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From the Office of
Congressman Frederick C. Smith - Ohio

A Further Study of the British Scheme to Secure Control of United States Gold, Commonly Referred to as the Keynes-Morgenthau Proposal for an International Stabilization Fund

The present study should be considered in connection with a paper I presented on this subject to the House November 1st, 1943. In that paper I established what I believe to be conclusive proof that there are not two plans, a British plan for an International Clearing Union and an American plan for a United and Associated Nations Stabilization Fund, but that there is in reality only one plan, namely, the British plan. Benjamin M. Anderson has asserted as much.[1] Dr. Melchior Palyi states that the two plans "deal practically only with . . . the problem of Great Britain."[2] Indeed, I think the proof is clear in that paper that the officials of the Administration who are responsible for having drawn up the draft for a "United and Associated Nations Stabilization Fund" did practically nothing but copy from and reword and rephrase the text of the British proposal for an "International Clearing Union" as outlined in the British White Paper.

Several other points contained in the November 1st paper should be kept in mind in considering the present study. The scheme would involve the complete abandonment of the international gold standard as this term has been used and understood since gold has been used in international trade and commerce down to the present time -- all protests by the promoters of the scheme to the contrary notwithstanding. It would substitute for the gold standard a fictitious international monetary unit called "unitas" which would not be gold but whose value would be fixed by politicians in terms of gold, but not unalterably. The currency of each country belonging to the scheme would in turn be arbitrarily fixed by politicians in terms of unitas but also not unalterably. The main characteristic of this device would be its high degree of political variability which would give it the desired political manipulability aimed at by Lord Keynes and his co-workers. Along with the destruction of the international gold standard, this artifice would of course also destroy the supremacy which the United States dollar now holds in international trade, which is no doubt one of the objectives of the scheme.

The scheme would also involve the assumption by the United States of perhaps $5,000,000,000 or more of British debts which Britain owes South American countries, Belgium, Scandinavian countries and her colonies and dominions. This would be accomplished substantially with United States gold. Although the United States would furnish the vast bulk of the capital in the form of gold, yet our country would be hopelessly in the minority in respect to control. The present study will show this picture to be even more unfavorable to the United States than was shown in my previous paper.

The control of our money, which is vested in Congress by the Constitution, would be given over to an international monetary authority which would also have far-reaching and dictatorial powers over our domestic economy. Great Britain would be the dominating power in the scheme.

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[1] Anderson, Benjamin M., "Post-war Stabilization of Foreign Exchange; The Keynes-Morgenthau Plan Condemned; Outline of a Fundamental Solution," in the Economic Bulletin (Capital Research Co., Los Angeles, Calif., May 11, 1943). For many years economic adviser to the Chase National Bank in New York, Dr. Anderson is now professor of economics, University of California at Los Angeles.

[2] Palyi, Dr. Melchior, "Some Implications of the Keynes-Morgenthau International Clearing Pool," an address delivered at Union League Club, Chicago, April 28, 1943, and reprinted from the Great Lakes Banker, July 1943.

The computations in the November 1st paper relating to contributions were based on a total capitalization of $5,000,000,000. Since then, as stated in a letter to me by the Treasury, the Administration has changed this figure to $8,000,000,000. Accordingly the computations will in the present study be based on the latter figure.

It will be noted in referring to column 2 in the chart which is to follow that the aggregate of contributions listed does not come to $8,000,000,000 but only $6,560,000,000. The aggregate of the contributions of the countries not shown on the chart would apparently not be sufficient to make up this difference. However, Treasury officials inform me that the percentage figures given me for computing contributions are tentative and subject to change. Further, that "before computing individual quotas there shall be reserved an amount equal to 10 percent of aggregate quotas to be used as a special allotment for equitable adjustment of quotas," as provided in II-4 of the Administration's revised draft. The irreconcilability of these figures would seem to be of no particular importance to the results of this study.

In my November 1st paper I raised the question of the availability of free or unpledged gold in the countries that would belong to the scheme for their allegedly assigned contributions to the Fund. By free or unpledged gold is meant gold in excess of that pledged as cover for demand liabilities. The primary purpose of the present study is to show which countries have and which countries do not have free gold to meet their proposed gold quotas.

