

if the Reparation Commission would allow her to mobilize and use her resources until she gets further on her feet. The Baltic States have enough food except milk for their children, and we are taking care of this. Bulgaria, Greater Serbia, Greece, Roumania, South Russia and Turkey (except Armenia) have a surplus of food this year and are exporting it. If they prohibit the import of silk stockings, perfume, and other nonessentials, they could procure their other imports or at least live until they do it on a business basis. Hungary could feed herself if Roumania would return the cattle and grain she abstracted last summer.

"We are therefore left with Finland, Belgium, Poland, Czecho-Slovakia, and Austria to consider. Austria is the sorest point in Europe, and while she must be fed this winter, the Allies should be made to realize that any assistance from us is upon condition that she is free to make such political associations as will take her out of a perpetual poorhouse. Most European statesmen naturally desire to please their people by borrowing from our Government to revive prosperity overnight. But to my mind the one essential thing for all those countries which can not provide for themselves out of normal commerce is to feed their people over this winter and to devote themselves to setting their internal finances in order and defer immediate rehabilitation of industry until the world recovers sufficiently for them to secure commercial credits and private capital. In the food matter, the five last countries mentioned will take care of their agricultural and small town populations out of their crops of last year. These countries and Italy's deficiency in commercial credits lies in a dozen large cities, aggregating, say, fifteen or twenty million people. Even these have some resources that to my mind are sufficient to take care of their food needs except bread, together with milk for the children, and the most of the latter is being taken care of by charity.

"Therefore the problem from the point of view of action of our Government, outside the temporary deferring of interest, further reduces itself to helping out with the bread supply of less than 5 per cent of the population of Europe. The latter is only an echo of the job that our Government had to undertake in the year ending August 1 last in saving Europe from famine. Therefore no such situation exists as that which confronted us last year at this time, and there is no ground for hysteria on either side of the Atlantic.

"This year the Government has a large surplus of wheat flour acquired by it under the wheat guarantee. In the ordinary course we should hold it for spot cash for foreign nations. We could solve the bread situation in these dozen cities in Europe if the Grain Corporation were to sell about 15 per cent of our surplus flour on short credits to meet these acute situations. The difference between these short credits and cash is the difference between starvation and existence to them. These plans require no new appropriations on our Treasury and no additional taxes on our

people, but it does require an understanding in Europe that this country is nearing the time when it must cease to carry the economic burden of Europe except through charity and ordinary business processes set up under proper security. The American people are now finding \$5,000,000 a month in charity to feeding 3,000,000 of children and fighting diseases. If we add bread supply on Government credit to these starving cities with this and business credits we would be doing our share of world responsibility. It would appear that the 70,000,000 people of prosperous neutrals who have not suffered in the war should also be the scene of European appeals. Many people of Europe are not at work. For instance, their coal production is less than 70 per cent and their economic demobilization is in a great degree due to this alone. Only they can remedy it. The currency, taxation, and internal financial reorganization problems are their own problems. We can not reorganize these things for them.

"If we do undertake the solution of the bread question by our Government, our action will benefit and protect the other nations of Europe from infection of anarchy and chaos. Poland is the sole shield of Europe from bolshevik invasion. If we extend this help, it should be upon consideration that the stronger nations in Europe will do their full part in many directions.

"While a restoration of last year's complete control of supplies in Europe would make things go smoother, it stifles the initiative to help themselves and does more damage than good. We withdrew from Europe at last harvest precisely for this reason, that Europe had to be impressed with the necessity to go back to work and ordinary business processes. The world needs to get away from the notion of governmental help, both internally and externally, and get back to work and business."

Final Report of Cunliffe Committee.

(From Board of Trade Journal, Dec. 18, 1919.)

The committee on currency and foreign exchanges, which was constituted under the chairmanship of Lord Cunliffe, has made its final report to the lords commissioners of His Majesty's Treasury (Cmd. 464, price 1d. net). The committee was originally appointed in January, 1918, "to consider the various problems which will arise in connection with currency and the foreign exchanges during the period of reconstruction and report upon the steps required to bring about the restoration of normal conditions in due course." The following words were subsequently added to the terms of reference: "And to consider the working of the bank act, 1844, and the constitution and functions of the Bank of England with a view to recommending any alterations

which may appear to them to be necessary or desirable."

