

The date "1.VIII.1937" should
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as indicated in red pencil.

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M O N E T A R Y P O L I C Y.

Speech by

Mr. Arthur R. GUINNESS (United Kingdom)

I have been asked to open the debate on the Resolution on Monetary Policy, which is already in your hands. In this connection, I should like to recall to you the Resolutions on Monetary Policy passed at our last Congress in Paris in 1935. You will remember that the chief aim of this Resolution was to urge the principal governments concerned to inaugurate immediately appropriate consultations for the purpose of formulating and putting into effect an agreement for provisional stabilization, with a view to eventual restoration of the foreign exchange rates on the basis of gold.

I would also draw your attention to the very valuable work which was done by the joint committee of the Carnegie Endowment for Peace and the International Chamber of Commerce, the results of whose work have been published in two volumes. In the resolution which I quoted above, and in the reports of the Joint Committee of the International Chamber of Commerce and the Carnegie Endowment, we recognised that to go back to an effective de jure gold standard governments would have to take measures to adjust their national economic financial policies to allow of the functioning of a gold standard over a long period. The advice which we tendered to the governments has been carried into effect in the Tripartite Declaration made by the United States, Great Britain and France last September, and gave us all we asked for in the way of a preliminary agreement as envisaged by their policy, and we in London therefore particularly welcomed this Declaration, which has since been joined by Switzerland, Belgium and Holland, as offering a start in the program which we envisaged two years ago. I would particularly commend to Delegates the very valuable reports of the joint committee of the International Chamber of Commerce and the Carnegie Endowment as offering an excellent basis for a study of this problem, and I think great credit is due to the International Chamber for the part they have taken in this question.

The importance of the Tripartite Declaration is not only that we achieved reasonable stability between the exchanges of the six countries, but that we got real international co-operation among the different countries and central banks concerned, so that the men who have to work on the agreement from day to day get to know each other, understand each other's points of view and are able, therefore, to co-operate with each other in the widest possible sense, this understanding making for mutual trust and appreciation and the very real form of collaboration. This, I think, is a very important point in the mutual working of the Tripartite Declaration.

I record with profound regret that it may be necessary for some readjustment to be made in the French currency situation, which may be envisaged from the closing of the stock exchange and the exchange market in Paris, but I am certain that this readjustment will be carried out more smoothly through the working of the Tripartite Declaration than it could possibly have been otherwise. I am unable to say more on this subject, as our news from Paris is so limited, but the general feeling is that there will have to be some readjustment in the exchange value of the Franc. However, as we have so often

stressed in our Resolutions, unless there is equilibrium both in budget and in prices, exchange stability cannot be maintained.

I remember that at our last Congress many members present were exceedingly nervous at what might happen unless the nations went back promptly to de jure stabilization on a gold basis. Members foresaw chaos in international trade, falls in commodities and raw material prices, and all sorts of disasters. In fact, over the period of the last two years we have seen a period of better international trade, rising raw commodity prices and generally a better feeling both internally and externally in business circles, although, of course, we would welcome a still further development of international trade, which today is far behind that of the years from 1926 to 1930.

One of the factors which I believe has been a great stabilizing force over the last two years has been the steadiness of sterling exchange. We in London have not yet gone back to a de jure stabilization, or even to a de facto stabilization, but over the last two years there has been great stability in the sterling rate as measured against gold. The figures show that the actual movement in the sterling exchange has only been about 1.4% above the average price for gold, or a drop below the average price of 2.5%, a total fluctuation of under 4% over the last two years, the average price being 140s.9d. This shows that we have in fact reached real stability in exchange rates, and that this stability may give real confidence to traders in sterling exchange. You will notice that the period I have taken covers 18 months before the Tripartite Agreement was reached, so that this stability had already been achieved quite a period before the signing of that Declaration. I think that great credit is due to the Old Lady of Threadneedle Street, as we in the City affectionately call the Bank of England, for the way in which the Equilization Fund has been operated and for her excellent ironing out of minor fluctuations.

In addition to the British Dominions, other than Canada and Newfoundland, I think I am safe in saying that Scandinavia and Iceland, Finland, Estonia, Portugal, Egypt, Siam and the Argentine, and since 1936 Latvia and Greece, have been stabilizing their currencies on sterling, in what is called the sterling area, so that if we add those covered by the Tripartite Declaration we have a very large area, or a total of 20 countries, who today have a real stability in their currencies and thus give a strong help to international trade - a very great achievement.

