

others. And for that purpose we must beware of every topic, however attractive, and every tendency, however natural, which turns our minds or energies from the supreme objectives of the general victory of the United Nations.

By singleness of purpose, by steadfastness of conduct, by tenacity and endurance, such as we have so far displayed, by these, and only by these, can we discharge our duty to the future of the world and to the destiny of man.

Foreign Exchange Stabilization

KEYNES AND MORGENTHAU PLANS

By BENJAMIN M. ANDERSON, Ph.D., *Professor of Economics, University of California at Los Angeles*

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THE Keynes and Morgenthau foreign exchange stabilization plans* are in essence very similar and their objectives are essentially the same. The differences between them would not prevent their giving us essentially similar results. They have in common the following points: Each would create a great international bank (whether you call it fund or call it clearing union doesn't matter) the resources of which are contributed by the central banks or stabilization funds of the different countries. This international bank, dealing only with central banks or government financial institutions, is to buy and sell the currencies of the different countries in such a way as to keep them in fixed relation to one another.

POWERS AND OPERATIONS OF THE MORGENTHAU BANK

The Morgenthau plan provides (Section III) that the fund shall have the following powers:

1. "To buy, sell and hold gold, currencies, bills of exchange and government securities of member countries; to accept deposits and to earmark gold; to issue its own obligations and to discount or offer them for sale in member countries, and to act as a clearing house for the settling of international movements of balances, bills of exchange and gold."

The Keynes plan bank would have the same general powers, except that I do not find it stated in the Keynes plan that the fund may issue its own obligations and offer them for sale in member countries.

2. To fix the rates at which it will buy and sell one member's currency for another and the rates in local currencies at which it will buy and sell gold. Changes in these rates can be made only by four-fifths vote, which gives the United States a veto power. The Keynes plan does not include this veto power.

3 and 4. To sell to the treasury of any member country at a rate of exchange determined by the fund currency of any member country which the fund holds. There are various qualifications on this power designed to limit the transactions to financing adverse balances of payments on current account, and to prevent the fund from being used for capital transfers.

But 5, with the approval of four-fifths of the member votes, the fund may sell foreign exchange to a member country to facilitate transfer of capital or repayment or adjustment of foreign debts.

6 and 7. When a creditor country is "getting fed up," and the fund's holdings of the currency of the creditor country drop low, the fund may make representations to the

creditor country in the effort to get more of its money. This Section III, 6, is to be read in connection with Section VI, 7, to which I shall refer below, which makes it the duty of member countries to adopt appropriate legislation or decrees to carry out its undertakings to the fund and to facilitate the activities of the fund.

8. Member countries are required to agree that they will offer to sell to the fund, for their own local currency, or for foreign currencies which they need, all foreign exchange and gold they acquire in excess of the amount they possessed immediately after joining the fund. They are to agree also to discourage the accumulation of unnecessary foreign balances by their own nationals.

9. The fund is to buy from the governments of the member countries "abnormal war balances held in the countries," and to hold them for twenty-three years subject to certain qualifications. This is an extraordinary proposal which is basic also in the Keynes plan, and I shall discuss it more fully later.

11. The fund shall have the power to borrow the currency of any member country, but the Morgenthau plan reserves the veto power of the United States in this connection.

12. To sell member countries' obligations owned by the fund, provided that the Board representative of the country in which the securities are to be sold approves, and to use its holdings to obtain rediscounts or advances from the Central Bank of any country whose currency the fund requires.

13. To invest any of its currency holdings in government securities and prime commercial paper of the country "of that currency," provided four-fifths of the members vote approval.

14. To lend to any member country its local currency from the fund, for one year or less, up to 75% of the currency of that country held by the fund, again with the United States veto power reserved.

15. To levy upon member countries a pro rata share of the expenses of operating the fund, limited to one-tenth of 1% of the quota of each country.

16. The fund shall deal only with or through:

- a. the Treasury Stabilization fund or fiscal agent of member governments;
- b. the Central Banks, only with the consent of the member of the Board representing the country in question; and
- c. any international bank owned predominantly by member governments.

But the fund may nevertheless, with the approval of the member of the Board representing the country concerned, sell its own securities or securities it holds directly to the public or to institutions of member countries.

The foregoing statement, a compression of the United

*The text of the Morgenthau plan appears in full in the *New York Times* of April 7, 1943. The Keynes plan text is issued by British Information Services, 30 Rockefeller Plaza, New York, dated April 8, 1943.

States Treasury proposal, omits a number of qualifications on these powers.

Both plans propose to introduce a new unit of value, a new money, in terms of which the international bank's accounts are to be kept. The Keynes plan calls it "Bancor," probably a combination of the word "*banco*" and the French word for gold, "*or*"—with a context, however, which makes one very sure that whatever else it is, it isn't gold. The Morgenthau plan new unit is called "Unitas." But this is given a definite meaning. It is 137 1/7 grains of fine gold, equivalent to ten United States dollars. The books of the fund are to be kept in terms of these international units—bancor for the Keynes fund or unitas for the Morgenthau fund. The Keynes bancor is to be given a value, to be set by the Governing Board later, fixed in gold "but not unalterably."

Both plans have provisions for restricting capital movements from country to country, and for preventing the withdrawal of capital previously placed in foreign countries. Both plans contemplate international cooperation to prevent these capital movements.

SUPER-NATIONAL BRAIN-TRUST WITH AUTHORITY

Both plans set up a super-national Brain-Trust which is to think for the world and to plan for the world, and to tell the governments of the world what to do. The Morgenthau plan contains some safeguards for the United States not contained in the Keynes plan. In the arrangements for voting powers, the Keynes plan would leave the United States in a hopeless minority. The Morgenthau plan would leave the United States with a vote of one-fourth the total votes, still a minority, but it provides that on certain points, notably an alteration in the rates of exchange, a four-fifths vote shall be required, which would mean that the United States with a one-fourth vote could interpose a veto. But the Morgenthau plan makes it the obligation of member countries (Section VI, 7) "to adopt appropriate legislation or decrees to carry out its undertakings to the fund and to facilitate the activities of the fund," which would mean that the fund could tell the Congress of the United States what to do and that the Congress would be under obligation to do it. With respect to this provision, VI, 7, there is no four-fifths vote of the fund required, and no veto on the part of the United States.

BOTH PLANS ARE BRITISH PLANS—PURPOSES HIDDEN AND AVOWED

What are the purposes of this elaborate super-national machinery? What is it designed to accomplish? What is the need for it? Why did we never have it before? I may say that there are a good many hidden purposes in the proposals, purposes clear in the minds of the authors of the Keynes plan, though I am not so sure that they are understood by the authors of the American Treasury plan. Both the plans are British plans in my opinion. Both of them grow out of long trends in Keynesian thinking and in British monetary policy. I believe that both plans grow out of long discussions by the British financial experts and the representatives of the United States Treasury, that the ideas came from England and that our Treasury has accepted them in major part, though not in all. I shall discuss these hidden purposes at a later point. But first I wish to discuss the avowed and obvious purpose—that of keeping exchange rates fixed among the currencies of the different nations of the world.

