CURRENCY AND FOREIGN EXCHANGE

1914 - 1949

By

Donald Roy Dawson

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Donald R. Dawson

Hamilton, Ontario

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INTRODUCTION

The economic processes by which the relatively scarce means of the production of economic goods and services are organized and directed towards the satisfaction of human wants are highly specialized. By this process, the average individual can devote his talents and interests to the performance of a single task in the specialized system, and the union of these talents with other types of productive services creates the economic good. Man can exchange the proceeds of his labour on one article for all the other articles (economic goods and services) necessary to his welfare and to the welfare of his family. Thus, a man, by sorting bolts in an automobile factory, can furnish food, clothing, entertainment and an education for his children. This is brought about by the exchange process which follows from specialization.

Exchange in the Middle Ages and later was a very clumsy process of barter whereby the good produced was exchanged directly for the good desired. The difficulty encountered was almost insurmountable because of the varying values of the goods exchanged. In later years, the function of money has taken an increased importance in the exchange process, so that it has become essential tr trade of any kind. The individual provides his service for which he receives payment in the form of money which he in turn exchanges for the goods desired. The economic transactions of individuals, buying and selling, rendering and receiving services, borrowing and lending is thus one of interdependence, and that interdependence is chiefly one of price linking one individual with hundreds of others.

As with individuals, so with nations, which exchange their

specialized products for the specialized products of another country. The principle of comparative advantage states that each country will specialize in the production of goods and services using more of the cheaper factors of production. A wheat-growing country (like Canada) or a beef-raising country (like the Argentine) can specialize in these products (aided by climate, resources and technical skills) and exchange them for a great variety of foreign products which in turn enrich the real income of the exporting country. International trade is thus a two way process benefiting and enriching all the participating countries. With the improvement, in the last 100 years, in transportation methods and a decrease in costs, many commodities have been put on the world market which were previously only domestic goods.

The national welfare of a country depends to a large extent upon its foreign trade; Its ability to import the great variety of goods needed and its ability to produce goods desired by foreign countries, which it exports to pay for the goods it has imported. Political and national boundaries are not important to the natural functioning of international trade; though tariffs, embargos, quotas and exchange restrictions do influence the flow of goods and can interfere with the smooth functioning of the exchange process. National governments, too, by their action or inaction in their monetary systems, can affect the smooth functioning of international trade. The credit policies of governmental financial institutions have inevitable effects on monetary flows. A nation's ability to borrow and lend, produce and consume, give and render services is limited by the state of the national income and of the monetary system.

The object of money in international monetary systems is,

besides facilitating exchange, to achieve and maintain an equilibrium of external (and internal) trade. By an appropriate flow of monetary expenditures, a relative continuous high level of employment and a relative stability of price levels are maintained. To make possible the monetary transactions in international payments, a number of institutions are set up, chief of which are commercial banks. The routine function of a bank in its dealings in the foreign market is to draw and sell drafts for the payment of goods purchased, to honour drafts drawn on it, to issue letters of credit, travellers cheques, etc. Banks either have branch offices throughout the world, or they enter into agreements or negociations with foreign banks who act as their correspondents in all dealings affecting the home bank. The home bank in turn acts as the correspondent for the foreign bank. Thus, a country, through its government and banks, and by adjusting exchange rates, buying and selling foreign currency and letters of credit in the open market, as well as employing certain economic restrictions, can adjust the exports and imports of a country so that internal payments are relatively in balance, the price level is relatively stable, employment is high, and the country is receiving the maximum real income possible under existing wealth and talent.

This thesis has been written with the particular objective of examining the present day issues in the field of the theory and practice of international monetary developments. A historical approach is considered necessary in order to examine the relation of the various financial institutions (and monetary programs) with international trade in recent years.

The period from the days before the First World War until the

present time has seen many changes in the international field. The political, social and scientific activities in the world have, to a large extent, influenced international monetary practices and international trade itself. That period has seen two catastrophic World Wars and the greatest depression in history. As this thesis is completed, many countries are economically prostrate and must depend upon outside aid in order to make possible their recovery. The world is divided into two hostile camps, separated by imprisoned satallites. The threat of a third World War is becoming progressively more impossible to ignore. Obviously, trade will be influenced, currencies will tend to fluctuate widely, faith in the peaceful pursuit of international commerce will be restricted, and the real income and welfare of individuals and nations will suffer.

The immediate purpose of this thesis will be to survey economic conditions in Europe and America between 1914 and 1949, with special emphasis on international currency movements, the several countries, which, by reason of their financial policies, were outstanding in this period.