Sir John Simon in the House of Commons on Monday evening gave an interesting account of the operation of the British Exchange Equalization Fund. Introducing the motion to increase the Fund by £200,000,000 to £550,000,000, he said that on the 30th March last the Fund held 26,674,000 fine ounces of gold, equivalent, at 140s. per oz., to £176,718,000. In addition the Bank of England held at that date 73,842,000 fine ounces, equivalent to £516,894,000, a total of £700,000,000. I should like to draw attention to the fact that in calculating the gold in the Bank of England Return, it is taken in accordance with the law at 84s.11½d., so that one has to re-value the gold on a basis of £7 an ounce to get today's value. Sir John Simon stated that while the Fund had to work in secrecy for its current operations, he proposed in future to give the figures of each half-year's operations three months in arrears, i.e. the figures for the half year ending 31st March would be published on 30th June, and the figures for the half year ending 30th September would be published on 31st December. I feel that with this great bastion of gold all our friends who are interested in what happens to sterling exchange (since the countries in the sterling area are basing their daily quotations on sterling) can have the utmost confidence in the position of sterling and the ability of the Bank of England to maintain the stability of sterling as it has been maintained over the last two years.

You will want me to say a few words about the gold situation. Since 1931, there has undoubtedly been a very great increase in both the quantity of gold available for monetary purposes in the hands of

governments and central banks, and on account of the increased price of gold when measured in terms of money a very great increase. According to the best available information, the monetary value of gold available as a basis of credit in the hands of governments and central banks is today the equivalent of 4,330,000,000 Pounds at 140 shillings an ounce, rather less than three times the figure available fifteen years ago, taking the then price of 85 shillings an ounce. The published figures in quantities are 619 million fine ounces as at the end of 1935, as against 497 million fine ounces at the end of 1929, giving an increase of a little more than 25%, or, allowing for Russia, somewhere about 33%. The high price of gold has caused increased output by the mines, and much dishoarding of gold. India alone provided 35,000,000 fine ounces, equivalent in value to nearly £250,000,000 over the period 1931 to 1936. However, the flow of hoarded gold from India is diminishing in quantity, and other hoarded gold has been sold to a large extent, so that the supply from these quarters need not necessarily continue. There is no doubt that there is a difficult question about the supply of gold which has to be faced. However, I feel that much too much stress has been laid by the business community, and much too much alarm caused, by the effects that might be caused by some readjustment in the price of gold bullion in London and New York. It seems to me that what really matters is that there should be stability between the leading foreign exchanges, which stability, as I have already shown, has been achieved between many of the principal currencies of the world, and which we hope will be further developed by further adherence to the Tripartite Declaration. It is essential however that if some adjustment has to be made it should not be made unilaterally but by multilateral agreement, so that the exchange equilibrium will not be disturbed thereby; i.e. if it is necessary to lower the price of gold five dollars in New York, it should then be lowered in London by £1., so that the Pound and the Dollar will remain on their present basis.

Many people fear that if the price of gold is lowered there will be a corresponding fall in commodity values. Much has been written on this problem, but the one broad outstanding fact to me seems to be that while we have today between two and three times the amount of monetary gold in the Central Banks and Governments which could be used as a basis for credit, neither the prices of raw materials nor of finished goods are today above the prices that they stood at in 1929. Why, therefore, should one expect a fall in the price of commodities should some readjustment of the gold price be necessary. If you will refer to the blue pamphlet of statistics which we have been given with our Congress documents, you will notice that there is only one country (Denmark) of all the countries cited there, which include the principal countries of the world, in which the cost of living or the indices of wholesale prices exceed those of 1929. Why, therefore, should the price fall.

What really affects the price of commodities, in my opinion, is the supply and demand, and today the general position of raw materials is a much healthier one than three or four years ago. In the period 1932-34 we had a buyers market, since then surpluses have been eliminated, partly by natural laws, lower prices curtailing output, and nature herself eliminating surpluses by droughts and bad harvests. Increased demands and better business have created a demand today, so that we have now a sellers market and if we can only get international trade going again in some real proportion of its previous volume, there appears no reason to expect a substantial fall even though it may be necessary to make some adjustment in gold prices in due course. As to whether some adjustment may ultimately be necessary, there is one fact that I should like to have you bear in mind, and that is what is called the mystic quality of gold. I believe myself that this mystic quality in the past consisted of the fact that it cost nearly a Pound to mine a Sovereign's worth of gold, but with the present price the profits are much higher, leading to increased production and increased exploration for new gold areas, and if gold is to lose its scarcity value or its mystic value we shall lose the only measuring stick which the world for centuries has accepted, because of its scarcity value, as the real measure of value of commodities and services.

