Committee ventures to express the hope that Governments may be able to send to the Commission
of Enquiry for European Union representatives endowed with full powers to sign the Convention at once, in the event of it being approved by the Council."

* * *

The Sub-Committee for Agricultural Credit of the Commission of Enquiry for European Union met in Geneva under the presidency of François-Poncet, Sous-Secrétaire d'Etat de l'Économie nationale à la Présidence du Conseil, and delegate of France, on April 20th, 21st and 22nd. The following countries were represented: 1 Belgium, the British Empire, Bulgaria, Czechoslovakia, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Italy, Latvia, the Netherlands, Poland, Roumania, Sweden, Switzerland and Yugoslavia.

In addition, the Agricultural Credit delegation of the Financial Committee was represented by its President, M. ter Meulen, one of its members, M. Regard, and two members of the Drafting Committee, M. Freiberger and Sir John Fischer Williams.

The Sub-Committee had before it a draft Convention, Charter and Statutes, relating to the proposed International Agricultural Mortgage Credit Company. These drafts prepared by the delegation mentioned above are to be submitted to the Financial Committee for revision.

This delegation had been appointed in January by the Financial Committee to elaborate a definite scheme for improving the international facilities for agricultural credit.

The President, M. ter Meulen, explained to the Sub-Committee the procedure which had been adopted and the principles which had guided the delegation in the preparation of these documents. The text of M. ter Meulen's speech may be found in the Minutes of the first meeting.

Under its terms of reference the Sub-Committee was instructed to "watch the work of the Financial Committee and keep in touch with the latter in order that a detailed programme, both financial and legal, may be submitted to the Council of the League of Nations at its session in May". The Financial Committee will meet again on May 8th next, and will then prepare the final draft of the documents to be submitted to the Council of the League of Nations and to the Commission of Enquiry for European Union. In these circumstances the Sub-Committee has not considered it to be its function to express in the form of definite texts the points on which it reached an agreement of principle. It has confined itself to a general discussion of the major principles upon which the scheme is based, a discussion which will certainly enable each representative present to fully explain the whole proposal to his Government before the meeting of the Commission of Enquiry for European Union next month. It proposes therefore to confine itself in this report to drawing attention to certain questions to which the Financial Committee will, owing to the procedure adopted, have an opportunity of giving full consideration before the definitive text is prepared.

It leaves to the Financial Committee and to its delegation to undertake the task of drawing up the actual text embodying its views and intentions.

Early in the course of its discussions six points of primary importance emerged. These were:

1. The purpose to which the loans granted should be devoted;
2. The formation of the proposed guarantee fund of 5 million dollars;
3. The proposed fiscal exemptions;
4. The margin between the rates at which the International Company would borrow and lend;
5. The composition and form of election of the Board of Directors;
6. The measures to be adopted for the improvement of mortgage legislation in countries in which that legislation would appear to afford insufficient guarantees.

1. With reference to the first point, certain members expressed the fear that the credits granted by the International Company might have for their main result an increase in the production of cereals and certain other agricultural products, the production of which was already excessive. It was pointed out on the other hand that the lack of capital was one of the major factors which prevented the agriculturist from changing from those crops of which there was at present an excess to those the consumption of which was tending to increase. Moreover, all measures aimed at raising the standard of living in those European countries where the standard is at present relatively low must help to increase the demand for the higher value agricultural products such as meat, milk, fruit, etc. The granting of credits, and more especially the granting of credits where rates of interest are now abnormally high, would, therefore, help, on the one hand, to bring about those changes in production and, on the other, that increase in demand which are alike necessary for a general improvement in agricultural conditions. They would also certainly have the effect of increasing the purchasing power of agriculturists, and particularly their demand for industrial products.

The Sub-Committee is of the opinion that it would be desirable to define and limit more exactly the object of the Company and to indicate that its essential function should be to alleviate the burdens which weigh on agricultural production particularly in Central and Eastern Europe, on

1 The composition of the delegations is given in Appendix I.
account of the high rates of interest charged, and to reduce thus the costs of agricultural production.

The Company should guard at the same time against the risk of an injudicious increase of production

2. With reference to the guarantee fund (also called the special reserve) it was recognised that the constitution of such a fund was indispensable for the success of the whole scheme. However, objections were raised against the compulsory and imperative character of the text of the draft with reference to the contributions demanded and to the classification of the States which are to make these contributions. It was suggested that these contributions might be made optional except in the case of Governments of the countries whose national mortgage institutions desired to borrow from the International Company.

Another proposal was also put forward in connection with the special reserve. It was suggested that the advances contributed by Governments of those countries which did not borrow from the International Company should be repaid before the other advances.

Representatives of certain States indicated that the sums which they would be required to pay according to the grouping suggested in Article 5 of the Convention as at present drafted appeared to be unduly high compared with those suggested for countries in the same group with substantially larger populations and national incomes. It was suggested in this connection that the scale of contributions might with advantage be made to reflect more closely the scale adopted for contributions to the League budget by means of a subdivision of one or more of the groups, and especially of groups (b) and (e).

On the other hand, one representative expressed the view that all Governments should be asked to contribute equal sums.

Obviously the problem of the Government contributions to the proposed guarantee fund is one which could only be settled by representatives empowered by their Governments to enter into a contractual agreement. The points raised will no doubt be carefully considered by the Financial Committee. The Sub-Committee, however, ventures to observe that contributions to this guarantee fund would be facilitated, were the fact that those contributions constitute a loan bearing interest to be more definitely emphasised, and were it possible to provide a rate of interest as near as possible to the normal rate on long-term investments. Part of this interest might be secured if part of the fund were invested in first-class securities instead of being left on deposit; and the rest might be taken out of profits.

3. In the section dealing with fiscal exemptions it would seem that Articles 7 and 8 of the Convention and paragraph 6 of the Charter might be rendered clearer, if they were drafted on the basis of the four following principles:

(a) That the country in which the Company has its seat should not derive any fiscal benefit from the fact that it has been chosen as the seat;
(b) That necessary measures shall be taken in all countries in which the Company conducts its business to avoid double taxation which might result from the fact that its business is in fact transacted in several countries;
(c) That, the essential object of the Company being to reduce as far as possible the rate of interest on loans to agriculturists, the countries in which those loans are effected should impose no fiscal charges either on the loans granted or on the service of those loans.
(d) That the Governments may collect internal taxes on persons residing or domiciled in their territory, subject, however, to no obligation being placed on the company except possibly as regards stamp duties payable in cash on the issue of shares or bonds in the territory.

It remains understood that the acceptance of the revised articles, in full or in part, will be optional for the Governments.