CHAPTER I

The First World War

For some decades prior to the First World War, nearly all countries were on the gold standard. The Standard was highly automatic, and gold flowed freely in international trade from places where it was cheap to places where it was dear, always seeking to maintain its international value level. Economically and financially, the focus of this activity was Great Britain. Other countries had abandoned silver and bimetallism, and had adopted gold in order to be on the same financial standard as Great Britain, in order to maintain stability of exchange rates with that country. Added to this was the soundness of British financial institutions which had made the pound sterling almost the equivalent of an international currency, and linked it with the currencies of other countries in the world. The ready convertibility of gold, and the strength of the pound resulted in a world-wide system of stable exchange rates, and this greatly facilitated the international movement of capital and goods.

The dominant economic doctrine of the time was "laissez-faire", with its maximum of freedom from government interference in enterprise and trade. The operation of an automatic gold standard was necessarily tied up with this doctrine of "laissez-faire", and with the war restrictions of 1914 - 1918, they both broke down together.[1] Not only did practically all gold standards break down during the ten years of war and reconstruction, but the scores of countries that resorted to paper

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1 At the outbreak of war, 59 countries were on the gold standard. They included practically all of Europe, most of Asia, except China, all of North America except Mexico, and a large part of South America, including three of the four principal countries. China was considering adopting the Gold Standard, and Mexico only lapsed because of Revolution.

money standards suffered very serious inflation. From the very moment of the outbreak of the war, with the requirements of war finance, the various currencies had in the main to be regarded as free paper currencies and consequently as currencies which were not limited to any metal, and therefore not in any relation to one another.

The gold standard broke down because it depended among other things on relative freedom of international trade and commerce for its successful operation, and with the restrictions war places on the smooth functioning of international financial operations, this was not possible. Also, a belligerent state must find means to finance a war, and this cannot be done with the limited gold in circulation, even with the use of a fractional reserve which has its limits. The only way it can be done is by placing purchasing power in the hands of the government through the amount of paper currency and deposits available - this artificial purchasing power for meeting the immediate requirements of war unfortunately involves a dilution of the currency itself. Thirdly, was the desire by governments to preserve as far as possible, untouched, the gold reserves of the central banks. The uncertainty of the future would lead to a sharply rising demand for gold as a means to the maintenance of wealth, and as a means of payment especially to abroad. The central banks therefore were afraid of being deprived of their stocks if they continued to redeem their notes and other bonds in gold. This in turn would affect the general confidence in the central banks note issues, and thereby in the future of the currency. Right from the beginning, too much attention was paid to the gold reserves question and not enough to the protection of the value of the currency itself. The value of money relentlessly depreciated to the extent that its quantity grew, this depreciation occurring without the slightest relationship to the gold reserves.

Inflation spread from belligerent states to neutral countries, likewise because of the unusually large needs of government finance. The neutrals were obliged to give relatively large amounts of credit to belligerent nations in order to keep their export market. The export outlets were unlimited, provided credit could be given on a large enough scale. Neutral countries were not too anxious to do this because of the uncertainty of the future, and of the economic state of the belligerent countries. Obviously, the momentum of inflation was progressing as the war dragged on, which meant that international debts contracted would be paid in a devalued currency if repayment was possible at all, in consideration of the possible outcome of the war. Thus, the minimum of credits was granted, and payment was preferred in necessary articles produced by the borrowing country rather than in worthless fiat money.

On account of the circumstances just described, inflation developed into a process which extended throughout the whole world, although its influence was felt in various countries in very different degrees depending on their state of industrial advancement and specialization, their natural resources, their political affiliations and their geographical positions. Its economic purport and its consequences, however, were principally the same everywhere.

A currency collapse or near collapse disrupts the entire economic life of a country, and has far-reaching consequences. Thousands of people have had their entire savings disappear because the savings were in terms of money which came to have practically no value. Institutions with endowments have been impoverished. Thrifty classes who saved have been reduced to poverty, and saving has been discouraged. The cost of living rises to prohibitive heights, often with violence resulting

together with reduced production, unemployment and other disorders.

Issues of paper money in almost unlimited amounts, followed by a rise in prices to fantastic heights took place in the following countries during and immediately after World War I: Russia, Austria, Poland, Hungary and Germany. Fluctuations in prices took place from day to day and often during the same day. Business became virtually impossible. Money would be spent as soon as it was received, regardless of whether or not the goods were needed, in order to receive something tangible for their almost worthless paper. With no safe unit in which to save, funds were not offered for loan, and interest rates in countries like Germany and Poland mounted to exhorbitant figures, evento from 50 to 100 per cent per annum. High interest rates would be asked to cover the loss of principal caused by the loss in value of currency during the period of the loan. Lack of saving caused deterioration to capital equipment. Repairs were not made, and with improper equipment, production became inefficient, and less goods w ere available for consumption or for exchange for foreign goods. The countries where practically a complete collapse took place have suffered severely. Countries where the extremes were not so great did not suffer quite to the same extent, but since the countries are all more or less inter-related economically, a disturbance in one reacts unfavourably upon the others.

