

So, to summarize:

What about agreeing, more or less roughly, as follows?

We of management will try to repress monopolistic practices, unfair treatment of competitors, and business racketeers. You will try to repress monopolistic practices, unfair treatment of fellow-workers, and labor racketeers.

We will tell you the financial facts of life about *us*. You will tell us the financial facts of life about *you*.

We will try to reduce the number of our "strikes" which withhold inventions and products. You will try to reduce the number of your strikes which withhold labor and service.

We will try to give you job security and basic income security. You will try to give a full honest day's work every day.

We will recognize you and refrain from trying to cripple you with unfair regulatory laws. But you will recognize us and refrain from trying to destroy us by unfair and ruinous laws.

#### STRENGTH THROUGH FREEDOM

The United States can be strong only by acts of popular free-will.

That is why I say in conclusion just two things to you of management and to you of labor.

One. Go ahead and turn this country into a continuous brawl, and government will chain you both.

Two. Make a better choice. Work together and stay free.

If you stay free, I have no doubt of the result—a strong America, *an America Unlimited*.

# International Currency

## GOLD VERSUS BANCOR OR UNITAS

By BENJAMIN M. ANDERSON, Ph.D., *Professor of Economics, University of California, Los Angeles, Cal.*  
*Delivered before the Chamber of Commerce of the State of New York, New York City, February 3, 1944*

**M**R. PRESIDENT, Gentlemen, and Friends of the Chamber: I remember one thing with pleasure about the time when I became a member of this Chamber. That was the sponsorship. I was at that time the Economist of the old National Bank of Commerce. James S. Alexander, president of that institution, sponsored my membership here and A. Barton Hepburn, of the Chase Bank, seconded the nomination. I feel proud today of that sponsorship in this Chamber.

It was before I went to the Chase Bank—but by the way, there was an inadvertence in your statement which I want to correct. I was with the Chase Bank from 1920 to 1939—nineteen years—before that, two years with the Bank of Commerce.

I began this study of post-war foreign exchange stabilization about the end of January 1919, and I want to tell you about the studies forced upon us in the years 1919-20, because they are tremendously significant as giving the basis for interpretation of the proposals of the Keynes and White plans.

We had a startling figure for exports from the United States in January 1919, with a balance of trade, I think, of 410 million dollars. That trade balance ran up—it reached 635 million dollars in June. This great volume of goods going out reversed the business reaction that had started with November, the Armistice, and turned business up about March into the beginning of a great boom.

What was doing it: Well, we were, for four months after the Armistice, advancing money from the United States Treasury which was being used in pegging the foreign exchanges—precisely what these plans propose—francs and lire, but above all sterling.

And seeing the immense volume of exports and seeing the immense strength of those foreign exchanges, I looked into it rather carefully. I had as my tutor a man who I shall always feel great affection for, Franz Meyer, the foreign exchange trader of the old National Bank of Commerce—a very good trader, a man who knew foreign exchange, who got for me information from various of the other foreign exchange men.

On March 20, 1919, J. P. Morgan & Company suddenly unpegged sterling. They had been buying all the sterling offered, with dollars provided by the British Government, borrowed from the United States Treasury. They unpegged it.

I remember Franz Meyer that day coming into the officers' lunchroom of the Bank of Commerce, his face very grave. It was a stirring day in the foreign exchanges. And somebody expressed sympathy about the sterling picture. He said, "Yes, it is grave. It is serious, very serious."

But I didn't think Meyer was as unhappy as he seemed to be and I ventured a question: "What is our position, Mr. Meyer?" And he answered, his face lighting up: "We are short." He had had no illusions.

Well, that afternoon—I am going to take a little time for this episode—I watched him. I think he had ten telephones on his desk—maybe only eight.

"Yes, yes, I buy \$4.26. Yes, I sell \$4.29."

Then he looked at me and grinned. "I make \$1500."

He was a very good trader!

But the market was full of all kinds of disorder for a day or two until something like a level could be established. And he and other men, buying at \$4.26 and selling at \$4.29, were bringing order into it.

