INTERNATIONAL MONETARY PLANS AND PROSPERITY

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DURING the war our peoples have had full employment and high wages. After it they will not be content with less without a very great struggle. Full employment under war conditions could not be very long maintained; it is only secured at the expense of the gradual deterioration of a nation's capital, and of sacrifices on the part of the population which in peace time they would not endure . But it can be retorted that the war has at least shown how immensely national production can be increased, if only there is an assured market.

An internal market for a country's productive capacity can be found by enabling each consumer to obtain what he requires for as high a standard of living as the possibilities of production coupled with its foreign trade allow. And by "obtain" I mean "earn" by work profitable to the community and not by charity. That is the crux of the whole problem. In wartime the government is the market—it does not have to earn the means to buy, it takes it through taxation and loans. In peace time the wants of millions of consumers make the market. Must the problem be solved by the state deciding what the consumer wants and then by state enterprise doing its utmost to see that that amount is produced and distributed —or can we solve the puzzle through private enterprise?

A similar question arises in the external sphere. How can a nation with productive power on the one hand and wants which can only be fulfilled from abroad on the other, be enabled to buy what it wants by selling to other nations what they want and what it can produce more efficiently and more easily than they can? The great benefits of international trade could be greatly increased, if we could only devise the framework in which such trade could prosper. This is not a matter of charity but is to be solved by the exchange of goods and services, at bottom by bilateral or multilateral barter. The exporting country may decide it will balance its position by importing gold, or of course it may lend its exports over a long period. But only by importing can it receive interest and redemption payments, and if it does not receive these it will not go on lending.

Excerpts from address before American Bankers Assn. 1943 convention. Mr. Brand, who is also chairman of the North British & Mercantile Insurance Co. Ltd., is now in the United States as chairman of the British Food Mission.

Conditions for Business Equilibrium

While there is no single or easy solution, it is not difficult to indicate certain conditions without which these problems cannot be solved.

First, the world must be really at peace and have confidence in the long term outlook; political insecurity undermines confidence and subjects enterprise to risks which are incalculable and beyond the capacity of any but governments to bear.

Second, something like internal stability, whether of production, employment, prices, relation between supply and demand, and other economic conditions, shall be maintained in the great industrial and trading countries.

Third, stability of exchanges among these nations shall be maintained.

Stability and equilibrium in this world of endless change are of course relative. Nevertheless the immensely injurious effects of their opposites in the form of inflation and, perhaps still worse, deflation, booms and slumps, trade cycles, fluctuating exchanges and so on, are obvious to every one.

In connection with internal stability we shall have a very large purchasing power in relation to the level of controlled prices and at first a very intense demand. If all the gates are opened and all controls lifted, there is likely to be a great inflationary rise of prices at once and a temporary boom. As demand diminishes, that boom may collapse with disastrous results. And yet, with millions of men and women seeking new work, a slowly diminishing control and a more moderate expansion may be exceedingly difficult politically to enforce, particularly since it will be imperative that the demobilized population shall be quickly absorbed.

To feed hungry occupied nations in the next few years we must necessarily step up agricultural production everywhere in reach. But when peace returns these hungry nations will at once set about with zeal producing once more the normal amount of their own foodstuffs. Thus scarcity in certain directions might before long turn into superfluity.

Many nations have been upheld by lend-lease and mutual aid in order that they shall put forward their utmost efforts as belligerents. Immediately to adjust themselves so that they can meet out of their own exports, which may have dwindled to practically nothing, their absolutely minimum import needs to maintain their livelihood will be impossible. They must necessarily be given a little time to turn round, if chaos is to be avoided.

Money Plans Not Enough

No international monetary schemes can be successful, except as a part of a much larger policy designed as a whole to secure normal stability in the most important countries. For since they aim by means of stabilizing exchanges in relation to one another in binding nations together, just as the gold standard did, so the economic changes in one nation will be transmitted to all the rest, and since the United States is so much the most powerful nation economically its ups and downs will affect us all.

It is as a contribution towards solving the world's external monetary arrangements that the British, American, and Canadian governments have recently published certain plans for a clearing union, a stabilization fund and the like.

Even supposing the first wholly abnormal post-war period is safely past, we shall face a world in which few countries have many or any liquid reserves representing an internationally acceptable means of payment. With its immense gold stock and strong creditor position the United States will of course represent the one country of impregnable liquidity. There will be others which produce gold and which will have to that extent an acceptable international means of payment, so long as the U. S. Treasury continues to buy gold at a fixed price. There may be others, such as some occupied countries, which will also have retained reserves of gold or dollars, but the great bulk of countries, including the United Kingdom, will have quite insufficient international reserves.