The fact that very much of the hardship and economic disorder in Europe during the war and the succeeding years has been caused directly by collapsing and disordered currencies gave special importance to the problem of re-establishing Europe's currency systems upon a basis of unquestioned strength. The attempts to do this and their relative degrees of success belong rightly to the studies under the interwar period, and

will be dealt with then. Here, it is this student's desire to approach the restorative measures by giving first some national examples of the trend of the economic situation with respect to currency in certain outstanding countries during the immediately following the first World War.

GREAT BRITAIN

The gold standard ceased to exist in Great Britain in August, 1914, although nominally it continued until May, 1917, when the exportation of gold was prohibited by proclamation. This period saw the revival of a Mercantilist commercial policy in Great Britain (and in Europe). The policy of free trade which had existed for the past 80 years gave way to one of protection. During the war, imports and exports were subject to drastic control. In 1915, there was a 33⅓% ad valorem duty on certain luxury items, and in 1919, shortly after the cessation of hostilities, the principle of imperial preference was introduced by granting a rebate of one sixth of existing revenue duties on goods imported into Great Britain from Empire countries.

Inflation was not long in making its appearance. This was largely due to the expansion and increased circulation of currency notes as well as the increased use of bank deposits. Bank credit which was used by the government in its borrowing for war finances was responsible to a considerable degree for the inflation. The increase in currency and credit which took place as a result of public and private borrowing represented new purchasing power which was used to buy goods. This increased power to purchase goods without a corresponding increase in the quantity of goods purchased was thus the immediate cause of the rise in prices.

In the field of international trade, both during and after the

war, Breat Britain developed an unfavourable balance. Imports were exceeding exports on current account because food stuff, as always, was in demand in England, while the manufactured goods, traditionally used to balance the trade movements, were needed for the war. The large excess of imports during and after the war wasfinanced to a considerable extent by borrowing. Great Britain also released claims on foreign countries by the return of their securities, a large percentage of the foreign securities returned being those from the United States. Great Britain also exported gold and silver in payment for foreign goods. The gold went largely to the United States, and the silver to India.

The flight of capital and foreign borrowing during the war greatly weakened the position of Great Britain as a creditor country. This, together with the persistent inflating of the currency, and too the fact that England was a debtor to strong countries and a creditor to weak (during the war, she had loaned large sums of money to her allies) changed radically her financial position from a creditor to a debtor nation.

FRANCE

When the war started in 1914, France, like the other belligerents, was in need of immediate funds. The Bank of France was called upon by the government to supply these funds, which she did by paying out large sums of circulating notes. The government also made arrangements to borrow internally by the issuance of "bons de la défense nationale". These were issued in small denominations, and were of short maturity. Financing by long-term obligations commenced in November, 1915. The subscriptions were paid partly in "bons de la défense nationale" and partly in cash and other items. Other consolidation loans were floated at the rate of about one a year. In addition to domestic borrowing, France

borrowed in foreign countries, notably in Great Britain and in the United States.

It is interesting to note the following technique applied by France in financing the war. In 1916, the government requested holders of securities of neutral countries to lend the securities to the government. The holders received a negociable receipt in return, and, in addition to the regular dividends, were given a bonus of 25 per cent of the income. The foreign securities obtained in this way were used by France as security for loans placed abroad.

Inflation in France commenced at the very outset of the war. This inflation, during and after the war, was both currency and credit inflation. As the Bank of France made advances to the government, and as government securities went to the various banks for discounting, Credit and currency expanded. The use of cheques had never been developed in France, so that the increases in the note circulation was an important part of the inflation in France, the notes being issued largely against government obligations. In one year after the beginning of the war, the circulation outstanding doubled - from about 6,000,000,000 to about 12,000,000,000 francs. In 1920, note circulation amounted to nearly 40,000,000,000 francs, the highest point till 1924.

A new purchasing power was artificially created, not because of need for an increased media of exchange, but to provide the government with additional revenue. At the same time, there was not a corresponding increase in commodities, and therefore, the increase in power to purchase commodities tended to raise prices and depreciate exchange rates.

In the field of foreign trade, France was subject to abnormal

conditions from the beginning of the war. Exports suffered from the first effects of the war, and were necessarily reduced to further the war effort. In order to preserve the national resources, the government was compelled to adopt restrictive measures especially in the case of food and raw materials. Exports dropped while imports were greatly stimulated by the needs of national defense, and eventually the government had to limit foreign claims on France and to cut down on freight charges, etc. by legislative enactment. The State finally became the sole buyer for essential commodities, concentrating supplies in state controlled groups called "comptoirs" or "consortiums".

As a holder of imported merchandise the "consortium" established a common price for domestic and imported goods and then effected a distribution of goods among manufacturers based upon production capacity in such a way as to preserve for each a part, however reduced, of their activity. This program was extremely valuable and provided a solution to the difficulties of war and served as a basis for an economic organization correcting excesses of individualism by the accepted discipline to which members should conform.