AVOWED OBJECTIVE TO STABILIZE EXCHANGE RATES

Now, obviously, it is a desirable thing to have stability in foreign exchange rates, from the standpoint of easy flow

of foreign commerce. An American exporter selling goods to France for French francs obviously wishes to know how many dollars he is going to get for the francs when he makes his contract. If he is to be paid in francs at the end of three months, and is afraid that the francs will be worth very many less dollars at the end of three months than they are today, he will hesitate, or he will ask the French importer to pay him in dollars. But if the French importer is afraid that the dollars will be very much higher in francs three months later when he must buy them to pay for the goods, he also will hesitate, if he is a responsible man. International commerce is badly crippled by instability in foreign exchange, just as the international commerce of the country is badly crippled by violent fluctuations in the value of the domestic currency. The country whose currency is weak and slipping and fluctuating is a bad place in which to do business for either the foreign merchant or the domestic merchant.

THE PLANS STRIKE AT SYMPTOMS, RATHER THAN UNDERLYING CAUSES, OF FINANCIAL DISORDER

But please observe in this connection that the instability in rates of exchange between countries one of which has good money fixed in gold, and one of which has weak and fluctuating money, is due to an instability in the money of the weak country. The exchange instability is a symptom. The currency instability is the cause. If you attack the exchange instability as your starting point, you are attacking the symptom rather than the cause. Let us say, rather, that you are attacking the symptom rather than a complex of causes, because behind the instability of the weak and fluctuating currency there lies a complex of causes, which include the finances of the government of the weak country as well as its strictly monetary policy.

Fixed rates in the foreign exchanges are eminently desirable. A temperature of 98.6 in the human body is eminently desirable, but a rigging of the thermometer so that it will always record 98.6 regardless of the fluctuations in the temperature of a sick patient is a rather futile performance. And a rigging of the foreign exchange markets so that they will record fixed rates among sound and unsound countries, regardless of a deterioration in the fundamentals governing the values of the moneys of the unsound countries, merely masks the facts of financial disease and disorder, and defers the time when these fundamentals must be dealt with.

THE WEAK PULL DOWN THE STRONG

The Keynes and Morgenthau plans propose, in substance, a pooling of the financial resources of the different countries of the world, putting the strength of the strong countries behind the weaker countries so that all of them appear strong. All of the moneys, good, bad, and hopeless, look the foreign exchange market level in the eye. Bad money becomes as good as good money—and if the process is continued long enough, good money becomes as bad as bad money.

SIMILAR PLANS PROPOSED IN 1921—A CLEARING HOUSE THAT COULD NOT CLEAR

These Keynes and Morgenthau proposals look very novel today. The fact is however that similar proposals* were made during the postwar boom and depression of 1920-21. At that time, however, they were not made by the financial authorities of strong governments. One came from Signor Tittoni of Italy, a country financially weak, with heavy

*See "Artificial Stabilization of Exchange Condemned—Outline of a Fundamental Solution," *Chase Economic Bulletin*, Vol. II, No. 1, January, 1922.

government deficits, with an adverse balance of trade, with a rapidly growing volume of bank notes, and with a very weak gold reserve. He proposed a foreign exchange clearing house, a single clearing house controlled by the various governments, which would monopolize all foreign exchange transactions. It was sufficient then to point out, however, that the analogy with a clearing house could not apply. A clearing house is an association of solvent banks, every one of which is able to meet its deficit at the clearing house every day with cash. The proposal was to create a clearing house that could not clear. There were proposals of an international exchange bank which should have exclusive control of buying and selling of foreign exchange, and should buy foreign exchange at a fixed rate. We described this bank in those days as a bank "in which the United States would make the deposits and Europe would get the loans." We recognized that such a bank could maintain exchange rates at a fixed point only if the United States would supply unlimited dollars for paying European exchanges.

NO NEW MACHINERY NEEDED IF FUNDAMENTALS ARE CORRECTED

We knew on the one hand that unless the fundamental causes of the weakness of the European exchanges were corrected, the time would come when such a machinery would crash, with a greater or less loss to us, depending on how many dollars we had fed into the machinery. We knew on the other hand that if the fundamental causes of the exchange weaknesses in Europe were corrected, no such international machinery would be needed, because the existing financial machinery of the foreign exchange market would make the clearances and keep things straight.

THE POSTWAR BOOM AND CRISIS OF 1919-20 DUE TO ARTIFICIAL SUPPORT OF FOREIGN EXCHANGE

There was a further reason in 1921 why we gave scant attention and little respect to the proposals for bolstering the exchange rates of weak countries at the expense of the cash resources of the strong countries. We had just gone through a violent boom and a violent crash due to precisely that thing. The postwar boom of 1919-20 and the crisis of 1920-21 were due to artificial strength in foreign exchange which masked the fundamentals and delayed the necessary reforms.

This episode is of high significance in understanding the Keynes and Morgenthau proposals and in exhibiting their vices, weaknesses and dangers, and I wish to give an outline account of it here.

FINANCIAL DEMORALIZATION OF CONTINENTAL BELLIGERENTS IN 1919-20

The picture on the Continent of Europe after the Armistice in 1918 was roughly this: great public debts had been created during the war; the governments had borrowed from the people and had taxed the people, but had done both inadequately. They had leaned heavily on the state banks of issue, the central banks, and the central banks, responding to the war needs of the government, had issued bank notes in gigantic quantity. They had ceased at the outbreak of the war to redeem these bank notes in gold. They had fluctuating irredeemable paper money. The revival of production and export in great industrial countries was sadly hampered by this. An agricultural country can resume its activities as men go home to their farms, despite bad public finance and bad money, but great industrial countries are heavily handicapped by such a situation.

What was called for was a cessation of the public borrow-

ing from the state bank of issue, a great increase in taxation and a balancing of budgets, together with the fixing of a gold parity for the currency and a resumption of gold payments at that parity. In some cases the old par might have been restored. In most cases new and much lower pars would have had to be adopted. But in any case the fundamental corrections called for cutting public expenditures, cessation of borrowing, a balancing of budgets with taxes, and a cessation of the printing of bank notes.

But this was a very hard way. The finance ministers of each country were faced with the problem of millions of soldiers returning without finding immediate work. They were faced with demands for pensions; they were faced with demands for funds to reconstruct the regions devastated by war; they were faced with demands for funds to feed starving people. The people were very reluctant to pay more taxes and to buy government bonds. The easy way was to ask the state bank of issue to print bank notes, and to use these bank notes in meeting expenditures of the state for pensions and unemployment relief and rehabilitation of devastated areas. The people, in turn, could use the bank notes in bringing in foreign goods, as long as the foreign exchange markets would take them.