4. As regards the rates of interest on the loans which will be granted by the Company two ideas made themselves apparent during the course of the Sub-Committee's work: the necessity of assuring that the Company could afford to give its borrowers conditions at least as favourable as those which they could obtain directly; the necessity of fixing different interest rates according to circumstances, so as to allow each borrower the lowest possible rate compatible with his individual credit.

The rates of interest would have to be determined by the credit of each individual borrower and, in fact, a part of the rates might be looked upon as representing in certain cases a premium against risk.

In these circumstances it appeared to the Sub-Committee that Article 67 of the Statutes relating to the distribution of the profits of the Company might be so redrafted as to allow these premia to be allocated to a reserve, unless the Company employed them (as was suggested at one point of the discussion) to effect insurances with suitable insurance companies against the risks in question.

5. With reference to the composition and form of election of the Board of Directors, the Sub-Committee realised that a number of distinct and important considerations have to be borne in mind. It is necessary to secure, on the one hand, that the direction of this International Company should remain international, and on the other that the Board of Directors should be composed of persons who will afford, by their standing and reputation, a guarantee to the investing public of the sound conduct of the Company's business. At the same time it was felt that an opportunity should be given to those countries in which loans were granted to keep the Board of Directors constantly informed of the conditions obtaining in those countries. Finally, it is, in the opinion of the Sub-Committee, important that the system of election should be simple and in accordance with commonly accepted practice. The Sub-Committee felt that the procedure suggested in
Article 24 of the Statutes was open to the objection of being somewhat too complicated and at the same time somewhat too rigid in limiting the Directors to persons possessing certain definitely defined qualifications.

It suggests that it might be preferable to form the Board of Directors in some such manner as follows:

"Article 24. — The management of the International Company shall be vested in the Board.

The Board is composed of not more than twenty members appointed as follows:

1. The President and Vice-President of the Board are appointed by the Council of the League of Nations;

2. One director is chosen by the Council of the League of Nations, or by the Bank for International Settlements if the latter consents to do so, from among experts in finance;

3. One director is appointed by the Permanent Committee of the International Institute of Agriculture;

4. Twelve directors may be appointed by the general meeting of shareholders by the customary procedure. Endeavours will be made to ensure that the first twelve directors in this class each represents, so far as possible, one-twelfth of the first block of capital referred to in Article 12.

5. Not more than four directors may be appointed by the sixteen directors referred to above, in the general interest of the Company and in particular in order to ensure the participation of the principal markets capable of co-operating in the sale of bonds.

On the other hand, each country contributing to the special reserve and of which no national has a seat on the Board of Directors shall have the right to nominate an assessor who shall receive no remuneration and who shall be present at the meetings of the Board of Directors in a consultative capacity."

The Sub-Committee considers further that the twelve directors to be appointed by the general meeting, and also the assessors, should be as far as possible, governors, vice-governors, presidents, vice-presidents, or representatives of mortgage credit, or agricultural credit institutions, or experts in banking or credit.

In this same connection the Sub-Committee felt that to give to the Company the right to refuse to allow a sale of shares to any particular individual was likely seriously to restrict their market. It thinks it would be preferable to omit this particular stipulation from the Statutes, and, with a view to preventing the voting rights getting into the hands of too small a group, to stipulate that, if A shares are transferred in any way they should ipso facto be assimilated, in so far as their voting rights are concerned, to B shares, failing a decision to the contrary by a three-quarters majority of the Board of Directors.

The Sub-Committee is fully conscious of the fact that the suggestion as put forward is open to objection on the grounds that the Board may be composed of as many as twenty persons. It suggests, therefore, that the Executive Committee which the Board, under the Statutes as at present drafted, has the right to set up, should become a definite part of the machinery of administration and should be confined to from five to seven of the members of the Board, amongst whom not more than two should be nationals of the countries receiving loans from this company.

6. On the question of the security afforded by mortgage legislation in those countries which will have recourse to the International Company, the Chairman of the delegation of the Financial Committee explained that to insist on radical changes of existing legislation, in the countries where it seemed inadequate, as a condition for granting to those countries the advantage of doing business with the Company, would create delay which it is particularly desired to avoid. It was therefore proposed to leave to the discretion of the Board of the International Company to demand, in anticipation of remedial legislation being adopted, special Government guarantees for loans granted. It was with this reflection in mind that Article 10 of the Convention was drafted.

The Sub-Committee, while fully appreciating the merits of the formula suggested in Article 10, is of the opinion that it might be well to annex to the present Convention a brief summary of the principles which should be applied in effecting such reforms. In putting forward this suggestion it is of course aware that full discretion must be left to the Board of Directors of the International Company.

Further, the Sub-Committee understands, that the International Institute for the Unification of Private Law is making a special study of this question of mortgage legislation. It has no doubt that the International Company will keep in close contact with the International Institute of Private Law.

One delegation suggested further that the supplementary guarantee of the Government of the National Company which asks for loans should be an essential condition of the loans granted by the International Company.

In addition to its observations on these six major questions, the Committee put forward a certain number of minor suggestions during the course of its examination of the texts submitted to it.

These suggestions are annexed to the present report.
As regards the choice of the seat of the Company, M. ter Meulen expressed to the Sub-Committee the conviction already explained in his report that from the technical point of view Paris was the suitable place. The opinion was expressed on the other hand, however, that the choice of Geneva would be preferable in view of the fact that the plan for the International Agricultural Mortgage Credit Company had been elaborated and the Company would be constituted, under the auspices of the League of Nations. As a large number of delegates were not in a position to express a definite opinion, the question was reserved.

Finally, the Sub-Committee desires to record its opinion that the scheme taken as a whole is well adapted for the ultimate object in view—namely, that of diminishing the expenses of agricultural exploitation in certain parts of Europe. It wishes to congratulate the Financial Committee and its delegation on the rapid and effective progress which has been made, and hopes that the Financial Committee will be in a position to submit final texts after its meeting next month which may prove acceptable to all parties concerned, and the application of which may render the desired service. In view of the desirability of a prompt execution of the scheme and the Council's wish that a definite result should be attained as rapidly as possible, the Sub-Committee ventures to express the hope that Governments may be able to send to the Commission of Enquiry for European Union representatives endowed with full powers to sign the Convention at once, in the event of it being approved by the Council.

Appendix I.

COMMISSION OF ENQUIRY FOR EUROPEAN UNION. — SUB-COMMITTEE FOR AGRICULTURAL CREDIT.

LIST OF DELEGATES AT THE MEETING HELD IN GENEVA FROM APRIL 20TH TO 22ND, 1931.

President: His Excellency M. André François-Poncet (France), Member of the Chamber of Deputies, Under-Secretary of State for National Economy.

Members of the Sub-Committee.

