GENOA FINANCIAL COMMISSION REPORT.

The following is the complete text of the report of the Financial Commission of the Genoa Conference, of which Sir Robert Horne, the British Chancellor of the Exchequer, was chairman:

A. Resolution adopted by the Financial Commission on April 20, 1922:

That this commission having received the reports of the sub-commissions on currency and on exchange, transmits them to the conference and recommends to the conference the following resolutions for adoption:

I. CURRENCY.

Resolution 1. The essential requisite for the economic reconstruction of Europe is the achievement by each country of stability in the value of its currency.

Resolution 2. Banks, and especially banks of issue, should be free from political pressure, and should be conducted solely on lines of prudent finance. In countries where there is no central bank of issue one should be established.

Resolution 3. Measures of currency reform will be facilitated if the practice of continuous cooperation among central banks or banks regulating credit policy in the several countries can be developed. Such cooperation of central banks, not necessarily confined to Europe, would provide opportunities of coordinating their policy without hampering the freedom of several banks. It is suggested that an early meeting of representatives of central banks should be held with a view to considering how best to give effect to this recommendation.

Resolution 4. It is desirable that all European currencies should be based upon a common standard.

Resolution 5. Gold is the only common standard which all European countries could at present agree to adopt.

Resolution 6. It is in the general interest that European Governments should declare now that the establishment of a gold standard is their ultimate object, and should agree on the program by way of which they intend to attain it.

Resolution 7. So long as there is a deficiency in the annual budget of the State which is met by the creation of fiduciary money or bank credits, no currency reform is possible and no approach to the establishment of the gold standard can be made. The most important reform of all must therefore be the balancing of the annual expenditure of the State without the creation of fresh credits unrepresented by new assets. The balancing of the budget requires adequate taxation, but if government expenditure is so high as to drive taxation to a point beyond what can be paid out of the income of the country, the taxation itself may still lead to inflation. The reduction of government expenditure is the true remedy. The balancing of the budget will go far to remedy an adverse balance of external payment by reducing internal consumption. But it is recognized that in the cases of some countries the adverse balance is such as to render the attainment of equilibrium in the budget difficult without the assistance in addition of an external loan. Without such a loan that comparative stability in the currency upon which the balancing of the budget by the means indicated above largely depends may be unattainable.

Resolution 8. The next step will be to determine and fix the gold value of the monetary unit. This step can only be taken in each country when the economic circumstances permit; for the country will then have to decide whether to adopt the old gold parity or a new parity approximating to the exchange value of the monetary unit at the time.

Resolution 9. These steps might by themselves suffice to establish a gold standard, but its successful maintenance would be materially promoted, not only by the proposed collaboration of central banks, but by an international convention to be adopted at a suitable time. The purpose of the convention would be to centralize and coordinate the demand for gold, and so to avoid those wide fluctuations in the purchasing power of gold which might otherwise result from the simultaneous and competitive efforts of a number of countries to secure metallic reserves. The convention should embody some means of economizing the use of gold by maintaining reserves in the form of foreign balances, such, for example, as the gold-exchange standard or an international clearing system.

Resolution 10. It is not essential that the membership of the international convention contemplated in the preceding resolution should be universal even in Europe; but the wider it is the greater will be the prospect of success.

Nevertheless, if the participating countries and the United States are to use the same monetary standard, no scheme for stabilizing the purchasing power of the monetary unit can be fully effective without coordination of policy between Europe and the United States, whose cooperation, therefore, should be invited.

Resolution 11. It is desirable that the following proposals, to form the basis of the international convention contemplated in Resolution 9, be submitted for the consideration of the meeting of central banks suggested in Resolution 3:

1. The Governments of the participating countries declare that the restoration of a gold standard is their ultimate object, and they agree to carry out, as rapidly as may be in their power, the following program:
   (a) In order to gain effective control of its own currency each Government must meet its annual expenditure with out resorting to the creation of fiduciary money or bank credits for the purpose.
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II. THE FLIGHT OF CAPITAL.