KIND OF OUTSIDE HELP NEEDED—HELP CONDITIONED ON INTERNAL REFORMS

Now these war torn countries in their distress needed outside aid. We gave some of the weakest of them very speedy outside aid through Red Cross activities, and we shall have to do this on a great scale again. But they needed, also, foreign loans carefully supervised by the lender and explicitly conditioned on drastic internal financial reforms. The finance minister could then have said to his parliament and to his people, "If we go on in our present course printing bank notes, running gigantic deficits, ruining our currency, ruining our credit, leaving our industry no good money to work with, watching our productive activities deteriorate as our finances deteriorate, ultimate ruin is sure. If, however, we cut our expenses, raise our taxes, tighten our money markets, and stabilize our currency, our outside friends will give us loans which will put gold into our central banks, which will give the treasury funds to aid immediate distress, and which will enable us to get on a self-supporting basis again."

SUCH HELP GIVEN GERMANY IN 1924, HUNGARY IN 1925, POLAND IN 1927—AMOUNTS NEEDED RELATIVELY SMALL

These things were done later after internal currency disorders had brought about intolerable domestic conditions. When the German mark had dropped to a trillion to one, Germany submitted to the Dawes Plan, submitted to outside supervision, raised her taxes, cut her expenditures, restored her currency to a gold basis and started up again. Austria submitted to a similar drastic change of policy when the crown had dropped to one fourteen-thousandth of its pre-war value in 1923. Hungary, in consideration of a loan, in 1924 adopted drastic internal financial reforms, stabilized its currency and submitted to foreign supervision of its internal finances under Mr Jeremiah Smith of Boston. Poland in 1927, in consideration of a foreign loan, engaged in a similar house-cleaning and submitted to outside financial control under the supervision of the Honorable Charles S. Dewey who left the United States Treasury to take the job, and who had power to countersign the expenditures made of the proceeds of the loan, to see that they were used for the purposes agreed upon. In all these cases, the loans did good, and in all these cases, the figures were relatively moderate.

The biggest of these loans, the Dawes Plan loan to Germany in 1924, was approximately two hundred million dollars. The Austrian, Polish and Hungarian loans were very much smaller. Outside help, outside money, conditioned on outside supervision and drastic internal reforms, did good.

BUT BILLIONS FIRST WASTED IN SUPPORTING FOREIGN EXCHANGES IN 1919-20

But these remedies, you will observe, came in 1924 and 1927. The first help came in a form that struck directly at the foreign exchanges, and billions were wasted in 1919-20 in a futile supporting of the foreign exchange rates, which merely deferred the problem and allowed the finance minister to go on with his reckless borrowing from the central bank and his reckless spending.

There were four causes of the undue strength of the foreign exchange rates of Continental Europe in 1919 and 1920.

LOANS BY U. S. GOVERNMENT PEGGED STERLING FROM THE ARMISTICE TO MARCH 20, 1919 AND SUPPORTED ALL ALLIED EXCHANGES UNTIL JULY, 1919

The first was continued loans by the United States government to the governments of our Allies in Europe. Our Congress in 1917 had authorized the Treasury to lend our European Allies ten billion dollars. Approximately seven billions of this had been loaned by the time of the Armistice. Nearly three billions more was loaned between the Armistice and June 30, 1919. In the first four months after the Armistice this money was used definitely in pegging sterling exchange. The firm of J. P. Morgan, acting for the British Government, and using the dollars drawn from the United States Treasury, was buying all the sterling offered in the market and holding sterling at a fixed rate. Others of our European Allies were receiving loans also from the United States Treasury, which they used in supporting their currencies in the foreign exchange markets. We had in the first four months after the Armistice exactly what the Keynes and Morgenthau plans would seek to accomplish in the next postwar period—the actual pegging of exchange rates by using funds lent by the strong country, the United States.

Four months after the Armistice J. P. Morgan & Company announced that they would no longer buy sterling and there was a sharp drop in the price of sterling exchange and in the exchanges of all the Continental countries. But the Continental currencies continued to be far higher in the foreign exchange markets than the fundamentals justified. The loans from our government to European governments continued to provide funds with which these currencies were artificially supported, even though not actually stabilized.*

The post-Armistice strength of the foreign exchange rates was due, first, to the actual pegging of exchange for over four months with funds drawn from the United States Treasury and handled through J. P. Morgan & Company

*I think it proper to say that virtually all of the post-Armistice loans were used in this way. There was the need for dollars to liquidate the cancelled war contracts between European governments and American industries. But Europe had at the beginning of 1919 approximately seven hundred million dollars of American balances growing out of loans that had been previously made by our government. The cancelled war contracts required somewhere between a half billion and a billion dollars. At the most, Europe needed not over three hundred million of the post-Armistice loans to use for cancelled war contracts. The present writer made a very careful study of this matter in 1920 when he was writing the *Chase Economic Bulletin*, Volume 1, Number 1, October 5, 1920, called "Three and a Half Billion Dollar Floating Debt of Europe to Private Creditors in America." This Bulletin together with the *Chase Economic Bulletin* of February 28, 1921, called "The Return to Normal" gives a very full account of the postwar boom and crisis, and the causes responsible for them.

and, second, to the continuance of loans by the Treasury to European governments through June 30, 1919. This support was enough to stop the postwar liquidation and reaction and to turn us from reaction into a violent boom. Our exports and our export balances grew by leaps and bounds. We continued to drain the country of goods, and at rising prices. Our export balance of January, 1919, was 410 million dollars. Our exports continued on a gigantic scale. In June our export surplus rose to 625 million dollars, of which 592 million dollars was to Europe alone. In the year and seven months, January, 1919, to July, 1920, inclusive, we sent Europe six billion 350 million dollars worth of goods more than we received back from her. The Continent of Europe was flat on its back, was buying without limit of price or quantity all that she could get from us with her rapidly increasing paper money offered in the foreign exchange markets.

Of course we had a boom. Of course prices rose. Commodity prices had reached a peak of 207% of pre-war prices in November, 1918. They reacted moderately down to March, 1919. Then they turned up under the influence of this terrific selling to Europe on credit to a new high of 248% in May of 1920.

Funds drawn from the United States Treasury to support the exchanges will account for nearly three billion dollars of this. Where did the rest come from? Again, from the undue strength of the Continental exchanges. There was another factor in the strength of the Continental exchanges which does not and cannot exist today. This was the prestige of governments and of paper moneys among the peoples of the world. Governments had kept faith in pre-war days amazingly well. Governments had been responsible. It was not believed that the government of a great country would let its currency deteriorate indefinitely. When exchange rates went low, speculators and even financial institutions over the world were disposed to look on them as bargains and believed that they would come back.