The very large imports into France from 1915 to 1921 had to be paid for in foreign currencies. But this situation was not allowed to interfere with the exchange rates which were "pegged", and most imports were financed from abroad. After the close of the war when credits abroad were curtailed, the demand for foreign currencies in France became great, and with the internal value of the franc depreciating, the exchange rates fell rapidly when artificial stabilization was removed.[2]

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[2] See France et al in Inter-War Period.

GERMANY

Immediately after the outbreak of war, the government adopted various financial measures similar to other belligerents. New laws and regulations were instituted to liquify assets. The banking systems fractional reserve was changed by law to meet the need of new currency. The net effect was to place Germany on an inconvertible paper standard. In effect, Germany suspended conversion of notes into gold on July 31st, 1914 because in the week from July 24th to July 31st, the Gold Reserves in percent of notes in circulation fell from 71.8% to 43.1%.

Germany borrowed internally by the issuance of treasury notes and externally by obtaining short-term foreign loans. Germany could only rely on foreign credits to a very limited extent. However, it is estimated that between 1914 and 1918, Germany obtained three to four billion gold marks abroad (especially in Sweden and Switzerland).

Germany, like France, used note currency as a medium of exchange to a much greater extent than cheques, so that the government's borrowing operations manifested themselves in the rapid rise in paper currency in circulation.

Gold itself was encouraged into the central reserves by campaigns among the population. But this stock of gold was frustrated in its uses by the economic blocade; the gold couldn't be used to purchase supplies in neutral countries. Actually, gold did not matter greatly as far as Germany was concerned for prices were related to supply and demand regardless of gold which had ceased to be effective when the fractional reserve was distorted by the increase in paper currency!

Over and above this, in the actual field of war, there was a seizure of German capital at the outbreak and an economic blocade which had a

distrubing effect on the domestic as well as the import and export industries of the country. Outside of the usual economic effects of a country waging war, there is little unusual in Germany during the actual period of hostilities; the interesting and profitable study is in the immediate post-war period which will be dealt with in the next section of this thesis.

AUSTRIA

During early years of the war, the crown held comparatively firm even though large amounts of paper currency had been issued and prices rose rapidly. Yet the note circulation rose to over 30,000,000,000 crowns in 1918 as compared with 2,500,000,000 in 1914. The lag in exchange depreciation was due largely to the vigorous control exercised over exchange rates during the war, and to the fact that the blockade kept down imports and consequently the demand in Austria for foreign exchange. Free commerce in foreign exchange had been abolished in 1916, and a "Divisenzentrabe" (DZ) was formed under the direction of the Austro-Hungarian Bank to receive and apportion foreign exchange resources available. International trade was restricted, money was obtained to make up the budget deficit in the usual manner, including a loan from Germany. Inflation took place, but not in any outstanding degree until after cessation of hostilities, when the League of Nations intervention and stabilization programs in Austria made an exceptionally valuable contribution to economic history, and will be dealt with in the inter-war period.

UNITED STATES

The U. S. A. found that the European war stimulated immensely her economic activity, especially her export industries. The enormous exports were due to two inter-related causes; the war demands in report which received 2/3rds of all American exports in the period, and to the great rise

in export prices. This caused a favourable balance of trade for the U. S. A., and induced an unprecedented drainage of gold from Europe to the U. S. A. Large amounts of American securities held by foreigners were also retired to pay for the excess of imports over exports in foreign countries.

The U. S. A. was divorced from the actual theatre of war, and did not enter into hostilitiesuntil 1917. Combined with her vast resources and favourable economic position, it is easy to see how the U. S. A. emerged from World War I as a creditor nation; the only creditor nation, while England became a debtor. London, the pre-war financial centre of the world was forced to give pride of place to New York, the post-war home of world finance.

CHAPTER II

The Interwar Period - 1919 to 1939

Part I - 1919 - 1929

By the end of the war, much of Europe was in a condition of economic embarrassment and famine. The situation in Central Europe was desperate. There were 100 million people starving who couldn't get food imports because there was a lack of manufactured goods with which to pay for them. Russia, Hungary and Austria were in particularly dire circumstances owing to their inflation and to the inadequacy of their distribution facilities. Norman Angell voiced the opinion of the time by saying:

> Nothing but the restoration of all the economic processes of Europe as a whole can prevent a declining productivity that must render worse the famine and social and political disorder of which we may merely have seen the beginning![1]

Except in the actual fields of conflict, dislocation caused by the war was immensely more serious than the actual destruction. The main trouble was neither the material shortages in natural resources, nor in any inadequacy in man's power to exploit them. It was maladjustment - not an insufficient productive capacity, but a series of impediments to the full utilization of that capacity. Boundaries were altered in Europe, trade between belligerents was only partly restored, and most important, the whole system of banking credit and the organization of the money market on which the financing and movements of goods depend, was suspended, controlled or modified, capital was not readily available, and international loans were complicated by the post-war development of international indebtedness.