British Empire.
Mr. Walter R. Smith, Parliamentary Secretary, Board of Trade.
Mr. G. H. S. PinSENT, H.M. Treasury.

Bulgaria.
M. Bogdan Moroff, Minister of Bulgaria in Paris.
M. St. Koltcheff, Administrator of the Agricultural Bank of Bulgaria.
M. Dmitri Mikoff, Chargé d’affaires of Bulgaria in Switzerland.

Denmark.
M. W. Borberg, Permanent Delegate of Denmark accredited to the League of Nations.

France.
M. Tardy, Director-General of the National Agricultural Credit Fund.
M. Jean-Jacques Bizot, Deputy-Director of the Movement of Funds.
M. Fouques-Duparc, Secretary to Embassy.
M. Robert, Inspector of Finance.

Germany.
Dr. Hermes, Former Minister of the Reich; Member of the International Agricultural Commission; President of the Central Union of Agricultural Co-operatives of Germany.

Hungary.
Baron de Koranyi, Former Minister of Finance; President of the Central Office of the Financial Institutions of Hungary.
Dr. Béla de Imredy, Director and Member of the General Directorate of the National Bank of Hungary.

Italy.
M. De MicheliS, Senator, President of the International Institute of Agriculture.
M. Alberto Berio, First Secretary of Legation in the Ministry of Foreign Affairs in Rome.

Netherlands.
Dr. Bruins, Royal Commissioner of the Netherlands Bank.

Poland.
Dr. Adam Rose, Director of the Economic Department in the Ministry of Agriculture.
M. Wieslaw Domaniowski, Ministerial Adviser in the Ministry of Finance.
M. Thadée Gwiazdowski, Counsellor of Legation.
M. Thadée Mincer, Editor of the Review Rolnik Economista.

Roumania.
M. C. Antoniade, Minister accredited to the League of Nations.
Sweden.
M. Oscar Rydebeck, Director of the Scandinavian Credit.

Governments invited.

Belgium.
M. Albert Janssen, Member of the Governing Board of the National Society for Financing Industry.
M. Joseph Warland, Director of the Treasury.

Czechoslovakia.
M. Emil Roos, Director-General of the Country Bank in Prague.

Estonia.
M. Auguste Schmidt, Permanent Delegate accredited to the League of Nations.

Finland.
His Excellency M. Rudolf Holsti, Permanent Delegate accredited to the League of Nations.

Greece.

Latvia.
M. J. Feldmans, Permanent Delegate of Latvia accredited to the League of Nations.

Switzerland.
M. Bachmann, President of the National Bank of Switzerland.
M. Blau, Director of the Federal Tax Administration.

Yugoslavia.
His Excellency Dr. Ilia Choumenkovitch, Permanent Delegate of Yugoslavia accredited to the League of Nations.
Dr. Anton Schuster, Director-General of the Agricultural Bank.

Other Representatives.

Agricultural Credit Delegation of the Financial Committee.

M. ter Meulen, President.
M. Regard, Vice-Governor of the Credit Foncier of France.
Dr. Freiberger, Member of the Drafting Committee.
Sir John Fischer Williams, Member of the Drafting Committee.

International Institute of Agriculture.
Professor Alexandre Brizi, Secretary-General of the International Institute of Agriculture.

Appendix II.

SUGGESTIONS MADE BY THE SUB-COMMITTEE ON THE TEXTS DRAWN UP BY THE DELEGATION.

I. Convention.

Preamble, paragraph 3. — Draft as follows:

"... intended to alleviate the burdens which weigh on agricultural production in various countries and thus to diminish the expenses of exploitation ..."

Article 1, paragraph 1. — Add at the end the words "and of the Constituent Charter and annexed Statutes".

Article 1, paragraph 2. — The delegation was requested to define the exact moment at which the International Company will be constituted (see text proposed for Article 6 of the Statutes).

Article 3, paragraph 1. — Penultimate line, after the words "by another Government" add the words "a party to the Convention". Same addition to the end of paragraph 2.
Article 4. — The following text has been proposed for submission to the Financial Committee:

"The loans to mortgage or agricultural credit companies or institutes provided for by the Statutes of the International Company may only be accorded to such of those companies as have their registered offices in the territory of the contracting Governments and subject to the approval of their Government."

Article 5, paragraph 1. — See observations in the Sub-Committee’s report.

Article 5, paragraph 2. — This article to be drafted in accordance with the text to be drawn up for Article 1, paragraph 2.

Article 5, paragraph 4. — The Sub-Committee has suggested that:

(a) Should the Government advances not amount to five million dollars, the various countries would be asked to make up the deficit by additional advances *pro rata* to their compulsory advances;

(b) The additional contributions so made, which would not increase the special reserve beyond five million dollars would ensure to the contributing governments rights similar to the compulsory contributions.

(c) The provisions of paragraph 4 would be maintained for contributions for the purpose of bringing up the special reserve to a figure exceeding five million dollars.

Note to be added at the foot of page 4: “... according to the definition given in Article 21 of the draft Statutes”.

Articles 7, 8 and 9. — The Sub-Committee has asked that these articles should be revised to bring them into line with the suggestions in its report.

Article 10, paragraph 1. — Instead of “national company” read “mortgage or agricultural credit company or institute”.

The actual principle of this paragraph has been reserved (see the Sub-Committee’s report).

Article 11. — Read “as far as they find this possible”.

Articles 14 and 15. — It was recommended that the provisions of these articles should be applied in a liberal manner.

Article 16. — To be worded as follows:

"The present Convention shall come into force as soon as the amount of the contributions to the special reserve due from the Governments which have ratified the Convention attains the sum of five million dollars. If this condition is not fulfilled before December 31st, 1931, a conference of the Governments . . . ."

II. Charter.

Paragraph 3. — In the list of Articles of the Statutes the amendment of which should be made difficult, it has been proposed to add the metallic parity of the currency in which the capital is expressed, this provision to be inserted in Article 6 of the Statutes.

The Sub-Committee requested that Article 6 should be amended in accordance with the principles laid down in its report.

III. Statutes.

Article 3, third line, after the word “mortgage” insert the words “or agricultural”.

Article 4. — Draft as follows:

"The loans for which the present Statutes provide may only be received by national companies having their registered offices . . . ."

Article 6. — It was proposed to define the weight in gold of the currency of the country in which the registered offices are to be situated and in which currency the Company’s capital will be expressed.

It was proposed to insert after Article 6 an article reading as follows (which might possibly also be inserted in the Charter):

"In accordance with the procedure laid down in Article 1, paragraph 3, of the Convention, the International Company shall be constituted after the subscription of 10,000 A shares (Statutes, Article 12) and after the appointment of the Directors (Article 24)."

Article 7. — Add a third paragraph (see the report of the Sub-Committee).