BRITAIN TAKES OVER THE LOAD WHEN OUR GOVERNMENT DROPS OUT, 1919-20

With the cessation of our Treasury loans to our European Allies, it seemed a reasonable expectation that the currencies of the weaker countries would go down rapidly and their ability to buy from us would speedily cease. Of all the belligerents of Europe, Great Britain only had got her financial house in order. She was balancing her budget. She looked forward to the return to gold at the old par. Confidence in Britain was high throughout the financial world. There was increasing concern in New York regarding France, Italy, Belgium, and virtually all the other belligerents of Europe. But the buying power of the weak countries continued and although the exchange rates went lower, they all moved together. Sterling weakened with the other exchanges, and the other exchanges continued abnormally strong. Our boom went on. Exports continued, not only to Britain but also to the Continent. Prices in the United States continued to rise.

The explanation finally became clear.

The point was that England had interposed her vast financial strength and financial prestige between us and the Continent.* England was buying goods here with sterling or with borrowed dollars to sell on the Continent for francs, lire and marks, and the British foreign exchange market was buying the francs, and the lire which came to our New York

*This point appears in print first in some paragraphs I wrote for *Commerce Monthly*, issued by the National Bank of Commerce in New York, January, 1920, pages 19-20.

foreign exchange market as we made direct shipments against francs and lire to France and Italy, etc. It was not a pegging of Continental exchange, but it was a support of Continental exchange by the financial strength and prestige of Great Britain. The boom went on until at last the deterioration of Europe's internal finances became unendurable, until we and Britain both ceased to take readily the weak exchanges of the Continent, until we ceased to be willing to increase our holdings of sterling or to increase our credits to England. Then we and England cut our losses, the boom was over, the great collapse came, American commodity prices dropped from 248 in May of 1920 to 141 in August of 1921, and the Continent of Europe was in worse financial position by far than it had been at the time of the Armistice.

ONE OF LORD KEYNES'S HIDDEN PURPOSES

The Keynes plan is evidently drawn with some recollection of this episode in mind. Section 14 of the Keynes plan offers as an argument for the plan that

"This would give everyone the great assistance of multi-lateral clearing, whereby (for example) Great Britain could offset favourable balances arising out of her exports to Europe against unfavourable balances due to the United States or South America or elsewhere. How, indeed, can any country hope to start up trade with Europe during the relief and reconstruction period on any other terms?"

It would have been very nice for England if the proposed Keynes or Morgenthau arrangements had been in existence during the boom of 1919-20, when England was buying in the United States with dollar obligations and sterling, and reselling at what looked like a profit to the Continent for francs, lire, marks, and so on. As things were she gave us her good dollar obligations and her pretty good sterling for the goods we sent, and she got the bad francs, lire, marks, Greek drachmae, etc., in exchange for the goods. Her expected profits turned out to be losses. But if there had only been an international fund into which she could have poured the francs and the lire and the drachmae as constituting liquidation in full for her sterling and dollar obligations to the United States, and she had prudently remained net debtor to the fund, then she would have had her profits clear of risk. We should have given up goods, and we should have received in return a share in an international fund diluted and deteriorated by bad drachmae, bad franc and bad lire.

WE SHOULD HAVE HAD OUR READJUSTMENT AT THE END OF THE WAR

Now there are a number of things to be said about this episode. The first is that we should have done far better to have taken our licking at the end of the war than to wait for nearly two years to get it. Everybody was braced for reaction and liquidation when the Armistice came. Our industries and our banks were financially strong. Readjustment would have been severe but nothing like as severe as it was when it came two years later.

After our government ceased to support the exchanges, private creditors in the United States provided an additional three and a half billion dollars* to pour into the vortex. We had immense expansion of bank credit in financing the export trade on credit, and in financing the accompanying boom phenomena in the United States. We had a frantic speculation in farm lands, centered in Iowa, that would not have occurred had the reaction come following the Armistice. We

had an immense increase in agricultural debt in 1919 and 1920. We would have done far better to have faced reality at the end of the war.

LOANS TO SUPPORT EXCHANGE DID NO GOOD

Second, I repeat, that all this vast credit to Europe used in supporting the exchange did no good. Continental Europe was in far worse financial and industrial position at the end of it than at the beginning. The finance ministers used the easy way so long as the outside world would take their currencies in the exchange markets.

Third, England had terrific losses. She would have done far better to have made her readjustment in the winter of 1918-19.

MUCH SMALLER LOANS, CONDITIONED ON FINANCIAL REFORMS, WOULD HAVE SOLVED PROBLEM

Finally, very much smaller sums of money lent to Europe with discrimination and care, and conditioned on adequate financial and currency reforms on the Continent, would have turned the Continent of Europe up again, as indeed very much smaller loans, carefully supervised, given to the weakest countries individually did turn the tide at a later date.

Very much smaller loans would have meant, for one thing, that Europe would have bought only what she needed. She would have bought foods. She would have bought raw materials. She would have bought other things essential to set her industries going. She would have developed her industrial power and her power to export and would have been in a position to send us a back-flow of manufactured goods in return for the needed foods and raw material. As it was she sent us, through the whole of this period, a pitifully small volume of goods, and she bought from us a high percentage of the manufactured goods which she ought to have been producing herself. Our exports to Europe in 1919-20 ran very high in finished manufactures, including luxuries. The episode did nobody any good. It weakened the world.

The Keynes and Morgenthau plans, if carried through, would repeat this episode, on a vaster scale. We should pour American dollars into the international fund which it would use in supporting the exchanges of all weaker countries. We should export goods. We should have a boom based on the export of goods. We should finally "get fed up" with the drains on our dollars. We should cease to supply the unlimited dollars. The fund would deteriorate. The exchanges would crack. The exports would drop violently, and we should have another crisis of 1920-21.

The Keynes-Morgenthau plan puts the cart before the horse. It strikes at the symptom. It does not deal with the fundamentals.

KEYNES AND MORGENTHAU *versus* THE RED CROSS

Now we must recognize frankly that there will be countries on the Continent of Europe so stricken, so demoralized after the war that they will have no credit with which to buy goods, and that we and other countries which have surpluses must engage in an immense act of charity to help keep them alive. We should do this by Red Cross methods and on Red Cross lines. We should not call it loans, because we shall not get the money back. We should call it gifts and charity. We should know exactly what we are doing and we should mark it off our books forthwith.

