

C O P Y.

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Helsingfors, August the 20th, 1937.

L. Smetz, Esq.
The Economic Relations Section of
The League of Nations.
Geneva. Switzerland.

Dear Sir,

I am ⁱⁿ receipt of your letter of July 20th as well as of the Preliminary Draft Report to the Council prepared by M. van Langenhove and dated July 28th, 1937. On account of the latter I wish to communicate the following observations:

- The draft report prepared by M. van Langenhove is most valuable and interesting. Theoretically it quite corresponds to my personal opinion and I am thus ready to support it on principle. It is true, however, that the experience gained as to the possibility of fair international co-operation on broad lines, in the economic field as in other spheres, too, has been rather negative and depressing of late. And at present there seems to be but little hope for an improvement in this respect, as in some countries the opinion differs so much in regard to the premisses and the solution of the problem such as they are set forth by M. van Langenhove, that by official declarations the nation is said to prefer bombs to butter and to regard even a considerable decline in its standard of living as a cheap price for autarky. This leads to the assumption that it will hardly be possible to obtain any positive results of a wide scope in the near future and that such comprehensive endeavours only are likely to make things worse eventually. By such means, the possibilities offered by the present favourable development of economic conditions could, perhaps, be forfeited and the world would meet the next depression as divided and unprepared as before, again using the same, now condemned, destructive methods to combat the ensuing difficulties or, perhaps, such methods as would be still more destructive from the international point of view. Under these circumstances it would possibly be more reasonable to refrain from working on too broad a basis and to put up with a paving of the way for regional co-operation between countries in which the economic structure and the habit of thought are to some extent at least alike, according to the example set, for instance, by the Oslo-States. In this respect still better results could, perhaps, be achieved, if one of the big democratic states of material importance

in the world's economic system and with its own economy and finance more or less in order and free from restrictions and public intervention, as for instance Great Britain, would take the lead. Or, if Great Britain and the United States of America would jointly agree upon a settled policy with a view to facilitating international trade and international movements of capital, then all other nations could be given an opportunity to join this group and thereby make use of the concessions granted by it, but only by the way of granting reciprocal alleviations in their own foreign trade and currency policy. Thus, according to this scheme no concessions would be granted to any other country solely as a consequence of the most favoured nation clause, on the contrary all countries unwilling to put their trade policy in concordance with the principles of the aforesaid joint agreement, should be discriminated. Consequently the advantage for the countries to join in this kind of co-operation would be obvious and most countries certainly could be expected to do so. In this manner a rather big regional area should be formed and within it the exchange of goods, services and capital would be freer and less hampered than hitherto. Even if some big countries should remain outside the freer system, the disadvantage of this would probably be smaller than the advantage gained by finding a way out of the present state of affairs within a large group of countries embarking upon a relatively free commercial intercourse.

I understand, however, that a proposal put forward by the League of Nations must be addressed equally to all states and that it therefore must be formulated more or less as the draft prepared by M. van Langenhove. But under such circumstances the contrasting political systems of the various states should be spoken of as little as possible and this or that system should least of all be hinted at in a polemic tone. The various political systems are existing facts and peoples believe in them and by public statements they will hardly be much affected. In order to obtain practical results the measures proposed ought to be such that they might be approved irrespective of the political system adhered to. As a criticism of any such system does not promote the solution of the problem but only may give rise to reluctance and ill-feeling, I should think it wiser to exclude the following passages:

- on page 9, beginning on line 15 the words "yet the countries - - - international security" and beginning on line 23 the words "The States are still - - - more difficult";
- on page 21, the last paragraph,
- on page 22, the first paragraph.

Referring to my general remarks as above, I am of the opinion that it is to the benefit of the draft report to restrict the positive proposals to concern only the abolition of quotas and exchange control, as too farreaching proposals would lessen the probability to carry them into effect.

However, when speaking of quotas, no definition has been given of the meaning of a quota. Thus, it is not clear whether the abolition of that special kind of quota is also aimed at which appears in some commercial treaties obliging a country to buy from the other contracting party a fixed quantity or a fixed percentage of the total imports of a certain article. The purpose of such quotas is not to cut down or to restrict the importation of the said treaty goods into the buying country but only to give preference to a given country by discriminating other countries selling the same kind of articles. Stipulations of this nature are, nevertheless, likely to lead international trade into wrong channels and to force the buying country also to divide the remaining part of her imports of the said treaty goods in quotas allotted to the other selling countries. Such quotas ought therefore also to be abolished and the report amplified to the effect that this should be clearly understood by the proposals. There is still more reason to do so as such quotas chiefly refer to articles such as coal and coke which are easy to sell at present and the selling country primarily enjoying a preference by the quota will meet no harm. On the other hand, it is open to question whether the proposal to abolish quotas should include the so-called customs quotas, too. They form part of a system by which a country not being able to lower the customs duties on a certain article imported all at once, nevertheless consents to apply a lower duty on some fixed amount of the said article. The amount then bearing the lower rate of duty is generally divided among the former selling countries according to their respective sales during a certain basic period. But further imports at the earlier higher rate of duty are of course free. Quotas of this nature do not, as a consequence, hamper imports but facilitate them, being often a kind of intermediary stage towards a general lowering of the customs duty on the said article. The report could perhaps be amplified also in this respect.

With regard to the abolition of exchange control the report especially stresses the fact that it is absolutely necessary for a country to stabilise her own economic conditions, to put her state finances on a sound basis and to restore confidence before any abolition of restrictions can be carried out. This is all right. Yet for countries which have gone through an inflation of their currency

or which have neglected their foreign debt service, it is moreover important that the proper authorities should have the necessary capital to operate with at their disposal during a time immediately following the abolition of restrictions, as they then probably will have to cope with great and arbitrary fluctuations in the rate of exchange. This ought to be more emphasized than in the present draft report. At the same time the urgency of international help in such a situation should be stressed. The help could be given under the auspices ^{either} of the Bank for International Settlements or the League of Nations. Finally, it should perhaps also be proposed that in order to restore confidence as soon as possible prominent international experts should place their services at the disposal of the countries in question in case they were wanted.

On page 6 the draft report is to some extent vague in its formulation. It is, of course, natural that a creditor country should have an adverse balance of trade. Such a state of affairs should, however, be recommended as a means for general economic improvement only as long as the balance of payments of the creditor country upon the whole remains in equilibrium in spite of the adverse trade balance. In case the balance of trade moves still further against a creditor country, this will shortly tend to cause difficulties to the country itself and under such circumstances the help given to others will soon prove ultra vires.

On page 12 in the draft report the opinion is expressed that a fall in the prices of foodstuffs is likely to bring about such an increase in the corresponding consumption that the selling difficulties would disappear in spite of increasing imports. This seems to be rather too optimistic, the curve of demand being relatively inelastic in regard to foodstuffs, especially some kinds of foodstuffs such as, for instance, corn. In formulating this passage it is therefore better to be more cautious.

On page 17 two sentences in the first paragraph reading as follows: "Until the full results of such action make themselves felt, subsidies to producers might conceivably be justified as a less harmful form of protection than import restrictions. The Convention on Prohibitions concluded in 1927 would then be taken as the ultimate aim and object of such progressive action", ought to be left out, as it seems imprudent even conditionally to approve of subsidies and as agreements concerning import restrictions in the present circumstances hardly will be renewed. -

Believe me, dear Mr. Smetz,

Yours faithfully

R I S T O R Y T I.