The accompanying chart shows the pertinent data relating to this problem for thirty-one of the forty-three so-called United and Associated Nations which we are told would become members of the scheme.

Data relating to the amount of circulating notes and "other demand liabilities" and gold holdings were furnished me by the Federal Reserve. Data relating to contributions to the scheme were furnished me by the Treasury.

Four sources showing the legal requirements for gold reserves against demand liabilities have been made available to me, namely, the Federal Reserve Bulletin for July 1936; Treasury data for about thirteen Latin American countries; the Law Library of the Library of Congress; and Moody's Manual of Investments for 1943.

A footnote will be appended to the name of each country on the chart showing the legal reserve requirements as furnished me by one or more of the above mentioned sources. As will be noted, the data for some countries are incomplete, uncertain and apparently conflicting. Where doubt or uncertainty exists I have sought to use the data which provide the least amount of reserves and to apply the statute of the most recent date.

I have quoted the several sources showing legal reserve requirements for the purpose of presenting the apparent uncertainties, lack of uniformity and generally unsatisfactory conditions in this part of the monetary field. However, I have done this more expressly to indicate something of the progressive deterioration of the standard unit of value and the gravity of the monetary pathology that now afflicts nearly if not all of the countries we are to believe would become participants in the scheme.

The thirty-one countries represented on the chart are divided into three categories, namely, (a) those countries having no free gold, which number fourteen; (b) those countries having free gold, which number sixteen; (c) the United States.

With respect to the remaining countries that would become members of the scheme, I have been unable to obtain any data that are of value to this study. Those countries are Iceland, the Philippines, Panama, Luxemburg, Iraq, Honduras, Haiti, Ethiopia, Dominican Republic, Paraguay, Nicaragua, and Iran. According to Federal Reserve and Treasury data, though sometimes conflicting with each other, Panama, Iraq, Ethiopia, and Dominican Republic make no reports of their gold holdings, while in the case of some of the others no figures respecting gold holdings are at present "available." Paraguay and Nicaragua require no gold reserves against their demand liabilities. From such data as are available to me it would appear that all of these countries together must possess such a very small amount of gold that leaving them out of consideration could not possibly make any material difference in the results of this study.

In further explanation of the figure (2) which precedes the percentage figures in column 2 it should be stated that gold exchange as defined on page 541 in the July 1936 Federal Reserve Bulletin means exchange convertible into gold.

The percentage figure shown in column 2 does not always correspond with the figure actually used in computing reserve requirements because of certain qualifying factors. This apparent discrepancy is clarified in the footnote relating to the country concerned.

Observe that although both the circulating notes and other demand liabilities are shown for each country in columns 4 and 5 that the percentage figure in column 2 has not always been applied to both of the above two figures. Some countries require gold reserves against circulating notes only and others against both circulating notes and other demand liabilities. Furthermore, the requirement for notes may be different than the one for other demand liabilities. The footnote for each country will clarify these points.

It should be understood that the data and figures shown in the chart which relate to gold reserve requirements against circulating notes and other demand liabilities are not to be taken as being exact. Too many qualifying factors are involved to make this possible. Complete as well as up to date figures are lacking. Figures showing gold holdings and circulating notes and demand liabilities are frequently of different dates. The best I have been able to do with the material at hand is to give a rough approximation of the true picture. However, conditions are on the whole undoubtedly worse than as shown here and are continually becoming more so at an accelerated rate of speed.

Neither in this nor my paper of last November has the Administration's formula for determining gold quotas for member countries been strictly adhered to. Section II-3 of the Administration's revised draft of the Keynes scheme provides in most cases that the amount of free foreign exchange held by a country is to be given a certain amount of weight in determining the gold quotas. Both the Treasury and Federal Reserve informed me that they had no data relating to this item. This, however, could not materially affect the picture, except that it helps to bring out the crudeness of the proposed set-up.

With respect to several countries, because of incomplete and unsatisfactory data, principally in Latin America, no attempt has been made to compute the amount of required gold reserves.

