

Happily as a result of the Lausanne Conference there is a fair prospect of this question being solved in a way in which the baneful effect of reparation and war debt payments will be mitigated substantially.

For the purpose of our immediate task it seems important that we should keep firmly in mind what are the principal reactions of a fall of prices on production and trade. That will, I believe, provide us with a good guide when we come to consider the means by which we may hope to extricate ourselves from our present difficulties.

A rapid appreciation of the purchasing power of money (which finds its expression in the fall of the general level of wholesale prices)—

(a) enhances the burden of all debts because ultimately they can only be met in the form of goods and services;

(b) enhances also all fixed or semi-fixed money obligations other than debts; e.g., rents, wages, railway rates and taxes;

(c) and so sets up a disequilibrium between the cost of production and the price of the commodities produced.

The enhancement of the purchasing power of money thus causes widespread insolvency, deranged budgets and the destruction of profits of enterprise which in turn reduces the volume of production and brings with it unemployment and ultimately forces upon the community a reduction of the standard of living.

A reference in a local newspaper to the experience of a Calgary sheep farmer puts the effect of a disequilibrium between costs and prices simply and neatly. The sheep he had sent to market were sold for twenty-five cents a head. His costs including railway freight amounted to forty-eight cents and thus left him with a loss of twenty-three cents per sheep. The rigidity of certain costs is well illustrated by the fact that the taxi fare from the Chateau to the House of Commons costs fifty cents, that is, the money value of two sheep.

The income of the community is determined by the volume of its production. The incentive to production, on the other hand, depends upon the prospect of the production yielding a profit.

If there is no prospect of it yielding profit, production will be reduced.

Falling wholesale prices and the disequilibrium which such a fall creates between the cost of production and prices thus leads inevitably to a curtailment of production, that is, to a reduction of the income of the community. Unemployment and a progressively increasing inability of meeting debt charges is bound to ensue.

How a rapid fall of wholesale prices causes a disequilibrium to develop between costs and prices may be gathered from a chart showing the course of wholesale prices and cost of living in the United Kingdom, United States, Germany and France since 1928. The cost of living index is a good index of the general cost of production in a country.

The object of the Ottawa Conference is the promotion of inter-Empire trade mainly by a system of tariff preferences.

The Chairman of the Indian Delegation in his Opening Speech said:—

“The benefits to production and trade of a preferential system may easily be swept away unless it is supported by a monetary and credit policy which assures a reasonable measure of stability of general wholesale prices”

And he emphasized:—

“That the level of wholesale prices should be such as to re-establish equilibrium with costs and the burden of all fixed and semi-fixed money obligations.”

To elucidate the point let me briefly deal with some of the effects on Inter-Imperial Trade and the operation of preferential tariffs of—

(a) Sterling prices remaining where they are at present.

(b) Sterling prices falling below the present level.

(c) Sterling prices rising above the present level.

I shall do so from the point of view of those Empire countries, the currencies of which are at present linked to sterling. They are all in the main producers of primary commodities and all are on balance debtor nations, mainly to the United Kingdom.