We should limit the amount of it. We cannot feed the world. We cannot support the world. We can help. In every country, from the beginning, the government should be encouraged to be responsible, and their own people should be expected to do the main job. Of course the standard of life in Europe will be low when the war is over. Anyone

*"Three and a Half Billion Dollar Floating Debt of Europe to Private Creditors in the United States," *The Chase Economic Bulletin*, Vol. 1, No. 1, Oct. 5, 1920.

who supposes that the world can go through the devastation of this war, and come out with a high standard of life, is dealing in fantasies.

The Keynes-Morgenthau plan would make Red Cross work unnecessary—for a time. The weakest and most devastated of the Continental countries would have its quota in the international exchange stabilization fund. All countries would start with drawing power upon this fund. Under these circumstances the Finance Minister of each country would feed his own people instead of calling on the outside Red Cross. He could do it by printing bank notes, and while the quota lasted no Red Cross would be needed.

I would say that even in giving Red Cross aid to a stricken country, we should make strong representations to the governments of those countries directed toward the rehabilitation of their internal finances and currencies. Gifts, as well as loans, should do the recipient permanent good.

BOTH KEYNES AND MORGENTHAU PLANS PUT THE BORROWERS IN CONTROL OF THE LENDING

Both the Keynes and Morgenthau plans put international lending into the hands of debtors.

The one great country which will be in a position to extend credits in the postwar period will be the United States. Some other countries, as Sweden, Switzerland, and the Argentine may be in a position to give some credits, but the majority control of the fund would be in the hands of the debtors, including Great Britain, even though the Morgenthau plan reserves a veto on certain points for the United States. Strong and weak alike, debtor and creditor alike, pool their resources *and the debtors decide how to lend them*. Now this, I submit, is an unnatural and an unsound arrangement in principle. If credits are to be safe, the creditor must be in a position to protect himself, and must be in a position to impose conditions that will make the credit safe.

When a would-be borrower is strong and in a good credit position he meets no unusual terms at his bank. Other banks would be glad to have the business. But when a borrower is weak and needs emergency help, a bank, if it lends at all, will make sure that there is such a reform in the borrower's position that the loan will be good and will do good. A bank, a majority of whose board of directors are impecunious debtors to the bank and all of whom are eager to borrow more, would very speedily become a ruined bank. It is this kind of bank which both the Keynes and Morgenthau plans would create.

WE SHOULD DO OUR OWN LENDING

If we are going to lend to Europe in the postwar period, we should do it ourselves and not through an international institution. We should impose sound conditions to make the credit good. We should not impose selfish conditions. We should not impose capricious conditions. But we should impose conditions which will assure the return of solvency to the borrower, the balancing of the borrower's budget, and the stabilizing of his currency at a rate that can be maintained against gold. We may well make *specific gold loans* to put gold in the reserves of the central bank of the country we are aiding. We should simultaneously insist upon a money market policy in the country, including firm discount rates, which will protect the gold.

The gold standard itself is a powerful deterrent to excessive imports on the part of a country, and a powerful force working for an adequate volume of exports. Under the workings of the gold standard, an excess of imports tends to drain away a country's gold. The responsible central bank, obliged to redeem its currency in gold, thereupon raises its discount rate and restricts credit. The restriction of credit

to importers checks their purchases of foreign goods. Imports are reduced. The restriction of credit to exporters hastens the sale of goods to foreign countries and compels them to make the necessary price reductions to get goods out.

KEYNES-MORGENTHAU PLAN DOES NOT REQUIRE BUDGET BALANCING OR FIRM DISCOUNT RATES

Now, both the Keynes and Morgenthau plans have some suggestions as to dealing with weak countries which are using up their quotas too rapidly, and general statements regarding appropriate measures which the fund may take, but neither of them says anything about balancing internal budgets and neither of them says anything about firm discount rates to protect a currency.

On the contrary, it is in the spirit of both plans to make these unnecessary, as the following two sections will show.

BOTH MORGENTHAU AND KEYNES PLANS ARE CHEAP MONEY PLANS

High interest rates are anathema to Mr. Keynes and high interest rates are anathema to Mr. Morgenthau. Our present government borrowing policy in financing a great war at rates of interest exceedingly low are made possible only by a constant expansion of bank credit. Money can be got at these low rates from the banks, but cannot be got from investors in adequate volume at these rates. The low rates of interest on bank loans, moreover, are made possible only by continuing purchases of government securities by the Federal Reserve banks themselves, enlarging the base on which bank expansion takes place. Our pre-war policy from 1933 on, following Lord Keynes's monetary philosophy, was of the same character. Bank expansion was to supply the government with money, and the banks had their reserves enlarged by Federal Reserve purchases of government securities, by United States Treasury purchases of silver, and by gold flowing in from foreign countries. Lord Keynes's objection to the gold standard, rests in large part upon the fact that it is a *restrictive* standard. He wishes bank credit to expand freely against government deficit borrowing, because he sees no other way to make prosperity and full employment. The gold standard is a restrictive standard. It operates powerfully to hold undue credit expansion down. It compels readjustment and liquidation when unsound tendencies exhibit themselves. That is to my mind one of its greatest merits. It is to Lord Keynes's mind its great demerit.

The Keynes and Morgenthau plans both would create new currencies which would be *additional to gold* in the reserves of the central banks or of the various government treasuries. The liabilities of the international bank would function as if they were gold assets in the hands of the institutions which held them. They would relieve pressure on money markets everywhere, and remove or reduce the necessity for credit restraint through high interest rates.

INTERNATIONAL REDISCOUNT RATE AT 1%

Finally we have the remarkable circumstance in connection with both these plans that the international bank is to give its credit within the quotas without any charge at all and that when quotas are exceeded, it is to give its credit at a discount rate of 1%. Now this from the standpoint of the principles of sound central banking is utterly grotesque. A central bank should have its discount rate above the market rate. It should not make it possible for a member bank to rediscount in order to lend at a profit, and it should not give free credit at all. But here we have created a new central bank for the world, a new bank of rediscount for the world which, lending to central banks or government treasuries money which functions as ultimate reserve moneys,

lends part of it at no charge and the rest at 1%. No more powerful instrument of world inflation could be devised. It would be an instrument for world inflation—an inflation which would move progressively until the stronger countries, alarmed at the quality of the fund, and alarmed at the inflationary phenomena within their own borders, ceased giving credit to the fund, pulled up, and cut their losses.

It is not to be expected that a fund constituted in this way, and managed by the debtor countries, would impose any adequate restrictions on fiscal deficits within the member countries, or require firm money rates within the member countries.

