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International Currency Stabilization
Statement by E. A. Goldenweiser
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Being very close to the details of the stabilization plans, as I have been, has a "sucking-in" effect on one's mentality; it becomes difficult to rise above details and look at the picture as a whole. In the short time I plan to speak I think it may be best for me to outline the way my thinking runs, and we can then see in what respects I differ from Dr. Williams' position as expressed in his article in Foreign Affairs.

I think that the implication of what Dr. Williams says is that we should do other things as an alternative to doing anything about monetary stabilization. Perhaps he does not mean just that, but the point I want to emphasize is that we have to do both the other things and stabilization. I am not one of those who believe that one can center attention entirely on domestic affairs, and let foreign exchange find its own level. Neither do I believe, however, that we must sacrifice domestic prosperity to the maintenance of fixed exchanges. I think, as Dr. Williams does, that the two go together, that, if the fundamental problems are solved, it will make the stabilization mechanism a relatively unimportant one, and that, if the other problems are not solved, no stabilization plan will be feasible.

I am convinced that we should not be willing to go into any plan of monetary stabilization except as a part of a broad program that includes a great many other things besides. We have to have relief and rehabilitation; we must have provision for reconstruction; we may have to have commodity stabilization boards; and we must have an arrangement for long-time credits (or gifts). All of these things must be a part of the picture before there is any chance for monetary stability. The idea of continued lend-lease after the war is one that will need to be explored, and it may prove to be one of the prongs of the program.

By such a broad program, of which stabilization will be a minor phase, we will have to do more than restore prewar conditions. We do not want to go back to the millennium of the 1920's and 1930's; there were conditions then that were among the causes that brought about the war. The problem is really not one of restoring the conditions of 1939 or before but of developing conditions--probably for the first time in history--under which continued international and domestic prosperity can have a chance of survival. That is a tremendous problem and one that makes a person feel very humble indeed in attacking any little phase of it. It will require the best in brains and the best in character because it will be a problem of Herculean difficulty. Nevertheless, we are now being called upon to bear the consequences of our past misdeeds through such terrific sacrifices that it may not be too much to hope that heroic efforts will be made to prevent a repetition of the conditions that led to this war.

In proper perspective, stabilization is essentially a minor part of a series of actions which have to be taken. Nevertheless, we come to a point where we feel something needs to be done, and that perhaps steps toward currency stabilization are a good beginning. The reason I think they may be a good way to begin is that perhaps it will be easier to get international agreement on some stabilization program than it would be on some of the broader and more ambitious programs that involve more unknown elements in the postwar world. Currency stability would help to reestablish confidence and would facilitate the other parts of the program because, if exchange risks arising from speculative movements and otherwise are reduced, the very grave difficulties that will lie in the way of postwar readjustment will be lessened. Therefore, I feel that it will be useful to have machinery which will keep exchange on a relatively even keel while other things are being done. If other things are not going to be done, this plan might just as well be abandoned.

In looking for guidance in planning our actions in the future, I am afraid that nothing in the record of the past would make us want to repeat it. During the last war we pegged exchanges. Immediately after the conclusion of the war we had a breakdown in exchanges, and then we had a scramble which was primarily a matter of everyone trying to protect his immediate future and "letting the devil take the hindmost". Even in that scramble, however, there was a certain amount of the key-nation approach of the kind that appeals to Dr. Williams, and perhaps it is because of the role it has played in the past that I am suspicious of it.

In 1924 we had an arrangement by which we worked with England by adopting an easy-money policy and subsequently making a large international loan to help England return to the prewar gold standard. It was a proud moment for the City of London and for Wall Street when in 1925 the pound was restored to its traditional level. It was unfortunate that the English people were not sufficiently patriotic to be willing to starve with enthusiasm for the glory of the prewar pound. England went through hell immediately after the restoration of the pound to $4.86. As Dr. Williams says, it was badly overvalued out of tribute to financial pride and probably to the advantage of some financial interests. The franc, on the other hand, was undervalued. In 1927 we got together some of the key nations to arrange for a return of the franc to gold and for assistance to England to remain on gold. We had in this country a visit from Governors Norman and Schacht and Charles Rist. This was an historic meeting. It led to an easy-money policy by the Federal Reserve System which has been a subject of debate ever since. It was a conference which Congressman Strong of Kansas described by saying "they came, they dined, and they got the gold". Domestically, our policy contributed to the stock market boom.