Article 10. — Delete the second paragraph.

Article 12. — Last paragraph, add “or agricultural”.

Articles 20 and 21. — The following text was proposed for submission to the Financial Committee:

"Article 20. — The Company’s capital may be represented—as to not more than one-tenth, by the movable and immovable property to be used for the establishment of the registered office of the Company or required for the working of its services—as to the remainder, by Government stocks or other Treasury securities offering the highest
guarantees and negotiable on the principal international markets, or by short-term deposits in banks of the highest standing, or lastly by short-term bills of exchange or commercial paper carrying not less than two signatures, one of which must be that of a bank of the highest standing, and endorsed to the order of the International Company.

However, the Board of Directors may employ up to 30 per cent of the capital for the granting of loans or the opening of credits accorded on the security in both cases of first mortgages and complying with the conditions laid down in the present Statutes, or for the acquisition of bonds issued by the International Company itself and purchased by it, or for the advances required to cover the half-yearly payments due from the borrowers, or, lastly, for the purchase of immovable property acquired as the result of expropriation."

"Article 21. — By way of security for the commitments of the International Company there is forthwith constituted over and above its capital, a special reserve of five million gold dollars of the United States of America equivalent to . . . grammes fine gold."

"This special reserve shall be constituted at the outset by advances from the Governments which are parties to the Convention."

"It shall be invested in Government stocks or other Treasury securities offering the highest guarantees and negotiable on the principal international markets or shall be placed on deposit with the Bank for International Settlements or with other banks of the highest standing, or shall be represented by short-term bills of exchange or commercial paper carrying not less than two signatures, one of which must be that of a bank of the highest standing, and endorsed to the order of the International Company."

"Article 22. — This article should be amended to bring it into line with the changes which may be made in Article 67. It should also be provided that the Company should endeavour to pay Governments the highest possible interest on their advances.

"Article 23. — This article should be brought into line with Articles 67 to 70.

"Article 24. — See the Sub-Committee's report.

"Article 33. — Read "The Board will appoint each year . . . ."

"Article 45. — Instead of "not exceeding" read "which shall in no case exceed . . . ."

The Committee must in any case decide what is to be the proportion between the "capital in bonds" and the "capital in shares" plus the special reserve.

"Article 49. — Delete the words "prizes and".

"Article 56. — Read as follows:

"The Company will appoint representatives to examine and supervise the operations of the national companies in their dealings with the International Company."

"Article 57. — The third paragraph of this article has been reserved (see the Committee's report on this point).

"Article 57, paragraph 5. — It was pointed out that the term "separate company" in the fifth paragraph may be somewhat ambiguous.

"Article 58. — The third paragraph to be drafted as follows:

"In the event of repayment before maturity, the Company shall have the right to claim an indemnity which shall not exceed . . . ."

"Article 60. — Add at the end: " . . . with the object of furnishing credits to agriculturists at the best possible rates in accordance with the Company's object ."

"Article 67. — A large number of suggestions were made with regard to this article. These are set forth in the Sub-Committee's report.

"Article 68. — It was proposed to divide the special reserve into two parts. If necessary, withdrawals would be primarily made from the portion constituted by the International Company itself and only in the second place from the portion constituted by means of Government advances.

"Article 69. — This article has been reserved.

"Article 70. — It would be desirable to provide for the safeguarding of the Governments' interests should the International Company desire to wind up its business and the Government advances not have been fully repaid.

ANNEX 17a.

C.324.M.149.1931.VII.
[C.E.U.E./I.]

SECOND REPORT OF THE SUB-COMMITTEE FOR AGRICULTURAL CREDIT.

The Sub-Committee for Agricultural Credit of the Commission of Enquiry for European Union held its second meeting on May 13th and 14th, under the presidency of Mr. W. R. Smith, Parliamentary Secretary to the Board of Trade of the United Kingdom.
M. François-Poncet, who had presided over the first meeting, was unable to attend on this occasion.

The following countries were represented: Austria, Belgium, Bulgaria, Czechoslovakia, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Irish Free State, Italy, Latvia, the Netherlands, Poland, Portugal, Roumania, Spain, Switzerland, Yugoslavia.

Thus all European States Members of the League were represented at one or both of the meetings held by the Sub-Committee with the exception of Albania, Lithuania, Luxemburg and Norway.

The Financial Committee and its delegation for Agricultural Credits, were represented by M. ter Meulen, President of the delegation, M. de Chalendar, Dr. Kempner, M. Mlynarski and M. Regard. The International Institute of Agriculture was represented by M. Pavlovsky.

As a considerable number of the members of the Sub-Committee had not received definite instructions from their Governments, the views which are expressed below should be understood to reflect the opinion of the Sub-Committee acting in an advisory capacity, and not that of the Governments by whom the members of the Sub-Committee had been designated.

The Sub-Committee had before it the definitive texts drawn up by the Financial Committee for submission to the Council of the draft Convention, Charter and Statutes relating to the proposed International Agricultural Mortgage Credit Company, and, in addition, the report of the Financial Committee to the Council on this subject, and a note on the principles of mortgage legislation, which has been annexed.

As stated in its report relating to its meeting in April the Sub-Committee then put forward a number of suggestions on the provisional drafts of the first three documents mentioned above drawn up by the delegation of the Financial Committee.

To these suggestions the Financial Committee and its delegation have given the most careful consideration. We believe that the documents as now drafted, subject to certain minor points mentioned below, particularly the modifications proposed to Articles 12 and 25 of the Statutes concerning the participation of agricultural credit institutes in the constitution and operation of the International Company are well designed to meet the primary object that the Council of the League of Nations and the Commission of Enquiry for European Union should have in view. We have no hesitation in recommending the scheme as a whole for definite and immediate approval.

We desire to congratulate the Financial Committee and those who have so devotedly co-operated with it for the skill with which they have elaborated a plan which, in our opinion, is sound both in its general principles and in its technical detail.

As the Sub-Committee suggested in its previous report the primary object of this proposal is to benefit the agriculturist. It is intended "to alleviate the burdens which weigh on agricultural production in various countries, to diminish the working expenses which at present absorb too large a share of the profits and to increase the purchasing capacity of the agriculturists". This object it is hoped to attain by the creation through an international Convention of an International Agricultural Mortgage Credit Company with specific privileges and functions. Details of the plan are set out in the three basic documents referred to above, and the principles underlying it are clearly explained in the Financial Committee's report to the Council. It is not necessary for us therefore to recapitulate what the Financial Committee has said. We merely wish to emphasize this point, that the scheme is designed to assist agriculturists and to add, as was indicated in our previous report, that any measures which result in increasing the purchasing power of agriculturists must promote at the same time the well-being of industrial States which are so largely dependent on the markets which the demand of agriculturists constitutes. On the other hand, as the Sub-Committee has observed in its previous report and as has also been pointed out by the Financial Committee, the new Company should avoid exposing itself to criticism on the ground that it has encouraged an injudicious increase of agricultural production. We trust that the Board of Directors, in view of the character and general interests of the International Company, will desire to give adequate information on this point, so far as it can be supplied in its annual report which has to be transmitted to the Council of the League of Nations.