By referring to columns 4 and 5 on the table it will be seen that the grand total of circulating notes and other demand liabilities of the thirteen non-free gold holding countries (China not included) is $28,000,000,000. By referring to column 6 it will be noted that the amount of gold reserves required against their total demand liabilities (omitting gold reserves required by United Kingdom) would be $7,300,000,000. By now referring to column 8 it will be seen that the total amount of gold holdings of these thirteen non-free gold holding countries is only $3,800,000,000. Thus it will be seen that those thirteen non-free gold holding countries have a shortage of $3,500,000,000 for meeting their statutory reserve requirements.

Looking now at column 13 we see that the total amount of gold contributions of the thirteen non-free gold holding countries would come to $893,525,000. Since, however, those countries are deficient in gold to the amount of $3,500,000,000 for their demand liability coverage as shown in column 9 (taking into consideration that no figure for China is possible for this column), those countries would of course have no available gold for international use in the form of such contributions.

Let us now look at column 14 and compare the amount of gold the United States would be called on to contribute with that which the other 30 non-free and free gold holding countries combined would have available to meet their gold quotas, leaving out of consideration for the moment the paper portion of the contributions that would be made by the United States as well as that of all the other countries.

The United States would contribute in gold $1,172,000,000. The thirty other countries would have available only $420,000,000 in gold to meet their quotas. On this basis the United States would contribute 73 plus percent of the gold capital of the scheme while all the other countries combined would contribute only 26 plus percent. Yet the United States would be given a voting strength of only 20 percent while the other countries would have 80 percent. But this by no means shows the picture to be as bad as it really is.

In my paper of last November, before I had completed the present study, I stated:

> "The gold liability of the United States would be nearly four times that of the whole British Empire, yet the United States would have only 20 percent of the votes while the Empire would have 19 percent."

I now find the United States would be in a much more unfavorable position than was indicated at that time. The Union of South Africa is the only component of the entire British Empire which possesses any free gold. She is given a gold quota of $72,000,000. The gold quota of the United States would be $1,172,000,000. Thus it is seen that, on the basis of available free gold the United States would contribute more than 16 times as much gold as the entire British Empire, yet the United States would be given only approximately the same percentage of basic votes as the Empire, 20 and 19 percent respectively!

Since U. S. paper dollars from an international standpoint are convertible into gold on demand, the United States would actually contribute in gold $2,344,000,000. Her total gold liability would be the same as her total contribution. The non-free gold holding countries, numbering fourteen, would have no gold liability whatever. We stated the total gold that would be available for contributions by the sixteen free gold holding countries would be $420,000,000. Now what would be the total gold liability of the sixteen free gold holding countries? Would it be any more than the aggregate of their gold contributions? Conceivably it might be more. But here we run into some questions which show this whole proposal to be positively preposterous.

Let us consider the case of Russia. Her paper and gold contributions are set at $432,000,000 and $184,000,000 respectively. The Treasury informed me that Russia makes no reports of her gold holdings. November 22, 1943, the Federal Reserve gave me the figure of $839,000,000 as the amount of gold Russia held September 1935.

The Soviet Union is an absolutist state. It is conceivable that she might pool a portion of her gold on paper, or even by delivering it into the physical possession of some other country. That would depend on the benefits she could see accruing to her by doing so. Lend-lease and United Nations Relief and Rehabilitation gifts and "loans" for reconstruction and development, which latter might be available to her in case the proposed international bank should be created, would no doubt be deciding factors. But it is unthinkable that the Soviet Union would consent to giving over to an international body any power whatsoever over her money, or any other part of her economy.

The basis of the whole Soviet economy is the political ownership and control of her gold and paper currency, just as this is the basis of all dictatorship. Lewis Haney, professor of economics, New York University, in an article in the Washington Times-Herald December 11, 1943, in commenting on a certain press dispatch from Moscow relating to "world banks and such things" gives the impression that Russian participation in the Keynes scheme is impossible. "Russia Balks," is the caption of an article by Ralph Hendershot in the New York World Telegram December 7, 1943, of which he is financial editor. He then goes on to say of Russia:

> "And, she wants nothing to do with schemes for an international bank, preferring to do business on a gold basis. The chances are this will put a crimp in Britain's plans to stabilize international currencies by placing various and varied assets into an international bank and issuing a new currency against these assets, to be used in the settlement of trade balances between participating nations. And it may very well give our Treasury officials reason to stop, look and listen before throwing in with the British idea."