In the House of Commons on Monday the Chancellor of the Exchequer announced the action which the Government proposed to take on the report. We give below the text of the committee's report and of Mr. Chamberlain's statement:

My Lords: 1. We have the honor to present herewith our final report on certain matters referred to us in January, 1918, with which we were not in a position to deal in our interim report in August of that year.

2. *Foreign exchanges.*—We stated in the introduction to our interim report our opinion that a sound system of currency would in itself secure equilibrium in the foreign exchanges. We have reviewed the criticisms which have been made upon this part of our report, but we see no reason to modify our opinion. We have found nothing in the experiences of the war to falsify the lessons of previous experience that the adoption of a currency not convertible at will into gold or other exportable coin is likely in practice to lead to overissue and so to destroy the measure of exchangeable value and cause a general rise in all prices and an adverse movement in the foreign exchanges.

3. The nominal convertibility of the currency note which has been sustained by the prohibition of the export of gold is of little value. The weakness of the exchanges is, in a measure, due to trade conditions, but an important cause of the depreciation in sterling in New York and other financial centers is, in our opinion, to be found in the expanded state of credit in this country. The existing expansion is not merely the legacy of the stress of war finance and Government borrowings, which even now have not ceased, but also in part the result of maintaining rates for money in London below those ruling in other important financial centers. The difficulties of the foreign exchanges' position are aggravated by the grant of long-term loans and credits, whether directly or under guaranty or otherwise by the Government or by private lenders, to enable foreign states or their nationals to pay for exports from this country. Few of these loans and credits will be liquidated at an early date. The large payments which we have to make to America, North and South, for necessary imports of foodstuffs and raw materials from those countries make it essential that we, in our turn, should secure payment in cash for as large a proportion as possible of our exports visible and invisible. We recommend, therefore, that preference should be given to exports to countries which are able to make payment in the ordinary course of trade.

Increased production, cessation of Government borrowings, and decreased expenditure both by the Government and by each individual member of the nation are the first essentials to recovery. These must be associated with the restoration of the prewar methods of controlling the currency and credit system of the country for the purpose of reestablishing at an early date a free market for gold in London.

4. *Bank of England.*—The principles of the bank charter act of 1844 were fully considered by us in our interim report. We have examined with care the opinions there expressed in the light of certain criticisms which have been made with regard to them. We see, however, no reason to alter our conclusions. We have again considered the principles governing the banking systems of the principal foreign countries, and we are satisfied that they are not so well adapted to the needs of this country as those contained in the act of 1844. Certain important altera-

tions which experience suggested to be desirable have been made in the constitution and management of the bank during the war, and we do not now think it necessary to make any further recommendations.

5. *Government borrowings on ways and means advances from the Bank of England.*—We desire to draw attention to the extensive use made during the war of the system of ways and means advances from the Bank of England. We referred to this matter in paragraph 16 of our interim report and explained its effect in causing credit and currency expansion. The powers given to the Government by Parliament to borrow from the Bank of England in the form of an overdraft on the credit of ways and means were, as the name implies, intended to enable the Government to anticipate receipts from revenue or permanent borrowings for a brief period only. Indeed, Parliament by expressly providing that all such advances should be repaid in the quarter following that in which they were obtained, showed that it had no intention of bestowing upon the Government the power of securing an overdraft of indefinite duration and amount. Under the exigencies of war finance the Government found it necessary to reborrow in each quarter on the credit of ways and means the amount needed to enable them to comply with the statutory requirement that the previous quarter's ways and means advances should be repaid, with the result that the total outstanding advances remained for a long time at a high figure. We are glad to see that efforts are now being made to reduce this overdraft to more moderate dimensions.

We therefore hope, now that conditions are less abnormal, that the Government will confine its use of ways and means and advances from the Bank of England to providing for purely temporary necessities. Such advances afford a legitimate method of tiding over a few weeks' shortage, but are entirely unsuitable for borrowings over a longer period.