At the same time, as one member of the Sub-Committee pointed out, an International Company of this character should have a considerable indirect educative effect and help countries, whose organisation is not yet perfect, to understand at once the value of a well-organised system of mortgage credit and of the principles upon which that organisation should be based. National systems cannot, however, be perfected so long as mortgage legislation does not afford the necessary guarantees. We attach considerable importance, therefore, to the principles with reference to such legislation which, as stated, have been annexed by the Financial Committee to the documents which it has prepared. We suggest that, if the scheme as a whole is adopted by Governments, it would be well to add a resolution recommending these principles to the careful attention of all Governments proposing to undertake reform of their mortgage legislation. A draft text of such resolution is contained in the annex to this report. In the same annex are set out a certain number of modifications to the articles of the Convention or the Statutes which we recommend for consideration. As each amendment is explained in a brief note, it is not necessary to discuss these proposals further here.

With reference to these amendments, M. ter Meulen, the President of the delegation of the Financial Committee stated that; in his opinion—if it had been possible for him to consult the Financial Committee—the latter would have had no objection to the changes proposed by the Sub-Committee. He had had the opportunity to discuss the question with M. Suvitch, the President of the Financial Committee, who was in entire agreement on this point.
The Committee desires to express the hope that Article 23 of the Statutes relating to the composition of the Board of Directors will be interpreted in such a manner that the choice of the members appointed by the Organisation Committee may reflect, as far as possible, the manner in which the A shares will be placed.

One question has been deliberately left open by the Financial Committee—namely, that of the seat of the International Company. The views of the Financial Committee on this point are set out on the last page of its report. We have considered ourselves that this is a question which can only be decided by duly authorised Government representatives.

In conclusion, we desire to reiterate the statement made above that in our opinion the scheme as a whole with the minor modifications and additions indicated in the annex is well designed to achieve the objects which the Governments of the European States Members of the League have had in view.

The Sub-Committee trusts that the Commission of Enquiry for European Union will bring to the notice of the Council the urgency of putting the scheme into force, as a measure for allocating the present economic crises, and they hope that it may be possible for the Council to arrange for the Organisation Committee to be set up at an early date and, if possible, before August 15th, the time-limit for signature of the Convention.

Appendix.

The additions and modifications suggested by the Sub-Committee to the Convention, Charte and Statutes are as follows:

1. Draft Resolution:

"The Conference recommends the principles of mortgage legislation set out in the annex to the present resolution to the attention of all Governments which propose to reform their existing legislation on this subject."

The reasons for suggesting that this recommendation should be adopted have been explained in the report.

2. Convention, Article 5, paragraph 3.

This paragraph should read as follows:

"3. If, on the coming into force of the Convention, the total of the contributions of the Governments which have ratified it exceeds the sum of five million dollars, the amount of each Government's contribution shall be reduced in proportion to its size in such manner that the total of the contributions does not exceed five million dollars.

"If, in consequence of subsequent ratifications or accessions, the sum total of the special reserve fund A, formed with the advances of the Governments, and of the special reserve fund B, formed by the International Company, which are referred to in Article 21 of the Statutes, exceeds the sum of five million dollars, the A fund shall be reduced by repayments to the Governments in proportion to their respective contributions so as to make the sum total of the A and B funds equal to five million dollars: provided always that a Government acceding under the provisions of Article 15, paragraph (a), shall not participate in the repayments effected from its own contribution."

This change would appear to be necessary in order to make it clear what would happen in the event of European Governments adhering to the Convention, in accordance with Article 15, paragraph (a), more than five years after its entry into force.


Omit the words "expropriation" and "seizure". The words "expropriation" and "seizure" which it is proposed to omit might be interpreted as referring to an expropriation or seizure resulting from the normal application of the ordinary law of the country (e.g., expropriation for public purposes, or seizure by order of a Court for the purpose of satisfying a debt). The words to be omitted are not necessary to ensure to the Company the protection against exceptional measures which it is the object of the article to afford.

4. Convention, Article 7, paragraph (b).

Omit the present text. Paragraph (c) to become paragraph (b) and to read as follows:

"(b) The holders of the shares and bonds issued by the International Company shall not pay any tax, whether in the form of a tax on capital or that of a tax on income, by reason of their possession of the said shares or bonds, or by reason of the receipt of dividends or interest or capital repayments, when they are not resident on the territory of the State which levies such taxes."

The suppression of paragraph (b) is a consequence of the exception included in the new text of the Charter which permits the country where the International Company has its registered office to tax the shares and bonds of the International Company, if they are issued on its market or circulate on its territory. In these circumstances the other contracting Governments could not be asked to give an advantage, which the country where the International Company has its seat was no longer asked to give.
The amendments to the former paragraph (c) which becomes paragraph (b) are merely drafting changes.

5. **Convention, Article 9.**

This article should read as follows:

"(a) The acceptance, whether total or partial, of the provisions of Articles 7 and 8 shall be effected by means of a declaration made at the time of signing, ratifying or acceding to the present Convention, or by means of a declaration subsequently addressed to the Secretary-General of the League of Nations. The Secretary-General shall notify such declaration to the Governments of the Members of the League.

(b) Governments which have accepted obligations, as provided in the preceding paragraph, shall be entitled to denounce the obligations so accepted at the end of a period of fifteen years, and at the end of subsequent periods of the same duration, by a notification to the Secretary-General of the League of Nations made within six months before the close of the period in question.

Such denunciation shall have no effect on the exemption from taxation of shares or bonds already issued or loans already granted."

The modifications made are merely drafting changes.

6. **Charter, Paragraph 6 (b).**

This paragraph should read as follows:

"(b) Duties, charges and taxes in connection with the issue or transfer of shares or bonds of the International Company. This provision shall be without prejudice to the right of the . . . Government to levy under its legislation, otherwise than through the International Company, duties, charges and taxes in connection with the issue and transfer on its market of the said shares and bonds."

The text is modified in order to make clear:

(a) That the country where the International Company has its seat will only be able to levy stamp duties and similar taxes on the shares and bonds of the International Company issued on its market or circulating on its territory.

(b) That such taxes cannot be levied through the International Company.