And don't let anyone tell you that the Trader who makes a profit in a wild foreign exchange market is doing anybody any harm. He is doing good. The bid and asked prices would have been very much further apart if he had not been there trading.

We spent billions of good American dollars in direct pegging of foreign exchanges. I say billions—let's get the figure rather exactly—something less than three billions altogether from the Armistice down to June 30, in relevant Government advances, in pegging, and in supporting, after the pegging stopped, the foreign exchanges and the export trade on the basis of it.

Then I expected that the export trade would have to drop pretty soon. I thought those foreign exchanges could not stand the strain. The Continent of Europe was going pretty badly to pieces—unbalanced budgets, printing more bank notes. I thought that the pressure on those exchanges would bring the thing to an end sooner than it did.

Foreign exchanges did go down, but here was the anomaly: sterling went with the continental exchanges. And England was the one country over there, of the belligerents, who was improving her financial position—balancing her budget, working towards the resumption of gold payments. The thing was anomalous.

Then late in the autumn it began to be pretty clear what

was happening. When our Treasury stopped, London stepped in. Britain interposed her immense credit, her immense financial prestige, between us and the weak Continent. They were buying goods here, giving us sterling, giving us dollar obligations, selling them on the Continent for francs, for lire, for drachmae. And then as we sold goods on the Continent for francs and lire and drachmae, we did not keep them. We sold them in London. London was the great center for all kinds of speculation. If you wanted to sell anything, you could sell it there.

But this time they got stuck. They bought all the drachmae, all the lire, all the Belgian francs, all the French francs, the depreciating exchanges that were created here through exports. And the strength of sterling had been bending, yielding, but sterling carried on that boom for another year.

Private creditors on this side, taking sterling, taking dollar obligations of England, giving also open account credits to the Continent, put up another three and a half billions.

Then we got fed up and our ability to give credit became restricted, and the thing crashed. We went through the great crash of 1920-21.

If we had had a reaction in 1918, when we were braced for it, it would not have done much harm. Everybody was braced for it. By 1920 a great many people had come to accept the idea of a permanently higher price level. A great volume of credit had been extended against commodities at high prices. Immense real estate speculation had taken place—great increase in farm debt for speculative purchase of farm lands. We were not in good shape for a reaction, but we went through it.

And meanwhile this six and a half billions we had given Europe—three billions from the Government and three and a half from private creditors—did no good. Europe was in far worse shape at the end of 1920 than she was at the beginning of 1919.

The point was that the Finance Minister of a European country, faced with pressure from his people—returning soldiers wanting pensions, wanting pay, people wanting food, pitiful, nobody willing to be taxed, nobody willing to buy bonds—he was taking the easy way, he was leaning on the state bank of issue, he was printing bank notes and more bank notes. And as long as the foreign exchange market would take the paper money which he created, his people could bring in food and luxuries from outside.

We sold them a lot of luxuries in 1920. We sold them everything but the raw materials they ought to have been using to work up and send back.

There was no industrial revival, there was no financial reform in Europe while this thing went on, while we gave an artificial support to foreign exchange.

Now, it is precisely this kind of thing that the Keynes-Morgenthau Plan wants to do—to put the dollar behind the weak exchanges and support them, keep them pegged, so that goods may be sold, exports go out. We will have another boom—a very wild, unsound boom. We will get fed up after a while with pouring so many dollars into that great international machine that they propose. We will pull up and cut our losses, and have a crash.

This folly—our own Treasury, I think, has no financial recollection of this episode; Mr. Keynes has. And I want to read you a little passage from the Keynes Plan which shows you that he has. The episode was pretty costly to England. She had stood in between us and the Continent.

The Keynes Plan, Section 14, says as an argument for the plan:

“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?”

Very nice!

If we had had the Keynes-Morgenthau Plan in operation in 1919, England could have bought goods here, sold them at a profit on the Continent, paid for them by putting francs, lire, drachmae into the International Exchange Fund, while we got credits in that fund, and England, by remaining net debtor to the fund, would have had her profits free and clear, and we would have had big credits in an international fund composed of deteriorating drachmae, lire, francs and so on.

I don't propose to advocate that measure.

