

(a) If sterling prices remain at their present level (which is some 3 per cent below that at which it stood when the United Kingdom and all but one of the Empire countries abandoned the Gold Standard) the burden of debt and the disequilibrium between costs and prices is likely to remain so great as to continue to impede production and to absorb so large a proportion of the exportable surplus of these countries to meet their debt charges as to leave but the slightest margin with which to buy commodities from the United Kingdom. No amount of preference in favour of United Kingdom goods could in these circumstances lead to purchases by the Dominions and India of the United Kingdom goods beyond the absolutely indispensable minimum.

The burden of debt at the present level of prices is so great that it is by no means excluded that one or other of the countries will be unable fully to meet their obligations—which are mainly to United Kingdom.

There is moreover the possibility that some of them will not be able to maintain the link with sterling at the present rate of exchange. It may become necessary for them to depreciate their currencies in terms of sterling so as to ease their burden of internal debt and to reduce the disequilibrium between costs and prices.

The effect of such a development would be to give to the country which has allowed its currency to depreciate a definite advantage in the cost of production and thus in its competitive power over producers in the other parts of the British Commonwealth. A depreciation of currency in these circumstances is equivalent to an extra tariff against the rest of the Empire. It would tend to restrict trade, to cancel preferences already agreed and abnormally to stimulate some of its industries. Such a development is clearly contrary to the whole spirit of Empire co-operation and is the surest way of destroying it.

(b) If sterling prices were to fall below their present level the dangers and difficulties to which I have alluded would be very substantially increased. Production and trade would be reduced still further and default on external as well as internal obligations and depreciation of the currency would be almost inevitable in many cases. The risk of social and political difficulties would be substantially enhanced. And finally any system of Empire preference would be quite ineffective.

(c) Most of the difficulties to which I have alluded would be mitigated and possibly completely removed by a rise of wholesale prices.

The conclusion to be drawn from this cursory survey is clearly that to make the aims of the Ottawa Conference attainable it is indispensable:

(a) That pending the re-establishment of a stable international monetary standard the Empire countries should as far as possible adopt a common standard of value and that the wholesale level of prices in terms of that common standard should be raised to a point at which an equilibrium is re-established between costs and that level of prices.

Further, that on the attainment of that level monetary policy should be directed towards maintaining it stable both in terms of commodities and in terms of other Empire currencies.

The United Kingdom, being the greatest centre for Empire trade and finance and being in a very strong creditor position *vis à vis* the rest of the Empire, the trend of prices in terms of the common standard must depend in the main upon the monetary policy she decides to pursue.

If it is agreed that (1), a general rise of prices is necessary and (2), that stability of Inter-Empire exchanges is desirable then in order to attain these objects it is the monetary policy of the United Kingdom which must be the decisive factor. The task of the other members of the Empire sterling group in these circumstances involves no new problem. It would be confined to maintain stable the exchanges of their national currencies on London. They would in other words have to do no more than all gold standard countries used to do before the War.

To What Level Should Wholesale Prices Be Raised?

It is sometimes said that the interests of the United Kingdom in this regard and those of the rest of the Empire diverge because—

(a) United Kingdom is a creditor country and as such profits by a low level of prices, and,

(b) The divergence between costs of production and the prices of the goods she produces is less than the divergence in the other parts of the Empire.