7. **Statutes, Articles I2 and 25.**

Article I2: the last paragraph to read as follows:

"In each country a preference shall be given to subscriptions from mortgage or agricultural credit companies or institutions. In countries possessing legislation of a general character concerning the organisation of such companies or institutions the preference shall be given to such of those companies as have been authorised and constituted under the provisions of such legislation."

Article 25 to read as follows:

"The directors mentioned in Article 23, paragraph 3, and the assessors mentioned in Article 24 must be chosen from among governors, vice-governors, presidents, vice-presidents or representatives of land, mortgage or agricultural credit companies or institutions or from among persons having special knowledge and experience of banking and credit.

In countries possessing laws of a general character governing the organisation of the above-mentioned companies or institutions, the companies or institutions to which the preceding provision refers shall be those which have been authorised or constituted under the provisions of such a law."

The addition of the words "of a general character" in both of these articles is intended to meet the particular legal conditions which exist in certain countries to which the phrase as originally drafted could not be applied.

8. **Statutes, Article 33, paragraph 2.**

Add the following paragraph:

"The Chairman shall have the right to require that any decision of the Executive Committee should be suspended and be referred to the Board."

The object of this amendment is to give the Chairman the same power in the Executive Committee as he is given by Article 37 on the Board of Directors.

9. **Statutes, Article 50, paragraph (b).**

This paragraph should read as follows:

"By a charge, ranking, pari passu, with all the mortgage bonds of the national company, upon all the mortgages acquired by the Company and forming the counterpart to the said mortgage bonds."

The previous draft limited the charge to mortgages acquired by the national companies with the funds resulting from the issue of their mortgage bonds. In fact, however, existing mortgages would have to be charged before the delivery of the bonds in question. The funds could not be received by the national companies until such charge had been effected.
CONVENTION, CHARTE ET STATUTS DE LA SOCIÉTÉ INTERNATIONALE DE CRÉDIT HYPOTHÉCAIRE AGRICOLE.

PREAMBULE.

Les Gouvernements de ..........................................................

désireux de prêter leur aide à l'agriculture par le moyen d'une organisation internationale de crédit hypothécaire agricole;

Considérant qu'une telle organisation constituerait un instrument précieux de coopération internationale, dans le cadre de l'œuvre économique de la Société des Nations;

Résolus à favoriser la création d'une Société internationale de Crédit hypothécaire agricole ayant pour objet d'alléger les charges financières qui grèvent la production agricole dans divers pays, de diminuer les frais d'exploitation qui absorbent actuellement une trop grande part des profits et d'augmenter le pouvoir d'achat des agriculteurs;

Décidés à donner à cette Société internationale toute l'assistance qui est en leur pouvoir pour qu'elle remplisse avec succès sa mission,

Sont convenus, par l'intermédiaire de leurs représentants soussignés, dûment autorisés, de conclure la Convention suivante, dont les dispositions concernant le Conseil de la Société des Nations ont été acceptées par lui, dans sa résolution du 21 mai 1931.

ARTICLE PREMIER.

Principe.

1. Les Gouvernements contractants conviennent qu'une Société internationale de Crédit hypothécaire agricole sera créée, conformément aux dispositions de la présente Convention, de la Charte constitutive et des Statuts y annexés.

2. Les Gouvernements contractants reconnaissent la personnalité juridique de la Société internationale dès sa constitution.


Le Comité d'organisation cessa ses fonctions dès que le Conseil d'administration aura été constitué. Les sommes qui auraient été avancées par le Conseil de la Société des Nations ou par d'autres pour couvrir les dépenses de ce Comité, seront remboursées par la Société internationale sur le produit de l'émission des actions.

ARTICLE 2.

Engagements du gouvernement du pays où la Société internationale aura son siège.

1. Le Gouvernement suisse s'engage à accorder à la Société internationale, aussitôt que possible, une Charte constitutive qui aura force de loi, et dont le texte figure dans l'annexe à la présente Convention. Cette Charte comporte la sanction des Statuts qui y sont annexés.

2. Le Gouvernement suisse s'engage à ne pas abroger cette Charte, à n'y apporter ni modifications ni additions autrement qu'après une décision prise dans les conditions prévues à l'article 17 pour l'abrogation ou la révision de la Convention.

Toutefois, s'il s'agissait d'un changement à apporter à la Charte autrement qu'à la fin des périodes prévues pour la durée de la présente Convention, le paragraphe b) de l'article 17 s'appliquerait sous cette réserve que le consentement des Gouvernements contractants pourrait être valablement donné sans qu'il fût besoin de réunir une conférence pour l'obtenir.

3. Le Gouvernement suisse s'engage à ne pas sanctionner de modifications aux articles des Statuts de la Société internationale visés au paragraphe 3 de la Charte si ce n'est avec le consentement des Gouvernements contractants, donné dans les conditions prévues à l'article 17, et le consentement des organes de la Société internationale, donné dans les conditions prévues au paragraphe 3 de la Charte.

4. Les engagements du Gouvernement suisse en exécution du présent article ne s'appliqueront pas au cas où la Charte serait abrogée en conséquence du transfert du siège de la Société internationale dans un autre pays, conformément à l'article 3, paragraphe 2.
CONVENTION, CHARTER AND STATUTES OF THE INTERNATIONAL AGRICULTURAL MORTGAGE CREDIT COMPANY.

PREAMBLE.

The Governments of ..............................................

being desirous of assisting agriculture by means of an international agricultural mortgage credit organisation;

Believing that such an organisation would constitute a valuable instrument of international co-operation within the framework of the economic activity of the League of Nations;

Being resolved to support the establishment of an International Agricultural Mortgage Credit Company intended to alleviate the burdens which weigh on agricultural production in various countries, to diminish the working expenses which at present absorb too large a share of the profits and to increase the purchasing capacity of the agriculturists;

And intending to give this International Company all the assistance in their power to enable it to achieve its purpose successfully;

Have agreed through their undersigned representatives, duly authorised for the purpose, to conclude the following Convention, of which the provisions relating to the Council of the League of Nations have been accepted by the latter by its resolution of May 21st, 1931.

ARTICLE 1.

Principle.

1. The contracting Governments agree to the establishment of an International Agricultural Mortgage Credit Company in accordance with the provisions of the present Convention and the constituent Charter and Statutes thereto annexed.

2. The contracting Governments recognise the corporate personality of the International Company from the moment of its incorporation.

3. An Organisation Committee appointed by the Council of the League of Nations shall take all steps required for the first issue of shares of the International Company, for its organisation and by way of preparation for its operations.

The Organisation Committee shall relinquish its duties as soon as the Board of Directors has been constituted. Such sums as may have been advanced by the Council of the League of Nations, or by others, to cover the expenses of the Organisation Committee, shall be refunded by the International Company out of the proceeds of the issue of the shares.