The fact that all of these arrangements collapsed shortly after certainly does not make one feel particularly anxious to start any plan of that sort again. The pound collapsed in 1931; we went off gold in 1933; the franc held out for the longest time and was a deflationary influence throughout the world for three or four years. In the autumn of 1936 we had a Tripartite Agreement which reflected a great many noble sentiments. I read it over last Saturday, and I was impressed with the beauty of the language. But it would certainly not be inadequate as a model for postwar stabilization.

It is not unnatural in view of the record that we are trying to look for possible solutions in different directions. All the proposals being made have the same purpose, whether they were worked out by Lord Keynes, the Dutch, the Canadians, the French, Dr. Williams, or our Treasury. The objective is to prevent unnecessary speculative fluctuations in exchanges so as to minimize the need of deflationary measures for counteracting such exchange movements, to give all the countries both an opportunity and an incentive for taking corrective actions if their balances are running against them consistently, to meet cyclical declines when a country is in poor shape but prosperity is around the corner, and to help countries while they bring about adjustments in trade and industry that will put them on a sounder basis.

It will be of considerable value to have a stabilization plan in operation immediately after the war, when there will be many winds blowing in the direction of instability and chaos. One settled element will contribute to the establishment of a climate favorable to the development of all the other, more fundamental plans without which no peaceful continuance of a democratic world is imaginable. After the war there will be few countries other than the United States which will have much to export--and we ourselves may not have much. All countries will need many imports. England, as Dr. Williams points out, will be short one or two billion dollars a year for a number of years, because in recent decades she has been living partly on her fat and has been consuming more than her current production. Having had to give up a considerable part of her foreign investments and having a new kind of world-trade situation confronting her, England is going to have a serious problem. She will have to develop increased productivity based on technological progress, coupled with a distribution of income that will make domestic demand take a larger part of the goods produced than was the case in the past. Whether or not England can do this may be questioned but, if she is going to be as great a country as she has been in the past and as great as her war record makes me feel she is, she will work out a solution. A beginning has been made in the Beveridge report, and there are many other indications that she is making long-range plans for rehabilitation.

It has been said, and Dr. Williams concurs, that the exchange stabilization plans are essentially gold-standard plans. I agree with that both as to the White and the Keynes plan. Their authors may not like the idea, and Lord Keynes would like it less than Mr. White, but the fact is that they are essentially gold-standard plans. However, these plans provide more flexibility and more modern machinery than any previous exchange mechanism. The principal similarity with the gold standard, aside from technical workings, is that both plans will collapse, as the gold standard did, if underlying maladjustments are not corrected.

To turn a little more specifically to the two principal plans under discussion. The American plan provides for a definite fund, with five billion dollars suggested as a minimum and ten billions sometimes contemplated. Contributions consisting of gold or local currencies or government securities would be made by a great many countries, and the United States would contribute two or three billions in gold. The British plan starts with nothing but an agreement and proposes to handle the whole matter by overdrafts. In other words, a line of credit is assigned to each country and it is permitted to draw on it. The fundamental difference is not so much in that one plan calls for contributions and the other does not because a contribution is not particularly real so far as local currencies are concerned. In so far as the contribution is in local currency or securities the difference is merely a matter of form. In so far as the contribution is in gold, there is a greater difference, but after all what is gold other than a claim on the world's goods?

