

PRESS: Lord Keynes, I believe that in 1923, in your book "Monetary Reform", you wrote - I quote: "In truth the gold standard is already a barbarous relic....". If you still hold those views how can they be reconciled with the views of the United States?

LORD KEYNES: I was bold enough a few weeks ago in speaking to the House of Lords to requote my former statement on gold, and the fact that it was the view I had taken. The difficulty about this discussion is that it is like inflation; that the term "gold standard" is capable of more than one interpretation, just as inflation is. Now at that time, when I wrote that book, the gold standard meant a rigid link with gold, which there was no attempt to alter, and in which there was high moral obligation not to make a change except under force majeure. -- In that sense of the gold standard -- I should be bold to claim that I had made some efforts to take the view that it was an out of date system. People who want to create prejudice against our present proposals try to make out that they are reinstating that rigid link, not to be altered except under force majeure, and I am then forced to point out that the scheme is of an entirely different character. The scheme is for retaining a link with gold but one which is changed from time to time to changed circumstances. This stabilization fund wants the countries to pledge themselves not to suggest changes except for very grave cause; but an important part of the scheme is to provide a machinery, through consultation and agreement, by which changes can be made. Now, I have claimed it was a barbarous standard, that is, the link with gold by which gold becomes the common

denominator of values, the common reserve metal of the world. And in that book which I published nearly twenty years ago, when I was opposing the rigid standards, I then made definite proposals for retaining the link with gold. I think in that book, which again does not quite represent — it was a very long time ago, I said what we were making of gold was a constitutional monarch. That is to say, a monarch which was subject to constitutional practices. The maintenance of the gold link is that — any departure from the gold link would be most foolish to propose, from a practical viewpoint. The great holders of gold are the United States and certain countries in Western Europe. The great producers of gold are the British Commonwealth and Russia. While these four groups between them comprehend — and of course Canada should be added to South Africa as a gold producer — they cover a very great part of the world. No one in their senses would suggest that they wish to make the gold resources of the world, the reserves, worthless. On the contrary, it is absolutely essential for the working of this scheme that gold should play a predominant part. But the resources to be made available for the fund would be small compared to the gold resources, and those resources would be having a handsome increment year by year; if not, our problem would be more difficult. The people of Great Britain do regard making gold the fundamental money as essential. What we want, and a great many people do, we have to have this vital backing of gold together with certain reasonable and agreed arrangements for making it work. The old system was so rigid it ceased to work in every country of the

world, and then came a period in which every one did what seemed best, and when we had exchange disorder and depreciation. One of the signal purposes of this Fund is to return to good order and discipline, to bring back gold as the fundamental reserve money and make it clear that we are all going to trade together, and not indulge in arbitrary or unreasonable changes, and in any case to act in conjunction. So that the only confusion, I think arises between these two senses, the rigid gold standard and a currency standard based on gold - based on gold without the rigidity.

DR. WHITE: I would like to add something here. You who are at all familiar with the American history of the 20's and 30's know that in the 20's England was having a considerable degree of unemployment, and though not an intense depression a steady one, and Lord Keynes was among the first to point out that the reason for that was the rigidity of gold which prevented an adjustment of their exchange rate. The par value of sterling to the level which was appropriate to the circumstances, which had changed so drastically during the war, and for a number of years in the 20's--and because of that feeling the people of England became -- were insistent that that situation would never arise again, and when the rigid gold standard, the rigid link that he speaks of and which continued until the late 20's and early 30's broke, the British people naturally said "we are never going to weld a chain that is so rigid and will again break." Now, look at the United States; we here in the 20's fared very well. And though we were sympathetic with England's troubles, they were not ours. Now then, we get into the 30's

and what do you find? The gold standard broke down in every country and we had disorder and chaos. In the United States it was determined that that would never happen again; that that kind of depreciation, competitive depreciation of currencies which resulted only in lower trade for everybody must be avoided. Now comes the new Fund by which we hope to avoid a repetition of the 30's. The British, and others, are looking to avoid a depression from rigid exchanges. Along comes the Fund, and we say we are going to avoid both things, the depression from rigidity and the depression from chaotic exchange conditions, and the Fund is the joint effort designed to accomplish both things, but we look at it from different points of view. On this side we had it in the 30's, and the other side of the water in the 20's. Informed people on both sides are determined that it should be—

LORD KEYNES: We also disliked the 30's as much as the others.

PRESS: I would like to ask Lord Keynes if he could explain some of the discrepancies on the points. It is thought here the purpose of the fund is to eliminate foreign exchange restrictions, but in your speech — a great point was made that the Fund will allow each country to control all capital and its domestic rate—

LORD KEYNES: There was no discrepancy. The object of the Fund is to remove exchange restrictions as soon as possible. It provides that capital movement must be controlled, and indeed that is an essential condition— with the countries who have any large gold resources.— I think you will find there is no possible doubt about that in the provisions of the Fund.