Short and Long-Term Credits

A truly flourishing international trade requires stable exchanges; stable exchanges require that each nation shall have sufficient liquid reserves to protect its position through seasonal or cyclical fluctuations. Moreover, international trade will flourish best under conditions of freedom and non-discrimination. Every one agrees that multilateral trade is immensely to be preferred to bilateral clearing arrangements, bilateral compensation, multiple currency devices, blocked accounts and so on. But nations do not adopt and develop these methods because they like them or want to damage other nations, but because they feel forced to adopt them when they have no reserves, no means left to both maintain their exchanges and develop their foreign trade except by methods approximate to barter.

International buying and selling is never absolutely balanced. Temporary deficits which liquidate themselves are financed by the mechanism of short term banking credits. On the other hand, when the deficit is more permanent—e.g., to meet requirements of a rapidly developing country—long term loans from the surplus countries are necessary.

Expansionist countries must be able to rely on some international system of credit which will allow also of expansion in other countries so that the increase in their imports from the world will be quickly balanced by the increase of their exports to the world, and so that mean-while they will possess liquid reserves to finance their imports for the time being. Monetary plans provide only a starting point. If nothing like equilibrium between countries can be achieved and if, even after taking into account international lending, some countries remain permanently in debit and others similarly, of course, permanently in credit, there is no reason why the creditor country or countries should not absorb all the international reserves provided by these plans.

The Target of the Plans

The pooling principle of the international currency plans rests on the assumption that equilibrium, and not simply current account equilibrium, but equilibrium as a whole, including international lending, is the target, and that for one country to have year in and year out a net surplus on its international transactions as a whole to obtain payment for which it feels bound to press for the permanent transfer to it of other countries' liquid international reserves, is as undesirable as it is for another country to have a permanent deficit. It would be immaterial with which country another country traded.

One may define the underlying idea as being that deficits are not so much a sign of wrong doing, and surpluses a virtue, as they are evidence of different stages of development, or at this moment of time, of temporary poverty due to war sacrifices. It is true that countries like individuals can try to live beyond their means. What is aimed at in all these schemes is not only that the poorer countries, while being helped, should be persuaded to live within their means but that the surpluses of the creditor countries should not be so used as to deprive the weaker countries of their liquid international resources but rather be so used as to render the whole world, including the stronger countries themselves, more prosperous. The problem is twofold, not simply one of equilibrium on current account, including visible and invisible exports and imports, but is inclusive of the whole question of international lending and the use of surpluses for such long term lending.

Unless the capital and labor of a creditor country are already fully employed on internal production, and particularly in times of depression, an increase of exports, even if it were to add to the creditor country's surplus in the books of the Clearing Union, would have important advantages of its own. Such exports would have employed labor and capital, which would not otherwise have been employed. But more than that, through the additional production fostered by the expenditure of wages of those making such increased exports, the cost of the gold received in payment would probably be exceeded two or three times over by the increase in national income. This advantage which has accrued in the past in respect to exports for which, for instance, you have taken in payment gold, would accrue equally through payment in an international currency.

We all get rich or poor together. As a great creditor the United States can, as an alternative to greater imports, make larger loans. There is room, when some nations are far more developed than others, for the richer nations to make long term loans to the poorer. But I regard it as generally more important to buy and sell than to borrow and lend.

The borrowing country should see its way to make the loan sufficiently productive to pay in normal circumstances interest and redemption, and this in turn means that the lending country should buy sufficient imports somewhere to enable such payment to be made. Secondly, the stream of lending should not be subject to too great variations: if a borrowing country bases its whole economy on a large golden flow of lending and the flow is suddenly stopped, it is inevitably thrown into disastrous confusion. Witness particularly the European and South American countries after 1929.

What Alternative Have We?

There have been suggestions that what is called a key-country approach would be simple and more reasonable than an international monetary agreement. By that, as I understand, is meant some stabilization agreement limited perhaps to the dollar and the pound sterling. I think that too narrow a conception for present circumstances, though better than a mass of purely bilateral arrangements. A purely Anglo-American stabilization would leave out the great continent of Europe, which without Russia contains 350 million people and which has an international trade greater than that of Great Britain and the United States together. That this great continent should be saved from the fate which overtook it after the last war is perhaps the most important aim of post-war statesmanship. It remains of the highest importance that thereafter the countries of Europe should share in the benefits and responsibilities of any international scheme. The world's peace depends more than anything else on Europe returning as soon as may be to conditions in which stability, employment, and a reasonable standard of subsistence make life tolerable. We must not force these countries into bilateralism and blocked exchanges, still less with huge unemployment and revolution.

The object is not to relieve debtor nations from paying their debts, but to enable them to pay in the only possible way in which they can pay: by an increase of their foreign trade, and to facilitate employment in all countries by the exchange of goods. Employment and an increase of living standards we must all secure at our peril.