Now, I take it that there is general knowledge of the nature of these plans, and there is not time for me to explain the technical details of them. The big thing that they propose is to put the strength of the strong currencies behind the weak currencies to peg the exchanges. And we did it, we tried it; it was no good. We must not do it again. We wasted six and a half billion dollars doing it the last time.

Now, what is the right way to do this thing?

First: The thing we did last time—gifts for the weakest countries; Red Cross or the kind of thing that Governor Lehman is expected to do—but gifts, not loans. Don't call it loans. Don't expect to get the money back. Wipe it off. Limit it to what is essential. Most of it ought to stop after the first harvest after the war.

And even as you make those gifts, make demands upon the governments of the countries that receive them that they get their financial houses in order. Gifts, as well as loans, should do the recipient permanent good.

But, second: Stabilization loans—tens of millions to two or three hundred millions at the maximum, not the billions proposed by these plans—conditioned on drastic internal financial and currency reforms, conditions on foreign supervision of the use of the proceeds of the loans.

Now, here we have historical precedents of a very definite sort. We did that for Austria in 1923. We straightened Austria out. We gave her a good start and the Austrians began to pull up from there.

We did it for Hungary in 1924 and we sent Mr. Jeremiah Smith, of Boston, over to sit on the lid, to counter-sign checks, to see that the money was used properly.

We did it for Germany in 1924 under the Dawes Plan—two hundred million dollars. That was the biggest of these stabilization loans. There was foreign supervision both of the Reichsbank and of certain of the revenues. Germany started right up into a dramatic industrial revival.

We did it for Poland in 1927—seventy-two millions, as I remember. The loan would have been a little bigger if I had not been critical. I did not want to make any more foreign loans at that time, but for some reason the Bank of England was said to have wanted my approval of it, and I carefully examined the figures. I was not satisfied with the figures on the floating debt of Poland and insisted on more information. I finally concluded that they were borrowing too much to use in buying silver for coinage. They had been so sick—their people—of a very inferior, shoddy silver coin that they wanted to give them a very fine silver coin. I persuaded them that the standard of the Swiss franc was good enough, and then took that difference off the face of the loan before I gave my approval.

Well, we put the Honorable Charles S. Dewey, who was in the United States Treasury, over there in Poland to supervise that loan, to countersign checks, to see that it was properly used. It worked; stabilization of currency, balanced budget, it straightened out.

I want to put in parentheses here that I spent Monday night with Mr. Dewey, who is now Congressman from Illinois, working from about six-thirty until one-thirty, going over a bill that he has since introduced, a copy of which I have, designed to provide a way whereby our Government can cooperate with other European governments or can cooperate with investment bankers in this country, or other countries for that matter, and go in on joint account up to 50 per cent of credits.

That is a very modest sort of thing as compared with that 10 billion-dollar bank Mr. Morgenthau wants to establish for investment purposes.

Dewey's bill calls for half a billion as a revolving fund. And as it is going to be used on joint account up to only 50 per cent, another half billion would be called for from the other participants in the credits. But you don't need more for these stabilization loans, if you see to it that they accomplish their purpose.

I won't go into the details of this bill, Mr. President, but I will say that I endorse this bill. And I am going to venture this request, that you refer it to an appropriate committee of this Chamber for study.

Let me describe the bill for the record. It is House Joint Resolution No. 226, "to provide for central reconstruction fund" and so on, introduced by Mr. Dewey, February 1, 1944, referred to the Committee on Foreign Affairs.

That German loan of 200 million dollars looks very small today, but it was amazingly effective. Germany got no benefit from it directly. The German budget was not relieved by it. The German Government could not spend it for domestic purposes. The German Government got 200 million dollars of gold which it put into the Reichsbank as a gold reserve. Then the German Government got from the Reichsbank, in exchange, 800 millions in marks. But it was obliged to use all of that 800 millions in marks in buying goods in Germany for delivery in kind on reparations account: coal and other things. And it was obliged, moreover, to find, that year, 200 millions more, so that none of the proceeds of the loan could be used for internal affairs.

