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Money Based on Guesses

By GUSTAV STOLPER

THE MEMORY of the early 1930s ought to be revived in the forthcoming debate about international exchange stabilization.

It certainly offers positive proof that financial and monetary isolationism, whether we like it or not, is no more practicable than political and military isolationism. But it offers equally positive proof that monetary disruptions cannot be remedied by monetary means alone. Stable foreign exchanges can be maintained only in a stabilized world.

The authors of the admirable documents submitted to the public as the Keynes Plan for Britain and the White Plan for the United States no doubt are keenly aware of this. But it seems to me that we are putting the cart before the horse by starting a full-dress international debate about future exchange organizations on a most pretentious scale, before we know in what sort of world we are going to live and when this world will attain that minimum of stability without which neither plan can possibly work.

The two new and strange words which keep popping up in the newspapers—*Bancor* and *Unitas*—are names of a new international currency tentatively and unofficially suggested by the British and American governments respectively. But in truth they are meaningless. There is no such thing as an international currency.

What both governments propose is really a name for a monetary unit which is supposed never to be put into currency. It is one of those polite conventional lies which diplomacy still fancies to veil unpleasant facts. The international currency after the war will be the American dollar, if and as long as the dollar remains the expression of a specified quantity of gold.

The other nations are kindly invited under the Keynes and White Plans to fix their currencies also in certain quantities of gold, and a complicated organization shall be entrusted with the supervision and maintenance of those pledges.

The two plans have so much in common that, for a first appraisal, it hardly seems fitting to harp on the differences. The American plan seems to be much more ambitious in that it provides for an international Super-Bank over all treasuries, central banks and Federal Reserve systems of the member nations. The English plan suggests simply an international clearing union, in which the total of credit and debit balances must approximately correspond to one another much as do deposits and investments and loans in the balance sheet of a domestic bank.

Secretary Morgenthau presented the White Plan to Congress as a sort of magnified stabilization fund on the basis of an enlarged Tripartite Agreement. This, we may remember, was an agreement made in 1936 to stabilize the relation between the dollar, the pound sterling and the French franc.

But this is not as happy a precedent as the Secretary seems to assume. It worked perfectly in our relation with England, where it really kept fluctuations of the exchange value between dollar and pound to a minimum. But it did not prevent, it did not even retard, the financial collapse of the third partner, the French franc. There is nothing more illuminating than the experience with this Tripartite Agreement.

Currency fluctuations are never the cause, they are the effect of an evil. That evil is the disruption in the economic and financial balance of those countries whose currencies break down. We know from bitter experience that this evil is bound to spread rapidly beyond the confines of its origin.

It will be recalled that, when the Austrian Creditanstalt went bankrupt in May, 1931, a German bank holiday became inevitable within a few weeks despite the heroic effort of the Hoover administration to dam the flood, by means of that historic International Moratorium of June 19, 1931.

After another two months, England was forced off gold and, from that moment on, the struggle to maintain or restore financial stability in the United States became growingly hopeless until finally gold was nationalized and the dollar devalued.

There is an aura of strange unreality about both the Keynes and the White plans. Both admit that they can deal only with short-term fluctuations. If the balance of payments of one country should suffer from an earthquake or a crop failure of one of its principal export products, it could be tided over until it regained its former status. But for such contingencies we do not need such a complicated organization as now proposed.

Unanswerable questions

THE PROBLEM with which we shall be confronted when this war is over is how, when and where a balance so utterly destroyed by the war can be restored at all.

Czechoslovakia, to choose a striking example, was economically one of the strongest units in Central Europe. It had a substantial industry, an efficient agriculture and a considerable share in international trade. As one of the "United Nations" it is supposed to be a charter member of that new international Stabilization Fund or Clearing Union. But what will Czechoslovakia be after this war? When will it regain its strength and economic balance?

The doubts multiply when we think of other countries, of Poland, of Yugoslavia, of Greece.

How easy will it be to fix the value of the future French franc in terms of gold, before we know when France will be a politically and economically consolidated nation again?

How are we going to fix the Dutch guilder before we know what is going to happen to the Dutch East Indies, with their rubber and tin having lost their most important markets?

It seems to me that it is hardly advisable to start controversies about quotas, representation on boards of directors, and veto powers, with all the inevitable suspicions and antagonisms cropping up in such international conferences, before we know how the fundamental issues can be settled, and particularly which part the United States is going to play in that process.