6. *Foreign banks.*—Several of our witnesses have called attention to the conditions under which it is open to foreign banks to establish themselves in this country. We suggest that this is a matter which should receive the early attention of His Majesty's Government.

7. *Scottish and Irish banks.*—We have now taken evidence in regard to the application of the recommendations in our interim report to Scotland and Ireland. The status of legal tender was given to the notes of the Scottish and Irish banks of issue as an emergency measure to tide over the period at the outbreak of war when a serious shortage of currency was threatened, a condition of affairs which no longer obtains. Some of the witnesses on behalf of the Scottish and Irish banks showed a marked desire to retain the privilege of legal-tender status for their notes. In our opinion the grant of legal-tender status could not be given permanently to the notes of Scottish and Irish banks except under statutory conditions similar to those embodied in the bank act of 1844. The evidence before us indicates that rather than be subjected to such conditions the banks would prefer the restoration of the prewar status. We accordingly recommend that the prewar status be restored. We further recommend that when the position which we contemplate in our interim report is ultimately reached, the cover held by the Scottish and Irish banks for their excess issue shall take the form of any legal tender at that time in existence.

8. *Currency note issue.*—We have considered whether steps should not be taken at an early date to impose limitations upon the fiduciary portion of the currency note issue with a view to the restoration of the normal arrangements under which demands for new currency operate to reduce the reserve in the banking department of the Bank of England. In view of the fact that demobilization is approaching completion and that as we hope fresh Government borrowing will shortly cease, we consider that

effect should now be given to the recommendation made in our interim report that the actual maximum fiduciary circulation in any year should become the legal maximum for the following year, subject only to the emergency arrangements which we proposed in paragraph 33 of our interim report. The policy of placing Bank of England notes in the currency note reserve as cover for the fiduciary portion of the issue as opportunity arises should, of course, be continued. We recommend further that the treasury minute made under section 2 of the currency and bank-notes act, 1914, providing for the issue of currency notes to joint-stock banks, which is in fact inoperative, should now be withdrawn.

The committee wish to place on record their deep sense of obligation to Mr. G. C. Upcott, who served as secretary to the committee from the beginning with unflinching zeal, knowledge, and ability. They are also greatly indebted to Mr. H. E. Fass, who was appointed joint secretary with Mr. Upcott in July, 1919, and rendered important and efficient service in the closing period of the committee's labors.

We have the honor to be, My Lords, your obedient servants,

(Signed) CUNLIFFE (*Chairman*).
C. S. ADDIS.
R. E. BECKETT.
GASPARD FARRER.
HERBERT C. GIBBS.
W. H. N. GOSCHEN.
INCHCAPE.
R. W. JEANS.
A. C. PIGOU.
GEO. F. STEWART.¹
W. WALLACE.

G. C. UPCOTT,
H. E. FASS,
Secretaries.

DECEMBER 3, 1919.

THE GOVERNMENT PROPOSALS.

In reply to a question in the House of Commons on Monday by Lieutenant-Commander Kenworthy, the Chancellor of the Exchequer said:

The committee reaffirm the views set forth at greater length in their first interim report, as to the importance of restoring at the earliest possible moment the prewar methods of controlling the currency and credit system of the country, and reestablishing the free market for gold in London. They point out that the difficulties of the foreign exchange position are aggravated by the grant of loans and credits to enable foreign States to pay for exports from this country, when we in our turn have to pay cash for imports of necessities from America, North and South, and they recommend that preference be given to exports to countries which are able to make payment in the ordinary course of trade. The argument as to the exchange is obviously true, and we are fully alive to the importance of this aspect of the question. There are, however, other considerations arising out of our relations with our allies, and out of the economic condition of Europe, to which due weight must be given in particular cases. Subject

¹ Subject as regards the recommendations of paragraph 7 to the following reservation:

"Having regard to the evidence given by the witnesses from Ireland, the prewar status should not be restored in Ireland until the Government considers the time opportune. (Signed) GEO. F. STEWART.

to the fulfilment of these obligations I agree with the committee.