Furthermore, it would seem another complication may have arisen in connection with Russian participation in this British scheme. I refer to the announcement that recently came from Russia to the effect that the Russian state is to be divided up into sixteen "republics," each of which is to have power to separately enter into "direct relations with foreign states and conclude agreements with them." (See full "Text of Molotoff Plan Enlarging Autonomy of Sixteen of the Soviet Republics," New York Times, February 2, 1944).

What the purpose of this new arrangement may be is as yet not clear but it could be used to somehow match the control of other nations, particularly that of Great Britain and the United States, in order to secure greater advantage to herself in any international financial arrangements that might be created. But whatever may be the object of this move, it is safe to say the Soviet Union could not in any event give her consent to any proposal which would involve outside interference with the price at which she might be willing to buy or sell gold outside of her borders, or with her domestic currency or any part of her internal economy. Since the Keynes-Morgenthau scheme would definitely involve control by an international body over all of those things in Russia, we can safely conclude that she would not become a full-fledged participant in it. Henee the gold contribution assigned to her becomes more of a fiction than a reality.

Having eliminated Russia as anything but a possible limited partner in the plan, let us look for a moment at the other countries in the free gold holding category with a view of determining the extent to which they could be expected to actually make their gold available to the scheme. The extent to which this could be expected would of course, as in the case of Russia, depend upon the amount of concrete benefits they could see in it for themselves. We may be sure that the other countries that would join this proposed scheme would be realistic, that they would do so understandingly and with their eyes glued to their material interests. The United States seems to be the only country in the world that not only has lost much of its mechanism for protecting its own material interests against foreign exploitation, but whose trusted government officials willfully assist foreign interests to insinuate themselves into our economy and government and intrude themselves upon our rights as a sovereign power.

Section V-8 of the Administration's revised draft holds out a promise of considerable benefit to at least some of the free gold holding countries. This is particularly true with respect to those Latin American countries which have large sterling balances in London. The assumption by the scheme of the British debts which comprise those sterling balances would place those Latin American countries in a position of being able to collect them from the United States.

Like Russia, lend-lease, export-import bank loans and loans which might be made available to them through the creation of an international bank for reconstruction and development would undoubtedly be further inducements to the Latin American countries to contribute some of their gold to the scheme. The extent to which the United States would indirectly, through these means, furnish to the Latin American countries the very assets they would contribute to the scheme could not help but be substantial.

In my November 1, 1943 paper I also raised the question of whether the scheme would actually have physical possession of all of the gold assets contributed to it or whether each country would keep its gold quota in its central bank and government vaults and the whole operation of the plan, except the gold contributed by the United States, be one of bookkeeping.

It is important to know the answer to this question for unless the international body would actually have in its physical possession the gold contributions of the so-called member countries it is difficult to see how they could serve either as a true credit base or be of any value in maintaining the liquidity of its assets. The soundness, that is the liquidity, of the plan would always be dependent upon the availability to it of its gold assets. There is no such thing as absentee liquidity any more than there is liquidity in futurity.

The paper contributions that would be made to the scheme constitute in reality nothing but overdrafts except those made by the United States and other countries whose currencies are internationally convertible into gold. Lord Keynes in expounding his scheme to the House of Lords touched upon this point but apparently was very careful to refrain from distinguishing between the paper which would be contributed by countries whose position is such as to make it fully redeemable in gold at all times and those countries whose gold position is not such as to make their paper fully redeemable in gold at all times. He said:

> "The American plan requires the member States to provide so-called security against their overdrafts, a requirement which could certainly be met if it is thought useful; but the security in question only to a very small extent consists in an outside security in the shape of gold. It consists mainly of an I.O.U. engraved on superior notepaper,

better than would be the case, perhaps, under our own scheme. I have said that, if that is thought useful and worth while, it does not involve any particular problem." (Page 81, Parliamentary Debates on an International Clearing Union, British Information Services).