“ABNORMAL WAR BALANCES”

The term “abnormal war balances” as used in the Morgenthau plan is not defined. I am assuming that it has the same meaning as the term “abnormal balances in overseas ownership held in various countries at the end of the war” used in section 34 of the Keynes plan, which follows:

“The position of abnormal balances in overseas ownership held in various countries at the end of the war presents a problem of considerable importance and special difficulty. A country in which a large volume of such balances is held could not, unless it is in a creditor position, afford the risk of having to redeem them in bancor on a substantial scale, if this would have the effect of depleting its bancor resources at the outset. At the same time, it is very desirable that the countries owning these balances should be able to regard them as liquid, at any rate over and above the amounts which they can afford to lock up under an agreed programme of funding or long-term expenditure. Perhaps there should be some special over-riding provision for dealing with the transitional period only by which, through the aid of the Clearing Union, such balances would remain liquid and convertible into bancor by the creditor country whilst there would be no corresponding strain on the bancor resources of the debtor country, or, at any rate, the resulting strain would be spread over a period.”

ANOTHER HIDDEN PURPOSE

We come here to one of the hidden purposes of the Keynes plan which our Treasury has swallowed whole, and for which our Treasury plan has worked out a definite solution. Lord Keynes is here proposing to transform Great Britain from the position of a very embarrassed debtor to the position of a strong and aggressive creditor, at the expense of the United States. What are these abnormal balances which debtors must not pay back to their owners, but which the owners are somehow going to be able to use as if they were liquid cash? How were they created? By what right can they be withheld from their lawful owners when the war is over? England is one great debtor of these balances. The United States are the other.

BRITAIN'S EMBARRASSING BLOCKED DEBTS

British banks held large deposits in sterling when the war broke out, due to foreign central banks in the so-called sterling area i. e. the British Dominions on a sterling basis and Scandinavian and Baltic countries which had followed England off the gold standard and had chosen to let their exchanges fluctuate with sterling. They believed, as a matter of course, that they could sell their sterling balances at any time, expecting them to be transferable freely on the books of the British banks at the order of the owner of the balances.

These “abnormal balances” include refugee money. In part they represent gold that was sent by confiding outsiders to England to be sold in the British gold market for sterling. In part they are supposed to represent goods shipped to Eng-

land, during the war, with payments made in sterling, but with the sterling balances subsequently blocked so that they could not be transferred.

I have been unable to get figures even approximating the exact amounts, and I find a similar inability to get any estimate on the part of a great New York bank. My impression is, however, that the volume of this has grown rather than diminished during the war, and that restrictions on foreign exchange transactions in England, and ever growing restrictions on the transfer of foreign owned balances from one account to another, have tied up these funds in great volume so that the outside owner cannot use them. He cannot get gold out of England for them. He cannot exchange them in England for the currency of his own country, and he cannot even sell them in outside markets for whatever figure they will bring. They are blocked.

Now we are similiar holders, in much greater amount, of money which came to us for safety from Europe as Hitler's strength grew. Much of it came to us in actual gold. And much gold came to us under Gresham's Law after our *de facto* stabilization in early 1934. We had, to be sure, a very imperfect gold stabilization, but England had none at all, and gold left places which were more unsafe to come to a place which looked safer.

“HOT MONEY”

In the period from 1931 on there was a great deal of “hot money,” nervous money, jumping about from place to place seeking safety. The origin of this money was in the excessive bank expansion of the 1920's. Bank balances had risen tremendously under the cheap money policy of the 1920's. Sterling had been over-expanded. The British banks had made loans which created new sterling deposits far in excess of what was justified by the gold reserve position of the Bank of England, and foreigners had got hold of these sterling balances because England had spent them abroad or had loaned them abroad. We had over-expanded credit in the 1920's, creating very excessive dollar deposits, and a great many of these were in foreign hands because we had made excessive dollar loans to foreign countries.

When the foreigner tried to cash in these excessive British liabilities for gold in 1931, England quit paying gold and went off the gold standard, but the balances remained on the books of the British banks and the balances even grew as gold came to England from India and other places to buy sterling when sterling went low. The excessive *amount* is due primarily to the excessive expansion of credit in the '20's. The *nervousness* of the funds is due to the deterioration in quality of this excessive credit, and to the abandonment of gold.

If, after the war, England removes exchange restrictions, and the owners of these balances are free to sell them for what they will bring, the fear is that sterling will break to very low levels. The fear is that England will not have enough gold to protect sterling except at very low levels. The fear is that England will have to turn to the United States for financial aid, or may be obliged to deal with Creditors whom she cannot pay, as an embarrassed debtor usually does. England is proud and does not wish to occupy this position.

THE FUND TO TAKE OVER BRITAIN'S DEBTS

The proposal therefore in the Keynes and Morgenthau plans is that the international bank shall take over these abnormal balances for prolonged periods, and create new credits in bancor or unitas which the countries who hold these balances in England may use as liquid cash for international purchases. England, relieved of the pressure of

these debts would then be in a strong position. The proposal is further that the governments of the world shall unite to prevent capital transfers, making it somehow discreditable for creditors to want their money. And the proposal would put us, with our gigantic sums of gold, in the position of practicing the same thing, because we also hold these "abnormal balances."

BY WHAT RIGHT CAN WE OR BRITAIN REFUSE TO PAY OUR INTERNATIONAL DEBTS?

Now, I ask by what right the United States could refuse to pay in gold those foreigners who have trusted us with their nervous money, or those who have sent us their gold to escape Hitler? There is supposed to be a great deal of gold of the Bank of France in the United States. By what right could we withhold it from the Bank of France in a France under a government recognized by our government? By what right can England withhold the funds which came to her from the sterling bloc which she so encouraged after she left the gold standard? British financial writers have even scolded this sterling bloc. I quote the following from the *London Economist* of September 2, 1939, page 452.

"The fall in sterling is an international as well as a domestic problem. Its international character has already been reflected in the realignment of currencies formerly adhering to the fairly compact sterling bloc, of which the details will be found in a subsequent note. All that need be said of the incipient distintegration of the bloc is that it is unfortunate in so far as it may be the prelude to increased exchange instability, but that from the point of view of sterling it is not an unmixed evil. For some years past the British Exchange Equalisation Account had found to its cost that the adherence of certain foreign countries to the sterling bloc had been a factor of instability and not of strength. Many sterling bloc countries have panicked into and then out of sterling with the abandon of the most highly-strung speculator. Some of the hottest of London's hot money has consisted of the sterling reserves of the sterling bloc, and their partial disappearance will not be altogether a loss."

There are various comments to be made on this passage. One is that it is evidence enough that there is no stability in a currency unanchored to gold, and that the British Equalization had found this out to its cost for several years before the outbreak of the war. But the other is that it throws light upon the character of these abnormal balances which Lord Keynes and Mr. Morgenthau propose to relieve England of the necessity of paying.

Gold is supposed to have come to England after the invasion of Norway from the Central Bank of Norway, carried through the streets of Oslo in small amounts, and taken out in small ships. May England withhold this from the National Bank of Norway as an "abnormal war balance" when Norway seeks to resume her strength? Or may England force the National Bank of Norway to take instead of the gold a dubious credit in an international bank in terms of "bancor" or "unitas" for part of it?