The Government further agree with the committee's view that increased production, cessation of Government borrowings, and decreased expenditure, both public and private, are the first essentials to recovery. So far as I can foresee, the highest point of the national debt will be reached in the course of the next month or six weeks, and I have every hope that thereafter we may be in a position to effect a gradual but steady diminution of the gross debt. In paragraph 4 the committee reaffirm their view that the principles of the bank charter act of 1844 are well adapted to the needs of this country. In paragraph 5 the committee express their gratification at the efforts now being made to reduce the amount of ways and means borrowings from the Bank of England, and express the hope that, with the return of more normal conditions, the Government will confine the use of such advances to what the committee describe as their legitimate function, namely, to tide over a few weeks' shortage. I am in entire agreement with the committee on this matter, and every effort will be made to continue the process of paying off such advances. The question of the position of foreign banks in this country, referred to in paragraph 6 of the report, is already under the consideration of the Board of Trade. In paragraph 7 the committee recommend that the legal tender status accorded to the notes of Scottish and Irish banks as an emergency measure in August, 1914, be withdrawn, and prewar conditions restored. I propose to give effect to this recommendation forthwith, and a proclamation will be submitted this week to his majesty in council to take effect as from 1st January, 1920.

In paragraph 8 the committee make three recommendations, viz, (a) that the actual maximum fiduciary circulation of currency notes in any one calendar year be fixed as the legal maximum for the next; (b) that the practice of placing Bank of England notes in the currency note reserve as cover for the note issue as opportunity arises be continued; (c) that the Treasury minute made under section 2 of the currency and bank note act, 1914, providing for the issue on loan of currency notes to joint-stock banks be now withdrawn. I propose to give immediate effect to the first and third of these recommendations, and to continue the policy recommended in the second. I propose to circulate in the official report copies of the Treasury minutes issued on their points.

TREASURY MINUTES.

The Treasury minutes referred to by Mr. Chamberlain are as follows:

The Chancellor of the Exchequer draws the attention of the board to paragraph 8 of the final report of the committee on currency and foreign exchanges after the war, which recommends the imposition of a maximum limit on the issue of currency notes under the currency and bank notes act, 1914. The chancellor proposes to the board that steps shall be taken to give effect to the recommendation that the actual maximum fiduciary circulation of currency notes in any year shall be the fixed maximum for the following year.

The maximum fiduciary circulation during the expired portion of the current calendar year has been £326,603,298 10s., and the chancellor accordingly proposes that directions shall now be given to the Bank of England restricting them from issuing currency notes during the 12 months commencing 1st January, 1920, in excess of a total of £320,600,000, except against gold or Bank of England notes, and from issuing in the calendar year commencing 1st January in any year henceforward notes in excess of

the actual maximum fiduciary circulation of the preceding 12 months. My Lords concur.

Under the powers conferred by section 2 of the currency and bank notes act, 1914, and the treasury minutes of 6th August and 20th August, 1914, and 29th February, 1916, the treasury gave directions embodied in those minutes for the issue of currency notes to bankers, and, upon the application of the national debt commissioners, to the postmaster-general, for the purpose of providing cash for the post office savings bank fund, and to the order of the trustees of any trustee savings bank for such amount as might from time to time be necessary to provide funds for the payment of sums due to depositors (including depositors in special investment departments), the notes so issued being treated as interest bearing advances by the treasury. The arrangements then made were designed to meet the danger of a shortage of currency in the circumstances attendant on war conditions, and the committee on currency and foreign exchanges after the war in their final report recommend that they should now be discontinued. The Chancellor of the Exchequer therefore recommends to the board that the directions given by the minute cited shall be revoked as from 1st January, 1920, in so far as they provide for the issue of currency notes as advances to bankers and to the postmaster-general and the trustee savings banks, provided that any advance made under those powers and still outstanding upon that date shall be unaffected by such revocation and remain so unaffected until repayment. My Lords concur.

GOLD RESERVES OF PRINCIPAL BANKS OF ISSUE, 1900-1919.