The paper portion that would be contributed by the United States would not "consist mainly of an I.O.U. engraved on superior notepaper" but would be a bond underwritten by the Government of the United States for the delivery of gold on demand, backed by the actual possession of said gold. But the paper portion that would be contributed by the United Kingdom would not be possessed of this liquid quality. It would be a political I.O.U. in the truest sense with no gold back of it to assure its redemption and without recourse to any other means or source of payment.

To what extent would the gold "contributions" made by countries other than the United States actually be made available to the scheme? Would any gold except that supplied by the United States be made available for use in the operation of the scheme in the sense in which the term "use" is applied to the capital of a bank or any other financial institution? The capital and assets of any financial institution must either be in its actual physical possession or in some manner subject to physical possession by it. This proposition holds with respect to international financial institutions as well as domestic ones. If the scheme does not comprehend actual physical possession of all its capital assets, if the shares of some are represented by paid in gold and of others by political promissory notes only then it becomes a sham and a fraud of the worst sort.

On November 10, 1943, I addressed the following letter to Mr. Morgenthau, Secretary of the Treasury:

> "Some days ago Mr. E. M. Bernstein, in company with Mr. Brenner,[3] in my office gave me to understand, in answer to a direct question, that the operation of the United and Associated Nations Stabilization Fund would be only a matter of bookkeeping, that the assets of the Fund would remain in the Central Banks and Government institutions of the member countries."

Wishing to have this statement confirmed in writing by the Secretary of the Treasury, I wrote him in that letter as follows:

> "I desire from you, the Secretary of the Treasury, a direct answer to the following:
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> "Does the 'Preliminary Draft Outline of a Proposal for a United and Associated Nations Stabilization Fund, U. S. Treasury Department, Revised Draft, July 10, 1943' provide for the physical delivery of the gold assets of the Fund at some central point within the geographic boundary of one of the United and Associated Nations? Or, is it contemplated that the gold assets of the Fund will remain in the physical possession of the member countries of the Fund within their territorial boundaries?"

On November 13, 1943, Mr. Morgenthau replied to the above as follows:

> "It is my understanding that the discussions among the technical experts of other countries did not touch on the point of the manner in which the gold contributed by a member country would be physically delivered to the Fund. I presume, however, it is likely, with respect to the larger countries at least, that their respective gold contributions would be kept available on earmark for the Fund at the central banks of those countries."

This is of course an attempt to evade answering my question. In the first place how could there be any question about the "manner" in which the gold should be physically delivered to the scheme? Is there any other way this could be done except by the simple act of shipping? Surely it would not require the services of any "technical experts" to figure that out.

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3 Mr. Edward M. Bernstein is an assistant director, division of monetary research, Treasury Department. Mr. Richard B. Brenner is an attorney in the Treasury Department.

If we are to infer from Mr. Morgenthau's answer that these technical experts have not discussed with the other countries the question of whether they would be willing to ship their gold quotas to one or possibly even several of the other member countries, it should be interesting to know what they have discussed. Do Administration officials who are lending their support in the promotion of this scheme believe we are either so naive as to simply take it for granted that the member countries would be willing to ship their gold to some central depository, or so completely uninformed and unconcerned about the matter as to ask no questions?

One thing certain, however, does emerge from Mr. Morgenthau's answer, namely, that each one of the "larger countries" would retain physical possession of its gold contribution. Furthermore, the phrase

"with respect to the larger countries at least,"

would certainly imply that the smaller countries might choose to do likewise.

It should be interesting to have Mr. Morgenthau's formula which he used to classify the United and Associated Nations in two categories, the larger countries on the one hand and the smaller ones on the other, but it would be more interesting still to know how and why he arrived at determining that the larger nations would keep their gold contributions at home in their own vaults yet seemed undecided or unwilling to say whether or not the smaller countries would be permitted to keep their gold contributions at home too.

We wonder also which countries have been selected as the elect. The United States, Great Britain, China and Russia have been officially designated as the big four powers so it is reasonable to suppose none of these countries would be called on to let loose of its "gold contribution" to be shipped off to any of the other member countries, though neither Great Britain nor China has any gold to let loose of.