The world will have great confidence in the long run future of Great Britain when this war is over and we and Britain are victors. The world will show forbearance for England's financial difficulties if England faces them squarely. Let England pay those who have trusted her, if she can. If she cannot, let her tell her creditors the facts and let her ask their indulgence and let her make agreements with them.

We for our part are entitled to no indulgence whatever

with respect to these abnormal balances. They belong to their owners. We have plenty of gold. We can pay them and we should pay them even if we tighten our money markets in the process.

Something must be done toward creating a new confidence in the world that great governments and central banks are going to respect their obligations and do their best to pay them. We must not create a great international financial machinery the purpose of which is to let bankrupts ride with heads high on the shoulders of the solvent.

ILLIQUID ASSETS FOR CENTRAL BANKS

The provision of the Morgenthau plan goes into great detail for dealing with these "abnormal balances." Countries are to cooperate to prevent their being transferred, but the countries which own them may sell them to the international fund, and the international fund is gradually to be paid off up to 80% of these balances by the end of twenty-three years, at which time it will still hold 20% of them. The international fund is to get 2% interest on the balances it holds, one-half paid by the country which sells them and one-half paid by the country which owes them. The volume of international currency, unitas or bancor, will thus expand against these illiquid balances at a discount rate of 2%.

Our Federal Reserve system is allowed to take commercial paper running only sixty days. In general, central banks are supposed to take only the prime paper of the country in which they operate and paper of a very short maturity. This international bank of rediscount is to give credit at 2% on twenty-three year loans and hold 20% of the loans indefinitely thereafter. The violation of sound financial principles could hardly go further.

THE COMPOSITION OF THE INTERNATIONAL FUND—HOW THE FUND WOULD WORK

The Keynes bancor fund starts out with neither assets nor liabilities. At the opening of its books on the first morning of its existence it would show assets of zero and liabilities of zero. We may assume that the transactions on the first day involved the sale to the fund by the Stabilization Fund of the United States of ten million dollars worth of French francs, francs which had been created by the export of goods from America to France, in the form of an order to pay francs drawn on a French importer, a bill of exchange. These francs were then sold by the American exporter to his bank, which in turn sold them to the Federal Reserve Bank, which in turn sold them to the Stabilization Fund, which in turn sold them to the international fund. The international fund would pay for these francs by giving a deposit credit in bancor to the United States Stabilization Fund equivalent to ten million dollars. We may assume that the fund would then sell the francs it had purchased to the Bank of France, requiring payment in bancor. The Bank of France has no bancor, but it has an overdraft privilege with the fund. The fund thereupon debits the Bank of France in bancor in an amount equivalent to ten million dollars, and turns the francs over to it. If these are the only transactions of the day, the books of the international fund would show at the end of the day deposits in bancor equivalent to ten million dollars due to the United States Stabilization Fund, and loans (or overdrafts) to the Bank of France equivalent to ten million dollars in bancor. The books would balance. We should be creditor to the fund, France would be debtor.

What could we do with the bancor? We could not get gold for them. The fund has no gold and in any case the Keynes plan provides that the bancor shall never be redeemed in gold. We do not want the one asset which the fund has, namely, a loan in bancor to the Bank of France. The only

use we could make of our deposit in bancor is to transfer it to the central bank or the exchange stabilization fund or the treasury of some other country to which we happened to owe money, and which was also a participant in the fund. There would presumably be no such country when the fund started. Very speedily the fund would accumulate a big balance sheet, as we exported goods to weak countries, receiving our pay in bancor deposits on the books of the fund, and the fund took in the liabilities of the importing countries.

A fund starting with nothing is rather more than Mr. Morgenthau could stomach, evidently. He wanted a fund with some real resources. He had provided that the fund shall be constituted by each country putting something in to start with. The fund is to start with at least two billion five hundred million dollars, being half of the aggregate quotas of the member countries which is to be not less than five billion dollars. The amount to be paid in by each country at the beginning should consist of 12½% of its quota in gold, 12½% of its quota in local currency and 25% of its own (i.e. government) securities, except, however, that countries having less than three hundred million dollars in gold and countries having less than one hundred million dollars in gold need provide initially only 7½% and 5%, respectively, of their quotas in gold.

Mr. Morgenthau's fund is thus a curious mixture of assets and liabilities. The gold put in, and the dollars which we should put in would be assets of the fund, from the standpoint of the international balance sheet, exceedingly helpful to the fund in meeting liabilities. The French francs, Greek drachmae, and pounds sterling put into the fund would hardly be elements of strength from the standpoint of the international stabilization of exchange. The bonds which the government of France and the government of Greece put into the fund would serve to dilute the fund rather than to strengthen it. But in all events, Mr. Morgenthau would have an aggregate of gold and pieces of paper all of which he could measure in dollars, and all of which he could measure in unitas.

The operation of the fund under Mr. Morgenthau's plan would be essentially like those under the Keynes plan. If we sold French francs, we would get unitas deposits as credits. The Bank of France buys francs from the fund and gets a loan in unitas or it has an overdraft with the fund.

TWO KINDS OF UNITAS DEPOSITS

The Morgenthau plan provides that deposits in terms of unitas may be accepted by the fund from member countries upon the delivery of gold to the fund, and shall be transferable and redeemable in gold, and that the fund shall maintain 100% reserve in gold against all unitas deposits. I believe that this last provision is quite impossible. Unitas deposits will arise whenever a creditor country sells foreign exchange to the fund, and gets credit therefor on the fund's books. Unitas deposits must greatly exceed the fund's gold. We should speedily have two kinds of unitas deposits, one with 100% reserve redeemable in gold, and the other, the ordinary unitas, with a much smaller reserve of gold and not necessarily redeemable in gold. The latter could be expected to go to a discount as compared with the former. I think that the American plan has not been well thought out. The Keynes plan on this point has at least the merit of consistency. All bancor are of the same kind, and all are of dubious quality.

THE INTERNATIONAL FUND, AND DOMESTIC MONEY MARKET CONTROL

The foregoing account of actual transactions in the plan reveal a point which I think our Treasury has not under-

stood, namely, that to the extent that our Federal Reserve bank or our Stabilization Fund handles the foreign exchange transactions of the country through the international fund, we affect our domestic money market in an undesirable manner. If we are exporting heavily, and our Stabilization Fund is buying foreign exchange here to sell to the international fund for unitas deposits, we are simultaneously creating additional bank reserves in the United States, and making the money market easier. If the Federal Reserve Banks buy foreign exchange they pay for it with checks on themselves, and the effect is the same as if they were buying government securities or acceptances or anything else. These checks deposited in member banks are by them re-deposited in the Federal Reserve banks, increasing the reserve balances of the member banks, and making the money market easier. The same thing is true if the Stabilization Fund deals directly with the foreign exchange market. Its assets are gold. It puts the gold or gold certificates into the Federal Reserve banks, to get the dollars with which to buy the foreign exchange. It pays for the foreign exchange with checks on the Federal Reserve banks and this increases member bank reserves. The ability of the country as a whole to expand credit at home increases the more we extend credit to foreign countries.