If there had been no reparations problem and if Germany had been able to use, under the supervision of the creditors, that 800 million marks in putting working capital into the industries and perhaps some measures of relief, the thing would have been far easier.

But just the stabilization of currency got them back to a sound gold currency forthwith. They had been through a welter of inflation—money sinking, sinking; everybody losing confidence and hope. Just the sound currency and the balanced budget, themselves, were business-energizing factors. Business started right up, production started right up, full employment came about.

They were pretty helpless when that thing started. There was a desperate shortage of working capital. That shortage of working capital with other complications led to a sharp reaction in the winter of '25-'26; but there was prompt recovery. The thing went on strongly until '29—early '29. Then troubles began to come.

Germany would not have had these troubles, Germany would have pulled through and the stabilization would have lasted, had it not been for the complication of reparations.

Now, Germany is a special case after this war, of course. Investment bankers to whom I have talked say, "No, we won't sponsor any German bonds. We are not probably going to sponsor any Italian bonds. But bonds for Denmark, bonds for Norway, bonds for France, bonds for England—yes, we can do that, under the proper conditions."

Now, these conditions, to my mind, involve definite agreements about stabilization of currency on a gold basis.

There is going to be need for some legislative changes in

this country before our investment market can work right, either at home or abroad. We must repeal the Johnson Act, of course, before we can lend to foreign governments.

We ought to change one of these very humiliating provisions of the Securities Act, requiring a foreign government, in the prospectus which it signs, to confess repudiation. The bankers sponsoring such a loan ought to put that fact into the record, of course, but it is a little humiliating to ask a foreign government to submit to the Securities and Exchange Commission a statement like that and perhaps to have to revise it six or seven times to fit the wishes of the Securities and Exchange Commission. There is need for the legislation to be changed with respect to that as a matter of international good feeling.

But for either foreign or domestic freedom of American capital, in either foreign or domestic use, I think we have got to go further.

New capital for domestic purposes through the securities market is very difficult to get—there are tremendous hurdles. Since the Securities and Exchange legislation has been in existence, we once got up about 50 per cent of new issues, as compared with 1923, in a part of 1936 and 1937, but most of the time it has been under 19 per cent of 1923. I don't make the comparison with the boom years and the wild years of '24 to '29.

I recommend the abolition of the Securities and Exchange Commission. I recommend the substitution for that of a Securities and Exchange Division of the Department of Justice, which shall not work in detail with every transaction, but which shall punish, under criminal law, violations of the Securities and Exchange legislation—certain criminal law.

There is no more reason for the detailed regulations of the Securities and Exchange business than any other legitimate business.

I recommend that there be created in the Department of Commerce a purely ministerial body to receive registration statements and prospectuses, so that there may be a responsible document, on the basis of which a man may be sued if he has misrepresented or omitted essential facts, on the basis of which a man may be put in prison if he has done the wrong things, made the wrong statements.

We have got to do that or something like that to get our securities market free for either foreign or domestic post-war purposes.

Now, one thing that I would emphasize in connection with the measure of Mr. Charles Dewey is that the board is a purely American board. The Keynes-Morgenthau plans and Mr. Morgenthau's investment bank—both have an international board in control. All three have an international board in control.

A bank, a majority of whose board of directors is made up of debtors to the bank who want to borrow more money, is not a safe bank. That feature alone of these three plans would damage any sound plan, I think. The lenders should control, not the borrowers, in a financial institution.

Both of these plans, the Keynes Plan and the Morgenthau Plan, propose to monetize the bad debts which England owes to the outside world. England, following Mr. Keynes, allowed sterling to get into a very perilous state. It ceased to be gold. It became paper—fluctuating paper, with not even a promise to be redeemed. The irredeemable paper was treated as a "thing-in-itself".

Parts of the world followed England in that—in the belief that you can do that. But sterling got to a very perilous state. And the war broke out. Everybody wanted to get rid of it; they blocked it. You cannot even sell it now. It is blocked.

The balances are very great and they are growing. In the

middle of August, the London *Economist* set them at over a billion pounds—around 4 billion dollars at the official rate of sterling. But added to that, the part to India is increasing alone at the rate of 300 million pounds a year.