In the table below are shown revised amounts of gold reserves held by the leading banks of issue at the end of each year between 1900 and 1919. The figures represent actual vault holdings. The amounts of gold held

abroad and foreign gold credits have been uniformly excluded. This affects chiefly the figures of the Bank of France and of the Bank of Russia. British figures are exclusive of \$138,695,000 held as reserve by the Treasury against currency notes outstanding. For Italy, the figures given represent the amounts of gold in vault reported by all three banks of issue and not merely by the Bank of Italy. Swiss figures prior to 1908 represent gold holdings of all banks of issue. Figures for 1908-1918 represent gold holdings of the Central National Bank organized in 1907.

Figures for the United States include—

(1) Amounts of gold held in the Treasury of the United States at the end of the calendar year and reported among the free assets of the Government; i. e., exclusive of gold cover for gold certificates outstanding; also of amounts of gold held for redemption of Federal Reserve notes.

(2) Amounts of gold held by the national banks and reported in their statements to the Comptroller nearest the close of the years 1900-1916. Of the clearing-house certificates reported by the national banks 60 per cent was estimated to represent gold.

(3) At the close of 1914-1919, gold holdings of the Federal Reserve Banks. These holdings are exclusive of the amounts of gold held by foreign agencies, but include amounts of the banks' and agents' redemption funds held in the Treasury.

Movement of the gold reserves of the principal central banks, 1900-1919.

[In thousands of dollars.]

	United States Treasury, national banks, and Federal Reserve Banks.	Bank of England.	Bank of France.	Russian State Bank.	Banks of Italy, Naples, and Sicily.	Bank of Belgium.	German Reichsbank.	Austro-Hungarian Bank.	Bank of Rumania.
Dec. 31, 1900.....	511,465	138,896	451,427	364,700	77,817	20,578	119,249	186,312	.....
1901.....	532,656	156,042	475,494	351,300	80,689	22,185	150,586	226,129	.....
1902.....	561,697	144,909	490,751	364,900	88,900	21,690	130,219	224,350	.....
1903.....	544,836	140,699	455,731	378,000	116,372	22,600	132,942	224,803	.....
1904.....	590,162	145,641	513,110	453,400	120,806	23,169	168,839	233,601	.....
1905.....	620,961	138,842	555,531	368,700	155,534	23,007	142,060	217,618	.....
1906.....	677,566	141,442	522,200	458,300	179,271	24,254	114,665	225,344	.....
1907.....	630,243	149,625	519,344	488,500	217,419	25,586	118,515	222,737	.....
1908.....	719,193	149,559	673,223	555,700	227,508	30,638	183,000	239,549	.....
1909.....	703,358	158,785	674,612	604,400	232,291	30,680	162,228	274,326	.....
1910.....	718,124	152,592	632,924	634,300	238,544	39,816	157,459	267,543	.....
1911.....	762,937	157,860	618,855	648,500	244,737	48,092	173,352	261,732	.....
1912.....	790,290	147,594	619,009	683,900	248,261	55,423	184,998	245,113	29,242
1913.....	779,292	170,245	678,856	786,800	265,476	59,131	278,687	251,421	29,733
1914.....	863,135	338,191	802,591	803,400	269,584	56,619	498,508	213,757	42,647
1915.....	1,078,741	350,510	967,950	831,200	263,278	.....	581,954	138,758	34,487
1916.....	1,200,831	264,275	652,885	758,396	223,400	.....	599,873	58,759	34,576
1917.....	1,773,072	283,899	639,682	667,041	206,700	.....	572,768	53,717	34,577
1918.....	2,248,295	384,937	664,017	.....	202,457	.....	538,804	53,074	53,074
1919.....	2,093,138	444,516	694,847	¹ 335,784	² 200,122	³ 51,417	⁴ 259,546	⁵ 47,152	⁶ 34,776

¹ Aug. 1, 1919, data for the bank controlled by the Kolchak government.

² Sept. 30, 1919.

³ Dec. 15, 1919.

⁴ Dec. 6, 1919.