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[1] Angell, N. "Economic Chaos in Europe", American Contemporary Review, Vol. 117, pp. 36, 1920.

Previously, countries had loaned large sums of money abroad in the normal course of international trade. Interest returned in the form of imports and new capital going out in the form of exports. Much of these loans were made by private citizens, the proceeds of which were claimed by governments in exchange for various types of war stock. These claims on foreign capital were then sold abroad to pay for imports of munitions and supplies. French and German investments in Russia were lost, and the lenders had to look to their own governments for compensation. External investments of Germany were confiscated, and the proceeds used as a first contribution to reparations and to recompense for the losses of persons who had invested in Germany. The U. S. A. had loaned large sums, especially to the British Government which, together with a British loan, was transferred to the Allies; the loans took the physical form of the supply of munitions and supplies for carrying on the war. At the war's end, there were enormous international debts of Great Britain to the United States, and of France and Italy to Great Britain.

There was an exhaustion of commodity stocks, and so an intense need for imports required to replenish the physical working capital required in order to set the mechanism of production going again. The result of this as well as other factors (reparations, etc.) caused a depreciation of the national currencies on the foreign exchange market (Government inflation due to inadequate taxation, administrative weaknesses, political upheavals, etc. were also influential in tending to depress the exchange). Domestic reconstruction was financed by taxation and/or forced savings. Imports were encouraged in some cases by deliberate devaluation of the national currencies on the foreign exchange market, and financed by foreign loans, gifts or the sale of such gold reserves and

foreign assets as were still available. It may be noted here that the depreciation programs which led to an important inflow of foreign capital were thought to be a temporary phenomenon due to the temporary post-war needs and adjustments, and that these currencies would soon return to their "normal" and "natural" pre-war parities. Thus, the fall induced the purchase of banknotes, deposits and other assets, as well as residential and industrial real estate, brining the balance of payments into something likeequilibrium with each successive fall in the exchange. The relative success of this program would not have been possible had the economic world viewed the depreciation as anything other than temporary.

The stimulus of depreciation had to be continually repeated causing the exchange to decline still lower in order to encourage the necessary capital imports.

As the process went on, however, the stimulus to capital imports rapidly weakened. A return to pre-war parities seemed more and more unlikely. As people began to realize the one way character of the movement, anticipations of further depreciation became a dominant influence on the exchange market. At that point, exchange depreciation lost its power to attract foreign capital. Instead, it set afoot a cumulative process of capital flight. As funds moved out to take refuge abroad, pressure on the exchange market was increased and the rate of depreciation accelerated, which resulted in a further loss of confidence and a further flight of capital. In its effects on the balance of payments, the capital flow became disequilibrating.[2]

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[2] League of Nations. International Currency Experience. 1944, pp. 114.

So the exchange depreciation was an unreliable and unhealthy method of attracting foreign funds, depending to a large extent on speculation. Conditions would have been different if stabilization measures could have been adopted immediately after the war and on an international scale. In this manner, funds could have moved in response to normal interest rate inducements, and reconstruction would have progressed by mutual and interacting action. As it was, eventually one country after another had to adopt drastic measures to stop the decline and stabilize the exchange rate.

An attempt to restore the currency values of the various countries took place between the period 1922 to 1928, and this attempt at stabilization followed the same independent piecemeal fashion that had marked the devaluation programs in the period immediately preceding this. Exchange rates were established as acts of national sovereignty, with little or no regard to the resulting inter-relationship of currency values in comparison with cost and price levels.

The expected return to the gold standard did not take place in the immediate post-war period. This did not occur because of the fluctuations in foreign exchange. This early post-war period was one of an inconvertible paper standard, unstable, and with questionable interrelations of values. Fluctuations were particularly great in 1923 - 1924, and it was at this time that the Purchasing Power Parity theory came into vogue. This theory was not strictly valid for it ignored certain important factors which may influence the exchange rates of currencies. For example, it may be necessary to change the real terms of trade between countries in order to restore a balanced condition in international trade. In this case, the equilibrium rate of exchange will differ from

the parity rate. It ignores capital movements (international borrowing and lending) and capital flights which had accounted for large monetary movements. Changes in tastes and methods of production will also create a difference between the equilibrium and parity rates. Movements of output and employment are also important in judging the validity of parity calculation, for these movements bring with them substantial changes in the demand for imports. In other words, a relative expansion of output in one country alters the equilibrium exchange rate in a way which does not correspond to the movement of prices. The Purchasing Power Parity theory was quite significant, however, in countries where changes in prices were the main factors causing inflation, and it served as a re-establishment basis for a return to the gold standard.