The one really fundamental difference is that under the British proposal it is possible for all demands to concentrate on some one country. This would make it possible to concentrate a demand of 40 billion dollars on the United States, for example, whereas under the American plan the maximum possible concentration of demand on the United States would be the sum of our contribution plus foreign gold holdings. Under the one plan we would undertake to give the world 40 billion dollars worth of our goods in exchange for credit or gold and expand our own domestic currency and reserves by that amount, whereas under the other plan the maximum commitment of this country would be limited to 14 billion dollars. That is a genuine difference.

When you say this to the British, they begin to argue about exports, imports, and controls. You get the feeling that the difference in viewpoint arises from the fact that their country has never had a written constitution but has abided by the rules of the game, while our country has been ruled by a constitution and an infinity of laws and regulations. In actual practice there would be less difference than appears on the surface even though the British would expect to abide by unwritten rules while we should insist on spelling them out. In both cases the rules would be essentially the same and would be honored. Since we have to get the plans through our legislative machinery, however, it is quite clear that no plan that is not definitely limited in regard to the American commitment would have even a moderate chance of favorable consideration.

Both plans provide for a control of capital movements and for machinery for putting into effect corrective measures for any country that is badly out of line. The British plan proposes that the machinery apply to countries that have constant credits as well as to countries that have constant debits--an idea that appeals to me but is probably not practical. It is well to recognize that a country which insists on selling more than it is willing to buy contributes as much to international disturbances as a country that continuously buys more than it can pay for. Through the public opinion of a large number of nations, certain practices might well become bad form in world affairs, and in the end it is what people refrain from doing and consider bad form that counts, because no written law can be imposed on a sovereign state except by force. It is a question of developing principles of conduct and behavior which will break down some of the things that have brought us to catastrophe.

Both plans are hostile to the extension of all kinds of exchange restrictions, controls, quotas, bartering arrangements, and all those things which have plagued the world for the last 20 years. They provide for supervision of exchanges in order to prevent flights of capital, but they want to eliminate most of the other controls as much as possible and as soon as possible.

The Federal Reserve System is greatly concerned with this matter from the broad point of view of its possible effects on economic stability. In the narrower field of banking the proposals would create a problem arising out of a probable large inflow of bank reserves to the United States. It might mean that the Federal Reserve System would have increasing difficulty in using its customary methods of credit control. Furthermore, in addition to these commitments the System is bound to have others which will require the absorption of still further reserves. Therefore, the System is interested in knowing exactly what is involved, and in any case it must recognize that it will require increased legal powers of control over reserves and banking activities.

Plans other than those proposed by Lord Keynes and Mr. White are along the line of gradual action by the leading countries. It is stated that a more realistic approach is to recognize that these countries set the tune, and I think that there is no doubt that they must set the tune. The only question in my mind is whether they can set it better within the framework of a broader organization rather than outside of that framework. They have tried to do it on the outside but the results have not been inspiring. If it can be done from the inside, in harmony with the idea that the United Nations must act together, that everyone is indebted to all the others, and that all rules must be approved by all and not by one or two major countries, I feel that the chances of success will be greatly enhanced. We have had spheres of influence and we have had mandates, and it was that kind of a world that broke down in 1939. What we need now is a partnership. The partnership idea of the United Nations has been encouraged, and I think this would be a step in the right direction.

The currency unit which the American plan proposes is Unitas, which is derived from United and Associated Nations. This has an appealing sound. Lord Keynes has called his unit Bancor. In view of the American distrust of banks and the British distrust of gold, this is rather unfortunate, except possibly on the theory that two deadly poisons joined together become the salt of the earth.

What we need in planning the future is more than contemplative wisdom--we need constructive, imaginative courage. We must be willing to break away from our usual moorings and to explore new lanes in uncharted seas. I think that boldness is essential in such planning because we have to learn to ignore a great many of the fetishes which have laid us low. My own reservations and doubts about these schemes come mostly from wondering whether we are still too much dominated by outworn ideas. Can we rise above them to adopt new principles that will guide us when the war is over? I would move in the direction of bolder methods rather than hold to more conservative ideas which, although they appeal to caution, will prove inadequate in meeting a situation as radically different from the past as will be that with which we shall be confronted in the postwar world.