MR. WHITE: I want to make certain what Lord Keynes has in mind, that these restrictions on capital movements exist in countries which choose them -- the United States does not wish to have them and they do not exist.

PRESS: But can you have control of capital movements without control of foreign exchange trading.

LORD KEYNES: It depends on how strict you want to be. You can do a certain amount on capital controls by market controls. -- How any country will do it is not laid down by the Fund; I think different countries will have different techniques, and some countries will be more complete than others.

PRESS: Say something about the question of blocked balances.

LORD KEYNES: It is rather a big subject; I don't know just how much you would like me to say about it.

PRESS: Go right ahead.

LORD KEYNES: Great Britain alone of the Allied nations has incurred during the war a very large external war debt. What is striking is that a very large proportion of that has been incurred to other Allied and associated nations - some to neutrals, but not an important part. In the case of the United States, and in the case of Canada, the lend-lease system and the mutual aid system have prevented that state of affairs from arising -- Great Britain, after Dunkirk, had to fight this war with reckless disregard for the future; we could not stop to argue and make terms; we were only too pleased if anyone would help us at all, and we therefore accepted without hesitation arrangements which in any

other situation would have been extremely improvident, but we were fighting for our lives and we decided at that time -- we had few allies left in the field apart from our Dominions, and we felt that the future must be entirely subordinated to the needs of the present, so that we started at that time on the method of getting resources wherever we could without wasting precious time in trying to get really favorable terms. Now that indebtedness was partly discharged by our parting with assets; we had certain securities - the proceeds of earlier foreign investments - which were easily available to liquidate some part of this. We also lost a great quantity of our gold, but after we had used these tangible reserves there still remained a very large amount which could not be covered. I think by the end of this year our aggregate - that part we have not discharged, will be in the neighborhood of 12 billion.

PRESS: 12 billion pounds?

KEYNES: Dollars. No, thank God, not pounds; it's bad enough. That's a war debt, and we shall be greatly strained in dealing with it. It is perfectly evident that it can't be dealt with in a short time. It is no good anybody suggesting otherwise. Moreover, we take the view that this is our own obligation which we can't put on anybody else and we are going to deal with it as time and opportunity offers. If it is regarded as liquid money we should say that great confusion has arisen. It is true we have not yet funded it, but anybody can see that there is no means whatever by which we can make 12 billions available in cash; we have no cash. We can make it available in the form of goods in the

course of time. Our problem is whether in our future course we can attain an honorable settlement of this. If anyone makes the suggestion that perhaps we have borne a very large and disproportionate share -- we should greatly appreciate it, but our stand is that this is an obligation which we have taken on and which in the course of time we have to meet and that it is our responsibility. It will be a great mistake, we think, to mix up this issue, which is an important one, with provisions for the normal functioning of world trade. This is a burden which we perhaps improvidently took on and which we have got to see how we can carry ourselves, but I think it is important that we have waged this war on a different basis from anyone else, on unlimited liability. I think I can say there is no other country which owes anything materially as we owe to those Allies and associates who have helped us with this quite prodigious sum. That is the background. If anyone would like to develop it I should be glad to see what I can do about it. It is a simple proposition--here is the large war debt which cannot be available in free cash, and a good many of the suggestions one sees seem to be that there is some device by which we can be prepared to repay this big war debt out of some small number of years. Other arrangements have to be made. As soon as you see that I don't think the relationship of that with the problems here is close. The only closeness is this - is that the discussions here are successful if world trade is stabilized. And getting back to convertible -- it will enable us to carry this terrific load which we have taken on our shoulders, and the fact that we alone have taken on this load -- I think

leads to a great deal of misunderstanding. But let me not say any more at this point.

PRESS: Does that mean that the nations which have these credits will have to spend the full amount with Great Britain or do you hope to make some of the credits available in the form of foreign exchange -

KEYNES: We can only make it available by exports. How far these exports can be triangular trade and how far direct depends upon how far our creditors overlap with our natural markets. It can only be made available by goods.

PRESS: Is it clear, then, that the point you are making - it is not Great Britain's wish to have this problem injected into the stabilization fund machinery from the British point of view - the aim is to keep this thing separate and handle it yourselves?

KEYNES: Yes. I think the purpose of the Fund is different; it is not to take care of this past indebtedness but to be an averaging out or smoothing out organization to enable future current operations to go on smoothly so that countries can average bad years with good, and so on. But it is not a Fund that any country can expect to live off of. It does not cover all the indebtedness; it would have to be about ten or twenty times as large for that.

PRESS: In the experts' published plan you don't state the matter of liability of the United States. You state a quota and you also, as I remember, say that the Fund can borrow additional dollars from the United States.