Throughout this period, public opinion had been strongly in favour of the return to an international currency system based on the gold standard, which had been established over a large party of the world by the outbreak of hostilities. On the whole, it had worked very well at that time because there was financial and trading equilibrium between the important countries of the world, and the gold standard checked these departures before they became extreme. Professor Hansen suggests that the successful functioning of the pre-1914 gold standard was -

> greatly facilitated by the circumstance that it operated in a rapidly expanding economy and under the favourable condition of an upward trend in prices. Maladjustments can more easily be corrected in a society which is rapidly reaching out into new areas, developing new resources, creating new industries, and supplying the growing needs of an increasing population.[3]

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[3] See A.H. Hansen, Full Recovery or Stagnation? pp. 210, 212.

Gold mechanism was never put to the test, international disruptions were absent, price-cost structures were in conformity with exchange rates, and international capital movements served to put sufficient reserves at the disposal of those countries in need of it.

After 1914, the system had been impaired, and to a large extent replaced by a vast mechanism of state control directed to the needs of war. Under the stress of war finance, currencies had broken away from their metallic reserves. They had ceased to have any stable relation to each other or, even in a single country to the commodities and services they could purchase, and the world had lost a stable medium of exchange for its transactions. With few exceptions, the alternative paper money standards of the war and early post-war periods were terrible failures.

The outstanding inflations in the post-war period as mentioned above called for a stabilization program of international proportion. The solution was conceived of in terms of gold to be expressed as such and such a fraction of the previous gold content of the national currency. This was necessary as it was quite impossible, for the countries who had passed through a world war and the early post-war inflationary experiences could never hope to have the same gold content of their currencies in terms of the gold content of currencies of other countries. The depletion of European gold stocks and the eventual uneven distribution of the gold ($\frac{1}{2}$ in U. S. A., $\frac{1}{4}$ in England and France) made this quite impossible.

The International Financial Conference held in Brussels in 1920 advocated a return to the gold standard. The International Economic Conference in Genoa in 1922 recommended a gold-exchange standard, whereby nations could redeem their money in the currencies of countries actually

on a gold standard. This seemed a solution to the relatively unequal gold holdings of different countries.

The rate at which the existing depreciated paper money could be made convertible into gold was then the underlying problem. Badly depreciated currencies would require tragic deflation in order to return to the pre-war gold parity. For such countries, a rate could only be established which was a multiple of the pre-war rate. This gold monetary unit then could represent the approximate current value of the existing paper money unit. The important thing was to give prices and exchange rates an opportunity to "settle down to normal equilibrium (or 'purchasing power parity') and then stabilizing at or near that value". The difficulty of finding a solution to the problem of a rate then was in proportion to the amount of depreciation the currency of the country had undergone.

The new gold standard was required to function in a different environment, one that was much less favourable than before the war. War destruction, production maladjustments, redistribution of wealth, international trade restrictions (higher tariffs, quotas, exchange restrictions, currency depreciation) and the burden of inter-allied war debts all served to restrict the automatic functioning of a gold standard. Indeed, it was a precarious equilibrium during these years. Shifts in the balance of payments of a given country might at any time deplete her gold stocks. Most countries that returned to the gold standard did so with inadequate gold reserves which they obtained in large part from borrowing abroad.

The various countries did not return to the gold standard simultaneously, but straggled back according to their own decisions. Germany returned to the gold standard in 1924. She stabilized her

currency by issuing a new mark at 24 cents American which exchanged for 1,000,000,000 depreciated currency. This currency reform had a stabilizing effect on neighbouring countries.[4] Great Britain returned in 1925 at pre-war parity. This was a glaring fault on the part of England who, it seems, should have known better for she had done this before in 1694, with the founding of the Bank of England, and in 1821 in the Period of Restriction. The general effect was a decrease in exports. Britain was simply priced out of many international markets. Widespread unemployment and economic depression followed almost from this sole cause of overvaluing the pound. Eventually in the late 20's, there was forced deflation with tremendous social upheaval. The reasons behind a desire for stabilization at pre-war parity are interesting, and will be developed below. It is sufficient to say here that the increase in domestic costs during the war now handicapped British exports and hindered re-establishment of pre-war markets. The United States also returned to the Gold Standard at pre-war parity; however, inflation had not proceeded nearly as far there as in England. In 1928, France, under the Poincaré government, introduced a balanced budget and other financial reforms and returned to the Gold Standard.

By 1928, all the principal countries of the world were adhering to the Gold Standard, and as a result a stable, though precarious, exchange rate temporarily prevailed. Gold stocks of many countries were meagre and any sudden shift of international payments threatened to strip them of all reserves and force them to devalue their money and depart from the Gold Standard. The international monetary mechanism was called upon to handle several large capital transfers during the interim period. German reparations

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[4]Germany will be dealt with fully under the section - Germany - Interwar Period.

to France and Inter-Ally war debts from France to the United States caused shifts in the balance of payments of the countries concerned and sorely tried their gold reserves.