Well, if after the war England tries to restore a free pound, lets people sell their claims on London in the open market for what they will bring, sterling will go very low.

And so the Keynes Plan proposed a sleight of hand by which all this blocked debt would be put into the international fund, and the Morgenthau Plan worked out details. It is to be put in there for 23 years and no payments made for three years, and after that 2 per cent a year for 20 years.

Meanwhile England's creditors would have credit with this fund for cash, bancor in the case of the Keynes fund. We are not sure in the case of the Morgenthau fund, because we are not sure if that institution will have deposits or not. They don't say anything about their liabilities.

Well, that is no way to help England.

The Federal Reserve Bank of the World ought not to take debts that people cannot pay into its portfolio and hold them for 23 years and create money against them. That is pretty bad.

We must help England, yes, but the way for England to help herself is to make a settlement with each of these countries that they owe separately—the most of them in the British Empire, the biggest part—and then come to us for four or five hundred millions which they will use in making payments to them, giving them some cash and some long credit—work things out as an embarrassed debtor usually does with his creditors. We will help with some cash and she will get that cash on much better terms, here, at a much lower rate of interest, if she will definitely go back to gold—fixed gold sterling. I think she has got to do that anyhow in her own interest.

We cannot afford to stay with Mr. Keynes any longer.

#### GOLD REMAINS THE STANDARD OF VALUE

Gold remains the international standard of value, despite the efforts of governments to substitute irredeemable paper for it, because in the last analysis neither men nor governments will trust anything else. The Tripartite Agreement, involving the United States, Great Britain and France, which immediately preceded the collapse of the gold bloc in late 1936, did not substitute paper dollars or paper pounds or paper francs for gold. The governments did not trust one another enough for that. If in the course of the day's trading in the foreign exchange market, any government accumulated a sizeable amount of another government's currency, the differences were promptly settled in gold.

#### GOLD AND PAPER MONEY

Gold needs no endorsement. It can be tested with scales and with acids. The recipient of gold does not have to trust the government stamp upon it, if he does not trust the government that stamped it. No act of faith is called for when gold is used in payments, and no compulsion is required.

Men everywhere, governments everywhere, and central banks everywhere are glad to get it. When paper is offered instead of gold, it will be accepted on faith if the government or the bank which has issued the paper has proved itself worthy of confidence by a satisfactory record of redeeming the paper in gold on demand. If there is a suspension of gold payments, the paper will still be taken on faith, at varying degrees of discount, so long as there remains a general expectation that the government or the issuing bank will some day make good its promise. The amount of the discount will vary in a free gold market or in a free foreign exchange market with the circumstances that make it more or less probable that the government or the issuing bank will make

good its promise, and with the circumstances that govern the probable time of the redemption.

#### IRREDEEMABLE PAPER AS AN INDEPENDENT STANDARD

Governments and loyal peoples have often been quite unwilling to look upon their irredeemable paper money as merely dishonored promissory notes. Always in times of currency disorders there arises the doctrine that "a pound's a pound" and not merely a promise to pay gold coin of fixed weight and fineness. There is believed to be some magic in governmental authority that can make something out of nothing. The prestige of a long establishment and powerful government is very great. The habits of the people in accepting the long established currency tend to sustain its value. The legal tender quality of paper money aids in holding it up, since creditors must take it in payment of old debts, even though they may try to avoid having to take it when new debts are created. When a currency which has had world wide prestige as long as the pound sterling has, starts on a downward course, it is difficult for the world to believe that the worst is going to happen, and at various stages in its depreciation it has foreign support as well as domestic support.

Thus we saw the unanchored paper pound, 1931-1939, treated by British policy as "a thing-in-itself" and no longer a promise to pay gold, still accepted, though with growing distrust, by central banks of the Scandinavian and Baltic countries as a substitute in part for their own gold reserves. The financial prestige of Britain was very great. Value is a psychological phenomenon. But there are rational elements in the psychology of value, and hope too long deferred and too often disappointed will destroy value.