Resolution. We have considered what action, if any, could be taken to prevent the flight of capital in order to avoid taxation and we are of the opinion that any proposals to interfere with the freedom of the market for exchange or to violate the secrecy of bankers' relations with their customers are to be condemned. Subject to this proviso, we are of the opinion that the question of measures for international cooperation to prevent tax evasion might be usefully considered in connection with the problem of double taxation, which is now being studied by a committee of experts on behalf of the League of Nations. We therefore suggest that the league should be invited to consider it.

III. EXCHANGE.

Resolution 1. All artificial control of operations in exchange, whether by requiring a license for transactions in exchange, or by limiting the rates at which transactions may be effected, or by discriminating between the different purposes for which the exchange may be required, or by reserving the right of intervention, is to be condemned, and should be abolished at the earliest possible date.

Resolution 2. It is desirable that where no adequately organized market in forward exchange exists such a market should be established. It has been suggested that in any country where private enterprise is found to be unable to organize such a market the central bank without itself incurring any uncovered exchange risk should provide facilities. It might, for example, give facilities to approved banks and financial houses to maintain spot facilities in foreign exchange into transactions for forward delivery by a system of "contango" or "reports" of foreign exchange, their quotations being for the double transaction of a spot deal one way and a simultaneous deal the other.

The central banks concerned would agree to provide facilities for holding foreign balances (and securities) on deposit on account of other central banks under special guarantee from each bank and from its Government as to the absolute liquidity and freedom of movement of such balances under all conditions and their absolute exemption from taxation, forced loans, and moratorium.

It is recommended that this subject should be considered by the conference of central banks referred to in a previous resolution.

B. Reports of the committee of experts appointed by the currency and exchange subcommissions of the Financial Commission.

1. CURRENCY.

We have carefully examined the documents referred to us by the currency subcommittee, and in doing so we have surveyed the existing currency situation throughout Europe. Our conclusions follow to a considerable extent those of the experts assembled in London. The interesting suggestions made by the various delegations have also been fully weighed, and we believe that the main points raised by them are covered by our report.

In presenting our report we desire to make the following general observations:

1. We recognize that we have to deal with two different classes of countries:

   Class 1. Countries where inflation has taken place, but has already been stopped, and where a certain amount of deflation has already been effected.

   Class 2. Countries where inflation is still going on.

In countries of class 1 it is essential, in order to establish a sound currency, that inflation should be stopped, and that they should thus pass over into class 2. The program specified in resolutions 6 to 8 describes the steps by which this transition should be effected. In some cases it can not be effected without assistance from abroad, including the provision of foreign assistance in the organization of a central bank of issue in certain cases.

II. The question of devaluation is one which must be decided upon by each country according to its own special requirements. We think it important, however, to draw attention to some of the considerations which will necessarily weigh with any country in coming to a decision on this question. There is a prevalent belief that a return to pre-war gold parity is necessary or desirable for its own sake. There are undoubtedly advantages to be obtained by such a return, but we desire to point out that for countries where currency has fallen very far below the pre-war parity, a return to it must involve the social and economic dislocation attendant upon continuing readjustments of money—wages and prices and a continual increase in the burden of internal debt. Regard being had to the very large debts which have been incurred since the armistice by many of the countries concerned, we are inclined to think that a return to the old gold parity involves too heavy a strain upon production.

We repeat that the decision must be left in each case to the country concerned, but we venture to suggest that a considerable service will be rendered both to its own internal economy and to the cause of European currency unity by that country which, after reaching comparative stability in its currency at a point so far below the old parity as to make return to it a long and painful process, first decides boldly to set the example of securing immediate stability in terms
of gold by fixing a new gold par at or near the figures at
which comparative stability has been attained.
III. Finally, we can not in fairness to the currency
subcommittee present a series of recommendations de-
signed to secure practical results as if they were imme-
diately attainable without reference to certain other
features of the existing economic and financial position
of Europe. The industry of Europe can not hope for
a permanent return to prosperity so long as it has to
bear either directly in the form of taxation or indirectly
in the form of inflation of currency, the most in-
sidious and objectionable of all forms of taxation, a
burden of government expenditure which is beyond its
capacity. In this connection we can not do better than
refer to the memorial on international finance and cur-
rency submitted to the governments of certain countries
dated January 16, 1920, which was among the documents
laid before the International Financial Conference at
Brussels in September, 1920.