If it is proposed that the smaller countries should hand their gold contributions over to the scheme, to which of the self chosen few would they be expected to deliver them, to one or more of them and if so, which one or ones? Since the Soviet Union would be no more than a limited partner in the scheme it is hardly likely that country would be selected as the gold depository for the smaller nations. China being so far away from the financial and industrial center of the world and for obvious various and sundry other reasons would hardly do as a depository of the gold assets of the smaller countries. That would leave only England and the United States to be considered as suitable places for holding and guarding those gold assets. To which of these two would the gold contributions from the smaller countries be made to flow or would they be made to gravitate toward both?

These would not be idle questions if the scheme really contemplated that the proposed gold subscriptions of the smaller countries would actually have to be delivered at some central point within the geographic boundary of one of the so-called member countries. Indeed, these questions would then become vital as they would go to the very root of the matter.

These questions, of course, answer themselves and they are not asked so much for the purpose of determining whether or not the smaller countries would actually deliver their gold quotas to some central depository within one of the member countries, but are asked more particularly to show both the deception and bizarreness of this scheme. With respect to the countries having no free or unpledged gold the scheme would have nothing more than a second mortgage on any gold contributions that might be promised and with no recourse at that. Is it not likely that the free gold holding countries, nearly all of which come within the category of smaller countries, would prefer to keep their gold quotas in their own pockets when the non-free gold holding countries had nothing more to offer than a second mortgage on their gold quotas without recourse, and when the so-called larger countries preferred to retain their gold contributions at their homes in their own vaults? Is it possible to draw any other conclusion than that the operation of the scheme would be one of bookkeeping and the allegedly assigned gold contributions for both the non-free and free gold holding countries, except with respect to the United States, would consist almost if not entirely of political promises, not to even pay in any part of such gold contributions, but simply to agree to earmark them in their own countries for the account of the scheme?

Up to the present we have considered only the initial amount of gold liability the scheme would impose upon the United States. In the paper heretofore referred to of last November I mentioned that the initial subscription of gold by the United States would likely be no more than a starter, that once the program were put in operation we should expect to be called upon to pour additional amounts into it. In that paper I said of the scheme:

"We are to believe it is something that could be started and stopped like a watch; tried out and if found ineffective abandoned to its own fate. But it just would not work that way. Once the scheme were in operation it would quickly generate forces that would make for self-perpetuation and expansion, as is the nature of all political machinery . . . A whole congeries of 'vested' international interests would quickly spring up and concurrently the protective mechanisms for maintaining them."

In this connection we should read some of the provisions of the Administration's draft under Section V, "Powers and Operations," wherein are provided the following powers:

"To buy, sell and hold gold, currencies, and government securities of member countries; to earmark and transfer gold; to issue its own obligations, and to offer them for discount or sale in member countries."

"To buy from the governments of member countries, blocked foreign balances held in other member countries,"

"To sell member country obligations owned by the Fund"

"To use its holdings to obtain rediscounts or advances from the central bank of any country whose currency the Fund needs."

"with the approval of the representative of the government of the country concerned, sell its own securities, or securities it holds, directly to the public or to institutions of member countries."

With these far-reaching powers the scheme could be greatly expanded beyond its initial functions and organization. J. H. Riddle, economic adviser to the Bankers Trust Company in New York, says of the Administration's draft of the scheme that:

"It could lend and borrow money, and deal in securities. The fact that it could borrow money and issue its own obligations might bring the Fund's activities nearer the scope of the Keynes Union."

Of the Keynes Union he says:

"Under the Keynes plan foreign countries could in theory accumulate debits of nearly $26 billion. That is a theoretical limit based on the assumption that the United States would be the only creditor country and all others would be debtor countries, and further that none of the safeguards provided for worked. That would not occur, of course, but it might be possible after a period of years for debit balances to reach half that figure, or even more, if creditor countries should continue to supply the funds without making any use of their credit balances."

That is, the Keynes-Morgenthau scheme could theoretically involve the United States to the extent of upwards of perhaps $15 billion. Many conditions must be taken into consideration in determining the probable extent to which the scheme would be expanded. It would be in control of the debtor countries who would determine its operations and formulate its lending policies. Keynesian monetary and financial thinking, with its fiat credit and currency, its pyramiding of credits, its unlimited government deficit financing, its totalitarian approach, and in this instance at least, its lack of integrity, would give direction to all of its procedures.

