

"savings" have been made by postponement of the payment of rates and interest and for material, adding a further element of instability to the financial structure.

Summarising the efforts made to swim against the adverse current of events, Australia has cut down the value of her imports from overseas to one-quarter of their value before the slump. She has increased the volume of her exports by one-third. By taxation and direct cuts she has revised incomes throughout her economy in drastic fashion. She has adjusted her currency so that even these reduced incomes are paid in a unit of account which, unlike other monies, has increased very little in purchasing power. By these measures, we have succeeded in meeting every commitment, in holding together the economy that felt first and most severely the brunt of the depression. But the strain involved in the longer continuance of the depression in Australia must not be ignored. This has carried further than in the other Dominions the exhaustion of private and public reserves.

So far we have concentrated on the maintenance of our external solvency. In that we have succeeded. I grant that Australia's very success has embarrassed other Dominions and countries. By restricting imports we have shut the products of their industries out of our own market. By reducing wages, interest and other costs, both directly and indirectly through the relative depreciation of our currency, we have increased our competitive power in markets already heavily supplied. We had no choice. So severe and long continued was the fall of prices that we had to do these things or default.

Yet in view of the level commodity prices have reached what we have done is not sufficient. If prices in overseas markets do not rise, we may have to do more. The first dry season will inevitably mean a further curtailment of imports and another depreciation of our £. A second major reconstruction of this kind in Australia would have further disturbing effects on other countries, themselves engaged in similar measures, which simultaneously pursued would cancel each other. There is a tendency to-day for countries to seek competitive advantage by undervaluing their currencies, which the possession of paper currencies divorced from gold leaves them free to do so.

In his Rhodes Memorial Lectures at Oxford this year Professor Gustav Cassel condemned such undervaluation as being the negation of any international standard, but it is the breakdown of the old international standard that has set the exchanges fluctuating and admitted the practice he condemns. The mutually destructive character of adjustments made in this way serves to emphasize the urgency of joint action by as many countries as possible to find a solution that will preserve the interests of all.

I have dealt at length with Australia's position because in discussing both past and future efforts at adjustment we shall make best progress towards an agreed line if we attempt to see each Dominion's problem of internal adjustment as it has presented itself within that Dominion. It is obviously against the general interest and against the credit of the Dominions and of Britain that any of them should go under.

I have not underestimated nor minimized the depressing effect of redoubled competition in restricted markets. The pressure on the trade of other Dominions caused by adjustments such as those found necessary in Australia is inevitable in any attempt to re-shape our economic activity to the present level of prices. Recognition of this emphasizes the necessity of seeking the level of sterling prices at which these stresses will disappear. They arise very largely because countries need to increase their exports to meet their overseas interest obligations and to pay for essential imports. They will fade out as the values of their exports recover. We may then look for a relaxation of prohibitive tariffs and embargoes on trade and for a greater stability in exchanges.

The only alternative to rising prices is a drastic, all-round deflation of costs to bring them within present prices, and so restore profit as the incentive to enterprise. The cut would apply not only to wages and interest—external as well as internal, private as well as public—but also to capital charges. The peoples of the world, already so sorely tried, simply will not stand such further pressure. Continued cuts in wages would provoke an ugly resistance. The writing-down of debts would take the form of wide-spread insolvencies and defaults, quite possibly involving the collapse of the present financial system.

I need hardly elaborate this. We are all, I think, in agreement with the Right Hon. the Leader of the British Delegation that "a recovery in world prices is one of the essential features in the recovery of the world." He also