A balance existed across the Atlantic for a short period, but in 1928 - 1929, there was a sudden termination of foreign long-term lending, especially to European countries, so the foreign exchange machinery began to break down. The whole mechanism of international trade and investment had been functioning temporarily upon the strength of American lending. The United States was financing reparations, war debts and her own export balance. In fact, everything depended on American investors purchasing foreign security issues. The haphazard return to the Gold Standard was facilitating this next general breakdown. In general, the demands of international trade coupled with internal loss of confidence in many countries forced individual countries off the Gold Standard.

The individual countries' following of their own often misconceived and short-sighted ideas of a national credit policy instead of following the rules of the gold standard game forced the nations of the world to pull away from one another and to strain the unifying mechanism to the breaking point.

FRANCE

After the Armistice in 1918, prices in France declined, but from the middle of 1919 to the spring of 1920 experienced a spectacular rise. The period following the close of the war gave opportunities for large profits, due to the intense demand in all parts of the world for articles which the close of the war permitted to become available and due also to the general optimism in regard to a quick recovery of trade and business. The need

for economy and readjustment was not generally appreciated, but instead the temporary prosperity and boom led to over-expansion and inflated market values. This period of boom and rapidly increasing inflation came to an abrupt end in 1920. Soon the severe depression was brining losses and unemployment to many individuals. The depression and fall in prices were part of a similar movement throughout the world.

The demand for foreign currencies and the depreciation of the internal purchasing power of the franc caused a drop from March 1919 from the rate of about 18 cents to the franc, when the franc was "unpegged" to less than 6 cents to the franc in April, 1920. There was a slight improvement in the middle of 1920 caused largely by buyers and speculators who thought the franc value in exchange rates, commodity prices and security prices had reached its base and were buying. However, this improvement was only temporary and by the end of the year the rates were down to new lows. - 2.47 cents in 1926.

GERMANY

Infinitely more difficult than the financing of the war was the financing of the post-war period for the inflationary effect of increased currency did not become influential until after the Great War. Defeat, demobilization and reparations had left their impression on the general economic position of the country. Throughout the war, Germany had been printing paper notes and because of this and other abuses of her currency system, it is amazing to consider how orderly the inflation had proceeded until 1922. But in the summer of 1922, the internal depreciation of the mark, as expressed in terms of the price index, proceeded at a rate so swift that it overtook the rate of external depreciation, as indicated in the fall of exchange rates. Both in August and in October, 1922, prices doubled.

In January and in February, 1923, prices again doubled. From then until November, 1923, German Government finance, the Reichbank returns, and price indices gradually approached a state of bewildering chaos where one pre-war Rentenmark was exchangeable for 1,000,000,000,000 post-war paper marks.

The hyper-inflation of the mark (1920 - 1923) gravely shook the social structure of Germany and dispossessed the lower middle class from which Adolf Hitler was to recruit his earliest and most ardent followers to National Socialism.

UNITED STATES

The United States of America emerged from the First World War as a creditor nation. The war had created shifts in the structure of international debt. Germany, before the war a creditor country, became a debtor nation as a result of reparations and the loss of foreign assets. The U. S. at the same time was transformed from a debtor country into a great creditor nation as a result of war loans, private investments and debt repatriation during the war.[5] Before the entrance of the U. S. in the war in 1917, U. S. nationals sold to Europe huge amounts of civilian and military supplies which were paid for mostly by U. S. securities previously held abroad. Civilian and military supplies were continued following U. S. entrance in the conflict, based on credits extended by the American Treasury. Beginning soon after the Armistice and reaching a peak in 1928, American nationals loaned to, or invested in, foreign countries a sum which at the

[5] London which had been the undisputed financial centre before the First World War was forced to give way to New York, the most important financial centre in the inter-war period (though not holding the place of eminence London had held due to other competitive financial centres throughout the world.)

peak approached the equivalent of seventeen billion dollars. This export of capital was the result of new issues of dollar bonds of foreign governments floated by American bankers and sold in U. S. American nationals also embarqued on purchases of pre-existing foreign securities, partly of governments and partly of private enterprises. Then, too, there was direct investment abroad, including the purchase of enterprises and properties and the erection of subsidiary plants. The U. S. delivered to the ex-allies, to the ex-enemies and to new European states huge amounts of civilian supplies and reconstruction equipment on inter-governmental loans from the American Treasury.