ARTICLE 2.

Obligations assumed by the Government of the Country in which the International Company has its Registered Office.

1. The Swiss Government undertakes to grant the International Company, as soon as possible, a constituent Charter having force of law, the text of which is contained in the Annex to the present Convention. This Charter shall bring into force the Statutes annexed to it.

2. The Swiss Government undertakes not to revoke this Charter and not to introduce any modifications or additions except after a decision taken under the conditions laid down in Article 17 for the abrogation or revision of the Convention.

Nevertheless, paragraph (b) of Article 17 will apply to changes made in the Charter at times other than the end of the periods laid down for the duration of the present Convention, subject to the provision that the consent of the contracting Governments may be validly given without calling a Conference to obtain such consent.

3. The Swiss Government agrees not to sanction amendments to the articles of the Statutes of the International Company enumerated in paragraph 3 of the Charter, except with the consent of the contracting Governments given as provided in Article 17 and with the consent of the organs of the International Company given as provided in paragraph 3 of the Charter.

4. The undertakings given by the Swiss Government under the present article will not apply to revocation of the Charter as a result of the transfer of the registered office of the company to another country under the provisions of Article 3, paragraph 2.
ARTICLE 3.

Transfert du siège de la Société internationale.

1. Au cas où la présente Convention ne serait pas ratifiée par le Gouvernement mentionné à l'article 2, il appartiendrait au Conseil de la Société des Nations, décidant à la majorité des voix, d'obtenir l'acceptation des obligations de cet article par un autre Gouvernement partie à la Convention qui octroierait à la Société internationale sa Charte constitutive.

2. Le Conseil de la Société des Nations, décidant à la majorité des voix, pourra à tout moment prendre, avec le consentement de l'Assemblée générale extraordinaire de la Société internationale statuant dans les conditions prévues à l'article 44 des Statuts et avec l'agrément de la majorité des Gouvernements contractants comprenant les voix de Gouvernements ayant fourni un total de 75% des sommes versées en application de l'article 5 ci-après sans tenir compte de tout remboursement effectué à quelque titre que ce soit, les mesures nécessaires pour transférer le siège de la Société internationale dans un autre pays.

ARTICLE 4.

Limitation de l'octroi des prêts aux Sociétés nationales des pays contractants.

Les prêts visés aux Statuts de la Société internationale ne peuvent être consentis qu'aux sociétés ou instituts de crédit hypothécaire ou agricole (ci-après dénommés « Sociétés nationales ») ayant leur siège sur le territoire des Gouvernements contractants.

ARTICLE 5.

Avances des Gouvernements pour la constitution d'une réserve spéciale.

Afin de permettre à la Société internationale de constituer une réserve spéciale, telle qu'elle est prévue à l'article 21 des Statuts, les Gouvernements contractants s'engagent à consentir à ladite Société, dans les conditions suivantes, des avances — qu'elle remboursera conformément à ses statuts — s'élevant à vingt-cinq millions de francs suisses or équivalant à 7.258.064,516 grammes d'or fin.

Les Gouvernements participant au budget de la Société des Nations:

a) pour au moins 34 unités, apporteront chacun une contribution de 3.000.000 francs
b) de 17 à 33 {quote} 1.875.000 {quote}
c) 8 à 16 {quote} 1.000.000 {quote}
d) 5 à 7 {quote} 500.000 {quote}
e) moins de 5 {quote} 125.000 {quote}

Les contributions seront versées dans le délai d'un mois à partir de la souscription des actions A, conformément à l'article 12 des Statuts, ou des ratifications ou adhésions qui interviendraient ultérieurement.

Si lors de l'entrée en vigueur de la Convention, le total des contributions des Gouvernements ayant ratifié la Convention excède la somme de vingt-cinq millions de francs, le montant de la contribution de chaque Gouvernement sera réduit proportionnellement à son importance, de façon que le total des contributions n'excède pas vingt-cinq millions de francs.

Si, par suite de ratifications nouvelles ou d'adhésions, le total du fonds de réserve spéciale A, constitué au moyen des avances des Gouvernements, et du fonds de réserve spéciale B, constitué par la Société internationale (fonds visés à l'article 21 des Statuts), excède la somme de vingt-cinq millions de francs, le montant du fonds A sera réduit au moyen de remboursements proportionnels au montant des avances de chaque Gouvernement, de façon que le total des fonds A et B soit égal à vingt-cinq millions de francs. Toutefois, le Gouvernement qui aura adhéré à la Convention conformément à l'article 15, paragraphe a) ne bénéficiera pas des remboursements effectués avec le produit de sa contribution.

4° Dans le cas, au contraire, où la somme de vingt-cinq millions de francs ne serait pas atteinte, tout Gouvernement pourra volontairement fournir une contribution supplémentaire.

ARTICLE 6.

Exemption de toute mesure d'expropriation, etc.

La Société internationale, ses biens et avoirs situés sur le territoire des Gouvernements contractants et toutes les remises, soit en provenance, soit à destination du territoire d'un Gouvernement contractant, soit empruntant ce territoire, effectuées par ou au profit de la Société internationale et résultant des opérations faites par elle dans l'exercice normal de son activité, ne pourront faire, ni en temps de paix ni en temps de guerre, l'objet d'une mesure telle que réquisition, confiscation, défense ou restriction de la faculté d'effectuer des paiements à l'étranger ou de recevoir des paiements provenant de l'étranger, ou de toute autre mesure analogue. En outre, lesdites remises ne pourront faire l'objet d'une mesure ayant pour effet d'empêcher que le paiement de dettes qui ont été libellées en monnaies étrangères ou en or, soit fait dans la ou les monnaies stipulées au contrat, ou, le cas échéant, en or, et de telle façon que la somme payée soit égale, pour chaque unité monétaire de la dette, à l'équivalent légal en or de cette ou de ces monnaies, à la date du contrat.
ARTICLE 3.

Transfer of the International Company's Registered Office.

1. If the present Convention is not ratified by the Government mentioned in Article 2, it shall be the duty of the Council of the League of Nations, acting by a majority vote, to obtain acceptance of the obligations of that article by another Government party to the Convention which shall grant to the International Company its constituent Charter.

2. The Council of the League of Nations, acting by a majority vote, may, at any moment with the consent of an extraordinary general meeting of the International Company, given in accordance with the conditions laid down in Article 44 of its Statutes and with the approval of a majority of contracting Governments comprising Governments which (disregarding any repayments of whatever kind that may have been made) have provided 75 per cent of the total sums paid under Article 5, take the necessary measures to transfer the registered office of the International Company to another country.

ARTICLE 4.

Loans to be accorded only to the National Companies of the Contracting Countries.