Then we must keep in mind that this proposed plan is only a part of a larger and more grandiose scheme that is envisioned by its promoters. Indeed, this is frankly stated by its prime mover and spearhead, Lord Keynes, when he says:

" . . . It is possible that taken together

1. The mechanism of currency and exchange

2. The framework of a commercial policy regulating conditions for exchange of goods, tariffs, preferences, subsidies, import regulations and the like.

3. Orderly conduct of production, distribution and price of primary products . . .

4. Investment aid, both medium and long term, for countries whose economic development needs assistance from outside.

. . . may help the world to control the ebb and flow of the tides of economic activity which have, in the past, destroyed security of livelihood and endangered international peace."

Lord Keynes looks upon his international stabilization scheme as the nucleus for the construction of a universal and all-pervasive centralized international power to regulate the economies, governments and individual lives of the people of the whole earth. To the foregoing he adds that it

"might become the instrument and the support of international policies in addition to those which it is its primary purpose to promote"

that it

"might become the pivot of the future economic government of the world"

that

"Without it, other more desirable developments will find themselves impeded and unsupported"

that

"With it, they will fall into their place as parts of an ordered scheme"

that it

"might set up a clearing account in favour of international bodies charged with post-war relief, rehabilitation and reconstruction"

which segment of his scheme is already in operation in the form of the United Nations Relief and Rehabilitation Administration. Further, that his stabilization scheme

"might set up an account in favour of any super-national policing body which may be charged with the duty of preserving the peace and maintaining international order"

that

"This would provide an excellent machinery for enforcing a financial blockade"

that it

"might set up an account in favour of international bodies charged with the management of a Commodity Control, and might finance stocks of commodities held by such bodies, allowing them overdraft facilities on their accounts up to an agreed maximum."

Also that it

"might be linked up with a Board for International Investment"

that

"There are various methods by which the Clearing Union could use its influence and its powers to maintain stability of prices and to control the Trade Cycle" that

"If an International Economic Board is established, this Board and the Clearing Union might be expected to work in close collaboration to their mutual advantage."

that

"If an International Investment or Development Corporation is also set up together with a scheme of Commodity Controls for the control of stocks of the staple primary products, we might come to possess in these three Institutions a powerful means of combating the evils of the Trade Cycle, by exercising contractionist or expansionist influence on the system as a whole or on particular sections"

and finally

"The facility of applying the Clearing Union plan"

that is, the Keynes-Morgenthau scheme which we are here considering

"to these several purposes arises out of a fundamental characteristic which is worth pointing out, since it distinguishes the plan from those proposals which try to develop the same basic principle along bilateral lines and is one of the grounds on which the Plan can claim superior merit"

which he clinches with this sophistry:

"This might be described as its 'anonymous' or 'impersonal' quality."

What else could it possibly be that is envisioned here but a "supernational brain-trust with authority," as Benjamin M. Anderson has designated it?

As just mentioned, one of the parts of this all-embracing scheme has already been perfected, namely, the United Nations Relief and Rehabilitation Administration, which according to resolutions adopted at the Atlantic City Conference is to undertake everything from the furnishing of soup kitchens to the construction of railroads in all the war-stricken areas of the world; further, still another part of this global program, an "international bank for reconstruction and development" with an initial capitalization of $10 billion is now in the process of concoction by the Administration.

Then there is a vast assemblage of related forces and conditions which are giving impetus or allowing freedom to this movement, though perhaps not so directly or manifestly connected with it, such as the totalitarian planning cult which in conjunction with the Federal bureaucracy all but completely dominates our economy and government, the disordered and corrupt currency and the long way our nation has already gone in substituting a society of status for that of contract.

There is one more point which is of great importance to the consideration of the Keynes-Morgenthau scheme and which is very pertinent to this study. Seldom if ever are the expectations or promises of legislators in setting up political agencies fulfilled. It is an almost unbroken law that such bodies are, when once established and put in operation, never limited to their original size and functions, but tend always to enlarge and expand the scope of their activities.