The whole of this memorial, though now more than two
years old, is as apposite to-day as when it was written, and
until the subjects to which it refers, and in particular the
problem of intergovernmental indebtedness, have been
resolutely tackled there can be no hope of final success in
restoring the currencies or the economic welfare of Europe.

Foreign obligations by one country must be balanced by
a capacity in other countries to absorb the surplus pro-
duction with which alone those obligations can be met.
If the burden of any country’s external obligations is
beyond its capacity to pay, and it can not be assisted by
foreign loans, the effort to meet those obligations must
accordingly result, on the one hand, in dislocation of mar-
kets in other countries, and, on the other hand, in a con-
tinuous depreciation of the currency of the debtor country,
which will entirely prevent it from making any start
whatever in the direction of stabilization.

IV. With these preliminary observations, we present
the following resolutions, which we suggest as suitable to
be recommended by the currency subcommission for
adoption by the Governments represented at this con-
ference. It will be observed that the recommendations
include a plan for an international monetary convention.
(The resolutions here submitted were those which, with
modifications, have been adopted above by the Financial
Commission.)

II. EXCHANGE.

We present the following resolutions as suitable to be
recommended by the exchange subcommission for adop-
tion by the Governments represented at this conference.
Our main recommendation is that there should be com-
plete freedom for exchange dealings. We have not
attempted to set out the deep-seated causes of the existing
dislocation of the European exchanges. Some of these
causes are referred to in the introduction of our report to
the currency subcommission. Any attempt at a complete
survey would carry us far beyond the proper limits of
the present report. As with currency, so with exchange, com-
plete restoration depends on the settlement of questions
which are not now within our purview.

We considered carefully the amendment proposed by the
German delegation with regard to measures for preventing
the flight of capital for the purpose of evading taxation. We
came to the conclusion that this question could be
regarded as falling within the province of the currency
subcommission. We have, therefore, reported to the
currency subcommission as follows:

Any proposals to interfere with the freedom of the
market for exchange or to violate the secrecy of bankers’
relations with their customers are, in our opinion, abso-
lutely to be condemned. Subject to this proviso, we are
of opinion that the question of measures for international
cooperation to prevent tax evasion might be usefully
studied in connection with the problems of double taxa-
tion which is now being studied by a commission of
experts on behalf of the League of Nations. We there-
fore suggest that the League should be invited to con-
sider it.

(The resolutions here submitted were those which, with
modifications, have been adopted above by the Financial
Commission.)

Dollar Exchange.

Under the provisions of section 13 of the
Federal Reserve Act, which provides that mem-
ber banks, with the approval of the Federal
Reserve Board, may accept drafts for the pur-
pose of furnishing dollar exchange, drawn upon
them by banks or bankers located in foreign
countries or dependencies or insular posses-
sions of the United States in which it is deter-
mined that the usages of trade require such accep-
tance facilities, the board has designated as
such the following countries and insular posses-
sions: Argentina; Australia, New Zealand, and
other Australasian dependencies; Bolivia; Bra-
zil; British Guiana; British Honduras; Chile;
Colombia; Costa Rica; Cuba; Dutch East In-
dies; Dutch Guiana; Ecuador; French Guiana;
French West Indies; Guatemala; Honduras;
Nicaragua; Panama; Paraguay; Peru; Porto
Rico; San Salvador; Santo Domingo; Trinidad;
Uruguay; and Venezuela.

Permission granted to a member bank to
accept such drafts when drawn by banks or
bankers located in any of the foregoing coun-
tries entitles it to exercise similar accepting
powers with respect to such drafts drawn by
banks or bankers located in all countries that
have been or may hereafter be designated by
the board as countries whose usages of trade
require the furnishing of dollar exchange.