#### GOVERNMENTAL COERCION AND THE VALUE OF MONEY

Yet another factor can be invoked by governments to sustain the value of irredeemable paper money, and that is the power of the government over the economic lives of men. In the period of the French Assignats, the laws fixed penalties of the severest kind against transactions which recognized the depreciation of the paper. But despite the penalties, the French paper money dropped steadily in value and commodity prices soared. The Federal Congress in 1864, blaming the depreciation of the Greenback on the manipulation of speculators in the gold market, passed an act forbidding gold futures. The results were disastrous and the Congress, without debate, repealed the law two weeks later.

It was prevailing doctrine among economists down to the First World War that governments could not coerce their peoples into accepting at face value a dishonored paper money. But war brought an immense revival and intensification of governmental power, and new governmental techniques for intruding intimately into the bookkeeping of the people. In Germany this power was intensified under the Hitler regime and these techniques were elaborated, and we have had the spectacle in Hitler's Germany of a paper currency, with a microscopic gold reserve and without gold redemption, circulating against commodities at fixed prices for the commodities, or at all events, at controlled prices. As faith waned, Germany substituted coercion, and as the government was virtually omnipotent, and the people dared not assert their individual rights, and as the *Gestapo* was tremendously efficient, Germany made the system work.

#### COERCION AND FOREIGN EXCHANGE RATES

Always the doctrine had been, moreover, that even though a dishonored paper currency might be accepted at home, nothing could prevent it from depreciating in the foreign exchanges, because the people would smuggle it out of the country and sell it for what it would bring to get good

money. But we saw develop in Germany a system of control of the export and import of currency, as well as securities and commodities, so tremendously effective that very little German currency could get outside and that when it got outside, the foreign banks had little motive for buying it because they could not get it back into Germany again to use it. We saw rigorous control of all exchange transactions, and such a limitation in the volume of these transactions that the German government and the Reichsbank could make the so-called "official rate" effective on the limited volume of transactions permitted, and the "official mark" in the foreign exchanges held firm at the nominal parity. Meanwhile a great multitude of different kinds of marks, valid for special purposes, sold at varying rates of discount in the foreign exchange markets, but even these were regulated and controlled.

#### THE TYRANNY OF HITLER AND THE TYRANNY OF GOLD

The temporary success of the German monetary and economic experiment led to the superficial generalization on the part of certain opponents of the gold standard that gold had been proved to be unnecessary, that Hitler had found a way to do without gold, and that the long tyranny of gold was over. Parenthetically, I much prefer the tyranny of gold to the tyranny of Hitler. Gold is not capricious.

All it requires of men and governments and central banks is that they be honest, that they keep their promises, that they keep their demand liabilities safely within the limit of their quick assets, and that they create debts only when they can see how these debts can be paid. Gold has no intuitions, and gold has very little imagination.

In summary on this point: (1) Men, governments and central banks will accept gold in payments because they want it for itself. (2) Men will take paper promises to pay gold as money without difficulty so long as these promises are kept and they believe that they will be kept. (3) When paper promises to pay gold are dishonored men will continue to take them at varying degrees of discount in the hope that the promise will later be kept, and because of the prestige of the issuing authorities fortified by the legal tender peculiarities of money and by the habits of the people and of the world with respect to a long established currency. And finally, (4) when these fail, if your government is powerful enough and tyrannous enough, and your people are sufficiently submissive, and you extend the government into the details of the daily transactions of the people, you can make a dishonored paper circulate at controlled prices inside your country, and you can keep it out of the foreign exchange market. If foreigners happen to have deposits in your banks which they want to sell in the world's markets outside, you simply refuse to allow them to transfer these balances on the books of the bank, or you limit the uses to which they can put them in your own discretion.

#### THE LIMITS OF COERCION

The post-war world will witness, I have no doubt, the complete collapse of the Hitlerian monetary system. I venture the confident prediction that the forces of coercion which have been sustaining the value of the German mark will soon be sensibly abated, and that the controls which have upheld the mark in the foreign exchanges will work with diminished effectiveness.