This obviously suggests that something is wrong. The thing that is wrong is for central banks or governmental stabilization funds to be the main instrumentality in foreign lending. If member banks buy foreign exchange, paying for it with deposit credits, they increase their deposits while their reserves do not increase, and their ability to lend further is diminished thereby. This is as it should be. We ought not to buy too much foreign exchange. We ought not to export too much on short credit. The really desirable way to get needed money for foreign countries is not to get it from either the banks or the Federal Reserve Banks or the Stabilization Fund, but to get it from private investors out of the savings of the people. We ought not to finance a one-sided flow of exports on short credits. Long credits should be given by investor's money, under carefully restricted conditions as indicated above.

OUTLINE OF A FUNDAMENTAL SOLUTION

I condemn the Morgenthau and Keynes plans *in toto* as putting the cart before the horse, as encouraging rather than checking unsound tendencies in Europe, and as introducing new unsound tendencies at home. We want foreign exchange stabilization, but we can get it only as part of a much more comprehensive treatment of fundamental disorders. We must make foreign loans, but we must condition them on internal financial and currency reforms in the countries to which we lend. These loans should be made with investor's money rather than with reserve money. The government has no money except as it taxes the people, or as it borrows from the banks or the people. The first financial aid must be governmental because the risks are too great for private capital to be willing to venture. But as I have indicated above, the first aid should be Red Cross aid rather than loans. No loans should be made that are not good, and none should be made without strict conditions.

The government must act first, not merely in Red Cross activities, but also in creating a strong, safe peace, a peace that we can believe will be permanent. Had we followed Woodrow Wilson's plan in 1919, we should have had such a peace. We should have had a strong and upright League of Nations which, combining strength with justice, would have pacified the world. The first foundation of international credit must be a strong political settlement, not a financial patchwork.

Then, as a vital part of world reconstruction, we must turn toward freer trade throughout the world, so that debtor countries needing to pay can pay with goods, so that creditor countries receiving pay can receive goods, so that the countries of Continental Europe, needing food and raw materials from us, can pay for them with dollars, not obtained by borrowing but by working and sending us their finished manufactures in exchange for the raw materials and foods.

At this point, I congratulate the Chamber of Commerce of Los Angeles upon the endorsement which it has given to Secretary Hull's request for a renewal of his power to negotiate reciprocal reduction of tariffs throughout the world. You have shown yourselves to be realists. We want to export goods and be paid for them by goods coming back. We do not wish again to export vast quantities of goods against promises to pay, and then refuse payment in the only way in which the debtor can pay, namely, with goods. The great causes for the break down of international credit in 1931 were:

1. The excess amount of such credit created by cheap money policy in the '20's; and
2. The great growing fabric of tariffs and other trade impediments which prevented the movement of goods and threw the whole burden of payment of international debts upon gold.

Given real progress along these lines, however, I am satisfied that we can get investor's money in adequate amount for the loans that Europe needs and ought to have.

I cannot at all accept the proposition recently made by Mr. Harry D. White of the United States Treasury*, sup-

posed author of the Morgenthau plan, that it is futile to look to the private investors to supply more than a small part of what capital is needed for the more urgent post-war reconstruction needs and that it must be handled by governments. In this same statement Mr. White refers to the billions of dollars of foreign exchange needed for this purpose. I think that the United States Treasury has come into an unreal world through the ease with which it has been able to borrow money from the banks in recent years. Money it can create this way. Capital is another story. And surely we must pull up speedily in this terrific use of bank credit.

In this connection, however, one thing is to be said. The bank expansion which has already taken place has put into the hands of private individuals billions and billions of dollars of bank deposits in excess of anything they ever previously held, and these funds would seek foreign investment at rates of interest that gave compensation for risk, under conditions which tempted venture capital. Let the government make a strong political settlement, let the government open trade lines, let the government cooperate with the bankers in seeing to it that reforms on the other side accompany the offer of European loans on this side, and we should get investor's money for the rehabilitation of Europe. Foreign loans made in the '20's were discredited by the disasters of '31 and '32, but foreign loans can be made good if we will avoid the follies that we engaged in in the '20's. And the follies of the '20's would look microscopic if we adopted the Keynes-Morgenthau plan.

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Jobs, Freedom, Opportunity

THE FOUR ELEMENTS OF INDUSTRY

By F. C. CRAWFORD, *President, National Association of Manufacturers; President, Thompson Products, Inc.*
Delivered before the Fifth Annual Northern California Industrial Conference, San Francisco, Cal., April 13, 1943

THE end of world aggression is rolling off the assembly lines of American industry.

In the last two months I have seen victory in the making in the bomber plants of the South, the shipyards of New Orleans bayous, the steel mills of Birmingham, the tank factories of busy Detroit and the aircraft industry of Southern California.

War production in February, according to the War Production Board, jumped 8 percent over the January figure and is going higher and higher every day—already four times as great as in November just before Pearl Harbor.

This year we will launch the equivalent in tonnage of all the merchant marine in the world.

Our plane production, still not big enough to assure victory, is nearly as great as the rest of the world.

The fires of industry blazed so blindingly white in the swift conversion to war production that Mr. Roosevelt and other eloquent phrase-makers called the achievement a "miracle."

Industry has been called many things in the last ten years but this is the nicest name we've ever been called—"Miracle Men."

But you and I who do not believe in miracles, know that it did not happen suddenly and inexplicably. It was a natural

outgrowth of long effort, the prime fruit of a plant that had been carefully developed for a century and a half.

By nurturing ingenuity, protecting inventive genius, rewarding individual initiative and encouraging the investment of savings in enterprises, we established American industry as the healthiest and most vigorous in the world, and American standards of living the highest.

But industry is not resting on its laurels.

This year industry—labor and management working together—will produce more than 57 billion dollars worth of arms, ammunition and supplies—300 per cent over 1942's record—the flood gates of production are wide open to sweep aggression into oblivion.

Industry will meet its 1943 war production obligations.

Industry has confidence in its ability to deliver.

Industry knew its own strength just after Pearl Harbor when it pledged to the president and the country that industry's production "will be limited only by the human endurance of the men who man and manage its facilities."

Industry is keeping that promise, and will keep that promise until the last Nazi has cried "kamerad" and the last yellow son of Nippon has hissed "Banzai."

Fighter and bomber planes to blast the enemies of democracy from the face of the north, and ships to supply the