I do not believe anybody today knows whether such adjustment may be necessary. I believe that the wisest policy is to extend the area of currency agreement covered by the Tripartite Declaration, leaving for the present the question of gold aside, extend it to its widest possible limits by the adherence of as many nations as possible and then, if necessary, put more gold into the currency by general agreement, and not by unilateral action of one particular country, in this way maintaining parity of exchanges. An adjustment made in this way with general co-operation will alleviate the dangers of deflation and fall in values, and the sentimental ill effects will be rapidly adjusted.

There is no doubt ample opportunity for the use of gold in world trade. A table of distribution of gold shows that Europe today holds 44.9% of the world resources in gold, 45.1% being in the hands of the United States, whereas before the war Europe had 63%, or three times the amount of gold then held by America. The position of Great Britain has not altered greatly. We held 8.8% in 1913, and 10.8% at the end of 1936. France, on the other hand, held 19.4% in 1913 and 12.5% in 1936. Great changes have taken place in Germany, which held 11.1% in 1913 and only .2% in 1936. Gold is very badly distributed, some countries having a great shortage and other countries so replete with gold and hot money that they have to sterilise it and suffer a headache from it. The result is that the United States has today over 1,000,000,000 dollars of gold sterilized in the effort to restrict a gold inflation in the credit structure and they have applied severe measures of restriction throughout the Federal Reserve System by forcing banks to keep abnormal reserves, and they are making every effort to restrict the effect of this gold surplus on their price structure. When a human ^{being} gets a headache in a over-heated room a simple remedy is to open the window and let in the fresh air, and undoubtedly some redistribution of gold could be effected by opening the window of international trade and exchanging goods and services by lowering tariff barriers and letting in the fresh air, a policy, I understand, advocated by Mr. Cordell Hull. But to readjust the European situation it is necessary that we should have more than fresh air. I should like to endorse what Mr. D'Arcy Cooper said here yesterday, namely that subject to a far-reaching scheme for European political conciliation, I should like to see a large gold credit or loan on a reasonable rate of interest granted by the United States and Great Britain to Germany to allow her to get rid of exchange controls and to get back to freedom of currency and abolition of all the trade restrictions which hinder German commerce today with the external world. I notice Dr. Schacht is building a fine new structure for the Reichsbank and has plenty of room there for a substantial quantity of gold, and no better investment could be made of some of the gold which is being hoarded in Threadneedle Street and in Kentucky than a loan to Germany to bring back 66,000,000 people into the orbit of world trade. I believe that the smaller nations of South-Eastern Europe would be able immediately to get rid of their exchange restrictions and controls once there has been a readjustment of the German situation, since they essentially depend on her for their markets and their trade. The essential problem of European restrictions rests right here in Berlin.

It is essential that we should have some readjustment and agreement on the political situation. Without some agreement, business men may sit here and discuss measures of stabilization and measures to improve trade, but they will be of no avail. I think I cannot do better than copy Minister President Goering, who in his opening speech made reference to a speech by Sir Neville Henderson recently in Berlin. He was referring to relations between Great Britain and Germany. He said, "Although I have only been here a few weeks, I have heard it constantly repeated that Great Britain is trying to hem Germany in on every side. I can assure you that Great Britain is making no such attempt, and has no desire to make it. Commercial rivalry, such as there is always bound to be between us, is a stimulus which benefits consumers, and which never has been and never will be a cause of national ill feeling or ill will in England.

The most vital problems of Germany today have to do with raw materials. I do not believe that Germany will find in any country more than in Great Britain an ever willingness to do what may be possible to help her in this matter. Where more than in London, with its long financial experience, has there been greater readiness shown to help others and to discuss their difficulties. I can tell you quite definitely and truly that what England wants, and all that England wants, is peace in Europe and in a world that surely had enough of war in those ghastly years of 1914 to 1918. Guarantee us peace and peaceful evolution in Europe and Germany will find that she has no more sincere and more useful friend in the world than Great Britain."

These, gentlemen, were the words of our Ambassador at a dinner of welcome given him by the Deutsch - Englische Gesellschaft, and I know that they find an echo in the heart of every British delegate here. We need a guarantee of peace, and what better guarantee than an understanding and friendly co-operation between England and Germany. Before one can reach understandings, one must get to know each other, sit down and talk matters over around a table, and I say from the bottom of my heart that it is with the profoundest regret that we understand a visit recently proposed of a leading German Statesman to London has been postponed. How can we get together without contact, and we business men know that we must take opportunities as they occur. I concur with our President in his remarks about missed opportunities at the opening session. A great opportunity has been missed, to our profound regret.

I have taken the motto of Dr. Schacht for this Congress.

"We sought the truth, and had the courage to speak it."