This is so universally true and so self-evident that it should require no substantiating proof, though a thousand illustrations are ready at hand to support this contention, if that should be deemed necessary. But look at the growth of bureaucracy that has taken place in the Federal government in recent years.

Who in 1887 would have thought that the Interstate Commerce Commission which was created at that time would develop to its present size, complexity and power, and that the interstate commerce clause of the Constitution would be construed by the Supreme Court so as to make the growing of wheat interstate commerce and empower a Federal bureau to dictate to the farmer how much wheat he can grow?

The Congress devotes nine-tenths of its time trying to restrain the political machinery which it has created and to confine its functions within the bounds of the laws it has itself written. Now especially, it scolds the OPA, CCC, AAA, and the other political alphabetical agencies for using their powers to change the economy, for taking on functions that were not intended and for disobeying the laws which brought them into existence.

The Keynes-Morgenthau scheme would be no exception to the law of endogenous growth of political machinery. That it would go the way of all bureaucracy, take on new functions and expand in directions not now thought of or intended, most likely even by Lord Keynes and some of his co-workers, should be a foregone conclusion. Indeed, the nature of this scheme is such as to make it particularly liable to anarchic growth.

It is plainly seen that the meat of the Keynes-Morgenthau scheme, stripped of its pretense and window dressing, is an attempt to inveigle the United States into handing over to Great Britain the control and use of the United States stockpile of gold; to finance $5 billion or more of debts Britain owes to a large number of countries; to restore London as the world's banker and financial center; to finance her world trade and pay for her Beveridge Plan.

The scheme seeks to accomplish these objectives by destroying the dollar as the leading international standard unit of value and settler of accounts and what is left of the orthodox international gold standard by substituting therefor a fictitious and political paper unit of account called "unitas," in terms of which international pecuniary contracts would have to be made. It is sheer nonsense for Lord Keynes to say:

> "The existence of the Clearing Union does not deprive a member State of any of the facilities which it now possesses for receiving payment for its exports. In the absence of the Clearing Union a creditor country can employ the proceeds of its exports to buy goods or to buy investments, or to make temporary advances and to hold temporary overseas balances, or to buy gold in the market. All these facilities will remain at its disposal."[4]

and for the Secretary of the Treasury, Mr. Morgenthau, to chime in with Lord Keynes by saying:

> "The Fund would deal only with Treasuries and central banks. It would not compete with private banks or existing agencies. Its operations would be maintained only to supplement the efforts made by each member government to maintain monetary stability. The established channels of international trade and international banking would be retained in full for all international transactions."[5]

if these gentlemen mean that gold could still be used in the settlement of international trade balances. That view postulates the impossible, namely, the existence simultaneously of two kinds of international units of value and media for settling trade balances, a definable weight of gold on the one hand and an indefinable paper "unitas" of account on the other. Would not Gresham's law operate the same in the international field as it always has in domestic economies? Would not the bad "unitas" money drive out the good gold money? What earthly chance would gold have to remain in circulation internationally and compete with the "cheap money," the politically manipulable paper "unitas"? None, of course.

It should be observed the scheme would involve the demonetization of our entire stockpile of gold for international use, just as it has been demonetized for domestic use in the United States and other countries.

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4 "Proposals for an International Clearing Union," British Information Services, April 8, 1943, page 11.

5 "Statement of Secretary Morgenthau before the Senate Committees on Foreign Relations and Banking and Currency and the Special Committee on Post-War Economic Policy and Planning," April 5, 1943, page 3.

That would give the debtor countries and of course Great Britain in particular a tremendous abnormal advantage over the United States in her international commercial transactions.

The alleged capital formation of the Keynes-Morgenthau scheme is a fraud. The dishonesty and deception which underlie it condemn it utterly. This is not a proposal for international cooperation if the word "cooperation" still means what the dictionary up to now has always said it meant -- "collective action in the pursuit of common well-being." On the contrary, this is a proposal by Great Britain, supported by other debtor countries aided and abetted by our present Administration, not only to bleed the United States white but to destroy her very blood-making organs.