And the British experiment of a pound unanchored to gold, treated as a "thing-in-itself", can give us a very tragic picture. The prestige of that pound in the international markets is badly shattered. Foreigners who had entrusted their funds to London found them promptly blocked when the war came. The pound has ceased to be a serviceable tool

in trade between Britain and other countries, and has almost entirely ceased to be a tool for conducting trade between two outside countries—which used to be one of its most important services. It has in general ceased to be a valid tool for trade among the units of the British Empire. In general it prevails only in the mother country itself. England has gigantic blocked debts to the outside world due on demand, but she does not allow her creditors even to sell their credit claims for what they can get.

But men and governments are still eager enough for gold. Gold is being currently used on British Government account to pull down the great discount on the rupee in India and to bring out hoarded food reserves in India. Gold is being used in Persia which is glad to get gold but reluctant to take sterling.

#### GOLD AS THE POST-WAR INTERNATIONAL CURRENCY

Now what is the outlook for an international currency in the post-war world? Men, governments and central banks all over the world will take gold without question whenever they can get it. Most of the paper currencies of the world they will not take except at heavy discount and in limited amounts, and they will seek to hedge them if they can, and they will seek to pass them on quickly if they can when they take them. The American dollar they will readily take because of our practice of exporting gold when the dollar goes to the "lower gold point" in the foreign exchange markets. What else is there but gold to serve as an international currency? I think there is nothing else.

#### THE KEYNES AND WHITE PLANS REST ON COERCION

But this is not the view of the British Treasury represented by Lord Keynes, nor the United States Treasury represented by Mr. Morgenthau and Mr. White. Lord Keynes proposes an international currency not redeemable in gold, not based on gold, nominally fixed in relation to gold "but not unalterably." He calls it "bancor," apparently a compound of the two words "*banco*" and the French word for gold, "*or*." But it is not even gilded, much less gold. The international money is to be credit entries on the books of the international fund and overdraft privileges with that international fund. The assets of the fund are zero when the fund starts and its liabilities are zero, but as transactions multiply and the fund does business, its balance sheet swells on both sides, its liabilities being deposits in bancor and its assets consisting either of overdrafts in bancor or of a multitude of national currencies—dollars, pounds, francs, drachmae—and in time, presumably, German marks. Its purpose is to hold the different exchange rates together, to put the strength of the stronger exchanges behind the weaker ones. It would increasingly lose dollars and other strong currencies and increasingly acquire weak currencies or the bancor obligations of the central banks or exchange stabilization funds of the weaker countries. Its assets would progressively deteriorate. Indeed both Keynes and White plans contemplate this. They contemplate reductions in the exchange rates of the weaker countries, and in the nominal gold equivalent of the bancor or unitas.

Now, on what substance can the value of bancor rest? On gold? No. The Keynes plan has some ingenious devices to prevent situations in which bancor could be shown to be at a discount in terms of gold, which, however, could break down readily, even with good faith on the part of all the participants in the fund, which would certainly break down if important countries remained outside the fund, and which would break down in the event of any failure of any country to comply with the requirements of the fund. But it does not rest on gold. The bancor is explicitly never to be re-

deemed in gold nor in anything else. On what, then, will it rest? On faith? On prestige? Maybe we can create a prestige for an international fund whose assets consist of the dishonored promises of governments and central banks which have lost their prestige. It is possible that the prestige of the United States would be so great that for a time we alone could carry the burden of sustaining the *bancor*, but I doubt that our generosity is sufficient for this, and I question that we dare risk our strength, already strained by our war finance, in so great and so needless a post-war task.

But neither the Keynes plan nor the Morgenthau plan proposes to rely upon faith alone. Both propose a great deal of coercion. Governments are to coerce their peoples in preventing the international movement of capital funds, which means, as Keynes himself recognizes, the control of all foreign exchange transactions. Now here, I think, we find real difficulty. Who shall coerce the coercers?

Who shall force the government of the United States, or the government of Russia, or the government of Britain, or the government of Argentina to comply with the mandates of the governing board of the international fund? The provisions of the White-Morgenthau plan make it very explicitly their duty to do so, and section VII, 8, of the July 10 version of the White plan makes it the obligation of every member country of the fund "to adopt appropriate legislation or decrees to carry out its undertakings to the fund," and those undertakings are numerous and drastic. For either the Keynes plan or the Morgenthau-White plan to work, would require a world state with an authority over economic transactions as great as the authority which any national state has effectively asserted in peace time.