The loans provided for by the Statutes of the International Company may only be accorded to mortgage or agricultural credit companies or institutions (hereafter called "national companies") which have their registered offices in the territory of the contracting Governments.

ARTICLE 5.

Advances to be made by the Governments to create a Special Reserve.

In order to permit the International Company to establish a special reserve as provided in Article 21 of the Statutes, the contracting Governments undertake to make, as provided below, advances to the Company, which it shall repay as provided in its Statutes and which shall amount to twenty-five million gold Swiss francs, equivalent to 7,258,064.516 grammes of fine gold.

1. Governments contributing to the budget of the League of Nations:

<table>
<thead>
<tr>
<th>Units</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>3,000,000</td>
</tr>
<tr>
<td>(b)</td>
<td>1,875,000</td>
</tr>
<tr>
<td>(c)</td>
<td>1,000,000</td>
</tr>
<tr>
<td>(d)</td>
<td>500,000</td>
</tr>
<tr>
<td>(e)</td>
<td>125,000</td>
</tr>
</tbody>
</table>

2. The contributions shall be paid within one month from the subscription of the A shares as provided for in Article 12 of the Statutes or from the date of ratification or accession if effected subsequently.

3. If, on the coming into force of the Convention, the total of the contributions of the Governments which have ratified it exceeds the sum of twenty-five million francs, the amount of each Government's contribution shall be reduced in proportion to its size in such manner that the total of the contributions does not exceed twenty-five million francs.

If, in consequence of subsequent ratifications or accessions, the sum total of the special reserve fund A formed with the advances of the Governments and of the special reserve fund B formed by the International Company, which are referred to in Article 21 of the Statutes, exceeds the sum of twenty-five million francs, the A fund shall be reduced by repayments to the Governments in proportion to their respective contributions so as to make the sum total of the A and B funds equal to twenty-five million francs: provided always that a Government acceding under the provisions of Article 15, paragraph (a), shall not participate in the repayments effected from its own contribution.

4. If the sum of twenty-five million francs is not attained, any Government may make an additional voluntary contribution.

ARTICLE 6.

Exemption from Expropriation, etc.

The International Company, its property and assets, situate in the territory of the contracting Governments, and all remittances coming from or going to the territory of a contracting Government or passing through such territory, effected by or to the International Company and resulting from transactions carried out by it in the normal course of its business, shall be exempt in time of peace and in time of war from any measure such as requisition, confiscation, prohibition or restriction of the power to make payments abroad or to receive payments from abroad and any other similar measure. These remittances shall further be exempt from any measure preventing debts expressed in foreign currency, or in gold, from being paid in the currency or currencies stipulated, or in gold, and in such manner that the sum paid equals, for each monetary unit of the debt, the legal equivalent in gold of such currency or currencies at the date of the contract.
Au cas où, par suite de l’application de l’article 16 du Pacte de la Société des Nations, la Société internationale ne serait pas en droit de faire des paiements à certaines catégories de ses créanciers ou ne pourrait recevoir des paiements de certaines catégories de ses débiteurs, les Gouvernements contractants s’engagent à lever tout obstacle à l’exécution desdits paiements dès que l’application susvisée de l’article 16 cessera.

Art. 7. Exemptions fiscales.
Les Gouvernements contractants qui acceptent le présent article, désireux d’accorder à la Société internationale des facilités spéciales pour l’émission de son capital et le placement de ses obligations, s’engagent à appliquer en tout ou en partie les dispositions suivantes :

a) Aucun impôt sur le revenu ou les bénéfices, le chiffre d’affaires ou le capital ne sera perçu sur la Société internationale ;

b) Les porteurs d’actions et obligations émises par la Société internationale ne paieront aucun impôt, soit sous forme d’impôt sur le capital, soit sous forme d’impôt sur le revenu, en raison de leur possession de ces titres, actions ou obligations, de l’encaissement de dividendes, ou d’intérêts ou d’un remboursement de capital, lorsqu’ils n’ont pas leur résidence sur le territoire de l’Etat qui perçoit ces impôts.

Art. 8. Exemptions fiscales.
Les Gouvernements contractants qui acceptent le présent article, désireux de fournir des facilités spéciales pour l’octroi de prêts par la Société internationale aux Sociétés nationales exerçant leur activité sur leur territoire, s’engagent à appliquer, en tout ou en partie, les dispositions suivantes :

a) Aucun droit de timbre, d’enregistrement ou autre droit ne sera perçu à l’occasion d’un acte ou document quelconque concernant : 1° l’octroi de prêts par la Société internationale aux Sociétés nationales, 2° le prêt aux agriculteurs de l’argent ainsi obtenu par ces Sociétés nationales, et 3° tout ce qui se rapporte à la création et à la conservation d’hypothèques garantissant les prêts ainsi consentis aux agriculteurs et à l’exécution du gage ;

b) Aucun impôt ne sera perçu sur les intérêts et capitaux versés par les agriculteurs aux Sociétés nationales en raison des prêts que ces Sociétés nationales leur auront consentis sur le produit des emprunts accordés par la Société internationale.

Art. 9. Mode d’acceptation des articles 7 et 8.

a) L’acceptation totale ou partielle des dispositions des articles 7 et 8 s’effectuera soit par une déclaration faite lors de la signature, de la ratification ou de l’adhésion donnée à la présente Convention, soit par une déclaration adressée ultérieurement au Secrétaire général de la Société des Nations. Ce dernier notifiera cette déclaration aux Gouvernements des Membres de la Société des Nations.

b) Les Gouvernements qui auront donné l’acceptation prévue à l’alinéa précédent auront la faculté de dénoncer les engagements ainsi acceptés à la fin d’une période de quinze ans et à la fin de périodes ultérieures de même durée, en adressant une notification au Secrétaire général de la Société des Nations au cours des six mois précédant le terme de ces périodes.

Cette dénonciation sera sans effet en ce qui concerne l’exemption fiscale des actions et obligations antérieurement émises et des prêts antérieurement consentis.

Art. 10. Conditions éventuelles de l’octroi de prêts aux Sociétés nationales.

Les Gouvernements contractants reconnaissent que la Société internationale :

1° Peut exiger que les Gouvernements des pays dont les Sociétés nationales désirent obtenir des prêts par son entremise prennent certaines mesures législatives destinées à rendre plus efficaces les garanties hypothécaires servant de gage aux prêts consentis ;

2° Peut exiger, comme condition d’un prêt à une Société nationale, — lorsqu’elle juge, pour une raison quelconque, que les créanciers hypothécaires n’ont pas de garantie suffisante dans le pays où cette Société nationale exerce son activité, — que le Gouvernement de ce pays garantisse le service des obligations qu’elle remettra à la Société internationale en reconnaissance du prêt ;