LORD KEYNES: That is entirely at the option of the United States. If the Fund would wish at some time in the future to borrow and if it would wish to borrow from the United States, that is not sufficient. The United States has to be willing to lend. There is no obligation for her to lend.

PRESS: It is a moral, contingent liability, I assume.

DR. WHITE: You are using terms I am not able to apply.

LORD KEYNES: I don't think there is any moral obligation at all. If at any time the United States doesn't think it to be in her own interest — we think it will be and I think that it will but it depends on circumstances. If it is not thought to be in her own interest I think there is no moral obligation whatever.

DR. WHITE: And, I assure you, if she deems it not to be in her interest she will not do it, and if she does it it will be because she deems it to be in her own interest. But that is looking pretty far into the future.

PRESS: Lord Keynes, the predominant criticism of a large group of bankers in the United States of this plan is that it is simply a disguised method of creating after this war the same situation that existed after the last war. That is, as long as America was willing to make dollars available to other countries we had prosperity because the dollars were spent here; as long as we were willing to make loans, prosperity kept up. They criticize this further on the basis that as long as there are dollars in the Fund or the dollars that were originally put into the Fund are exhausted and we lend additional dollars to the Fund

you will precipitate the same sort of situation if some day the American people would refuse to put more dollars in the Fund. Then prosperity will cease. There will be no more dollars to spend.

LORD KEYNES: Isn't the best way to answer that to compare the situation with the Fund and without the Fund? The United States will have a certain amount of imports. If you are successful in keeping up employment that may be large. You will be wanting — you will be willing to lend the world a certain amount. On the other hand, you will also want to have a large volume of exports. Well, now, in the long run, there must clearly be a balance between those two. After the last war there was still a very considerable quantity of gold outside the United States, so that it could be bridged for a time by gold. Well, now, the amount of leeway that exists on this occasion is very small in relation to what your exports might be. Suppose that you are balancing your position fairly accurately. Then no trouble arises with the Fund and no trouble arises without the Fund. All your dollars remain intact in the Fund because, you see, because it is not balanced with a single, individual country. If you balance with the world as a whole, if you buy goods from anywhere in the world, then you won't be drawing on the Fund on balance, so that in that contingency the situation which we fear has not arisen and a remedy is not required, and it is the same.

Now take the other hypothesis, in which there is a tendency for your position to be an unbalanced one. Without the Fund a crisis is produced almost immediately owing to the inability of the rest of the

world to pay for your exports. They have to start depreciating their exchanges, prohibiting trading -- heaven knows what. Well, now, if you go on forever and ever exporting more than you are buying, of course, there is no remedy, and in relation to your exports the amount you would be putting into the Fund is not very large. It wouldn't enable you to keep an unbalanced position on a large scale for more than a short time, but what it does is to give everybody a breather when they can sit back and say, "We lose nothing," the situations which anyhow would have to be solved, instead of depreciating their exchanges forthwith, of interrupting dollar remittances and throwing your export trade into difficulty. For the moment all is peaceful and provided it is only a temporary situation it remains peaceful.

If, on the other hand, it gets worse and you continue to export on a very much larger scale than you are importing or lending, then everybody is up against arriving at a place where everybody joins together at a concerted solution and without having had a premature, forthwith crisis connected. That is all the Fund can do. The Fund can't solve continuing problems of this sort. It can just give the opportunity for settling it in an orderly way. And if you don't run into this position after the war, then the Fund is entirely harmless so far as you are concerned because all your dollars remain there intact. On the other hand, if you do run into this situation then you are given an organization to find a rational approach, a friendly way out of it and a little time to think it all over, and that seems to me from the point of view of the United States perhaps the major contribution that the Fund can make towards the stability of your economy.

LORD KEYNES: Just one other thing that arises out of that question and I think it arises out of a great many of the questions, and that is that you can't justify this fund purely on the ground of its own extraordinary beauty. It must be by comparison with the alternatives. And my own advocacy of the Fund is primarily based on how very much worse, indeed how dreadful, nearly all the alternatives that I have ever seen put down in a sufficiently precise form to criticize them are. I think if I was to set myself to criticize this Fund I should do quite a good job of it, but I should be doing no one a service unless I could produce something materially better. I think in the course of the last two years that we have all been working very hard and a great number have been working on it and we have been constantly improving. The Fund is quite a different thing in many respects from how it started and that is the result of a tremendous clash of brains of many, many countries. You are brought up against different angles. You have to have something that is suited to different conditions, and I will say this, still as it is today I could make a pretty good job of criticizing it. I could make a better job of criticizing anything else, and that is really what one must depend on.

PRESS: Will the Fund favor the efforts of a government to appreciate, increase the value, of its currency, a certain currency at a depressed time or will it prefer to have it remain unchanged, the exchange?

LORD KEYNES: I think the whole bias of the Fund is stabilization. That is to say, that you stick where you are unless there is real, serious necessity calling for change. I am not quite sure whether I caught your question.