Is it realism to suppose that the whole world can hang together in the support of *bancor* or *unitas* when the British Empire can't hang together in support of sterling *within the British Empire*?

The Keynes plan, moreover, definitely suggests international control of commodities and an international "over-normal granary," and an international control of investment. It sees the Clearing Union as facilitating these purposes as well as foreign exchange stabilization. The document states, "We have here a genuine organ of truly international government." The White plan is not so frank, but there is much sympathy for these ideas in important Washington circles.

WAS THE OLD GOLD STANDARD A "STERLING STANDARD"?

There is a myth widely current which I wish to challenge. It is that prior to 1914, the world was on the sterling standard rather than the gold standard, that London controlled the gold standard and that it was only super-human wisdom in London which made it work. The doctrine adds that when New York became the center after 1918, the gold standard failed because New York lacked London's wisdom. Now the fact is that pre-war London had far less control and responsibility prior to 1914 than New York did after 1918, and that policy played a much smaller role in the earlier period. There were many gold standard money markets competing with London for gold prior to 1914, several of them very powerful, as New York, Berlin, and Paris, and many others of real influence, as Amsterdam, Vienna, Switzerland, the Scandinavian countries and Japan. These all steadied one another. All would pull gold away from any country that was over-expanding credit, and force it to pull up. It was not policy. As Mr. Woodward of the Central Hanover said to me one time, "It was nature." International cooperation came only in crises—and then at stiff rates of interest. Now New York lacked this steadying influence from 1918 down to 1925, and did not get adequate competition for gold till France got into the game—in an over-dramatic way—in 1928. New York used policy in the 1920's—bad policy. But I must add that Benjamin Strong learned this bad policy from Montagu Norman. Both we and London over-expanded credit in the 1920's, but we had the semblance of an excuse in our over abundant gold, while London had no excuse at all.

I want to see a real gold standard world again, with several powerful money-centers competing for gold, and holding one another in check. I don't want international monetary cooperation in ordinary times. It prolongs unsound tendencies, as in 1924-29, and then it breaks down in crises, as in 1931. I want competition in ordinary times, and cooperation only in crises—at a stiff rate of interest.

I have been too close to the centers of wisdom and power in governments and central banks to have any belief at all in the adequacy of their wisdom to do more than routine things. The more I see of governmental economic policy, the more I trust the automatic forces of free markets. The more I see of public monetary policy, the more I trust gold.

## "Freedom Through Discipline"

ELECTIVE SYSTEM DEFEATS PURPOSE OF LIBERAL EDUCATION

By MORTIMER ADLER, *Professor of the Philosophy of Law, University of Chicago*  
*Radio Address delivered over the Mutual Broadcasting System, February 7, 1944*

THE word "discipline" is more usually connected with the notion of duty than with the notion of freedom. We think of discipline, whether self-imposed or imposed by another, as systematic regulation directed toward doing well the things we ought to do. We seldom connect the idea of freedom with the regulation of conduct in terms of *ought* or *should*. Freedom, we think, is doing what one pleases. If freedom were that, if it were the opposite of doing one's duty, freedom might be achieved in the absence of discipline rather than through it.

But true freedom is identical with duty. It is necessary to understand this in order to perceive that discipline is indispensable to such freedom. As Montesquieu wisely and tersely said, "Political liberty does not consist in an unlimited free-

dom. In government, that is, in societies directed by laws, liberty can consist only in the power of doing what we ought to will, and in not being constrained to do what we ought not to will. Liberty is the right of doing whatever the laws permit, and if a citizen could do what they forbid he would be no longer possessed of liberty, because all his fellow citizens would have the same power."

Thus we see that political liberty is a freedom achieved through the discipline of laws. Under anarchy, there is no freedom. There is only license for every man to do what he pleases, and since the desires and wants of individual men will bring them into conflict, freedom from laws necessarily means subjection to the war of each man against every other. Where men recognize no rights or duties, only might pre-