Unfortunately, the U. S. rate of foreign lending in the 20's exceeded the rate of growth of production and trade in the borrowing countries, thus acquiring more foreign debt than domestic production could repay. An abnormally large proportion was placed in dollar bonds of weak governments for the purpose of more or less unwise expenditures. These very unwise expenditures in foreign loans, etc. had inevitable repercussions. American investments of all kinds began contracting through default, liquidation, refunding and repatriation. Further foreign lending seemed the only answer in order to salvage some of the old investments, to secure customers and to raise the price level; but financiers were unwilling to do this because of the risk involved.

The crash in 1929, and the subsequent depression was taking place at this time.

<u>The Crash</u>

At the peak of activity in 1929, there was great activity in short-term capital movements. At this time, short term balances in all countries were at their peak and had been estimated as equivalent to ten

billion dollars![6] These balances had no relation to the movement of goods. They were used for speculation, for flight of capital as implements of monetary policy, to protect gold reserves, to supplant gold reserves to cover long-term interest and to settle trade differences which arose through abnormal price differences and the inability to transfer gold. One can imagine the state of affairs in international finance when to some extent, a bank in one country would borrow short-term from another country and to relend short-term, or even long-term into a third country.

AUSTRIA

The fall of the crown in the first few months after the Armistice was caused greatly by the fear of Bolshevistic aggression. Capital sought safety in flight. Much of the further depreciation had its basis in lack of confidence of the people in their currency. There was a depreciation during the latter part of 1919 caused by the publication of the text of the Peace Treaty of St. Germain. There was limited stabilization at the end of the year due to relief credits, by which food imports were financed and to the extraordinary revenue derived from the war profit taxes which yielded more than 40 per cent of all the State receipts. But these sources soon dried up and the food and coal supply situation then became desperate. Refusal of further credits from the League of Nations caused a rise from 135 cr. in December to 271 cr. at the end of January, 1920.[7] Confidence in the Reparations Commission scheme for reconstruction caused a strengthening of the crown for a short period in May. Trade increased with Western Europe

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[6] A. E. Taylor: The New Deal and Foreign Trade

[7] All quotations are in terms of Austrian crowns to one American dollar. 1914 pre-war exchange rate was 4 cr.= $1.00

and with this increase in imports, there was an uninterrupted demand for foreign exchange. During first half year of 1921, the crown remained fairly stable, fluctuating between 550 and 750 to the dollar.

Lack of specific accomplishments by the Financial Committee of the League of Nations caused public opinion again to lapse into anxiety. In July, 1921, the rate had risen to 958 crowns. In the fall, the Minister of Finance, Dr. Grimm, travelled to Paris and London vaining trying to obtain credits. At the end of November the dollar was quoted at 8,520 cr. In effective measures taken by the new Minister of Finance, Dr. Guitter, against profiteers and speculators in foreign exchange sent the rate up to 10,000 in January, 1922. When a proposed loan from France and Italy failed to materialize and the British credit had been dissipated without any lasting advantage being taken a new wave of pessimism swept over the country. In the middle of July, new restrictions on the traffic in foreign exchange came into operation. Offers for foreign exchange were no longer forthcoming; from 32,950 cr. on July, 25th, the dollar soared up to 83,600 on August 25th. The crisis had reached its maximum. From the rate of 4.95 crowns to the dollar in 1914, the currency had depreciated to 83,600.00 crowns to the dollar in 1922.[8]

Meanwhile, the gravity of the situation had made some impression abroad. It was realized that swift intervention was necessary if chaos in Austria, with a war in Central Europe as a possible consequence, was to be avoided. A new scheme was devised by the League of Nations at Geneva in October, 1922. It was agreed that Austria must obtain a foreign loan in order to stop inflation, to cover the deficit until such time as the

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[8] During some of the period, foreign currency was circulating in consumers' hands rather than Austrian crowns.

budget could be balanced, and to stabilize the exchange rates. However, this private capital would not be forthcoming unless quite exceptional securities were offered.

The new scheme was embodied in three protocols. All political difficulties were limited by the assurance by Great Britain, France, Italy and Czechoslovakia of the political and economic independence and territorial integrity of Austria. The credit of Austria was reinforced by the promise of the above mentioned countries to guarantee a portion of an Austrian loan of 650 million gold crowns. A customs and a tobacco monopoly were all the assets Austria could pledge and these were insufficient to attract foreign capital. In the third protocol, the Austrian government pledged itself to take all measures to put the State finances in order, to submit a program of reforms to parliament and to obtain extraordinary powers to carry them out, to cease borrowing from the bank of issue and to create a new and independent bank of issue.

As if by magic, the whole situation was transformed. On August 25th, the rates of foreign exchange had touched their highest point. In the next few days, they declined a few points, and the Government succeeded in stabilizing the crown.

The impression which these events made on the Austrian people was considerable. People hardly dared believe salvation had arrived as so many schemes had been launched in vain. A number of internal adjustments were then made in keeping with the third protocol. Short-term loans were also offered to the public, as well as a guaranteed short-term loan being offered to six different countries. The subscriptions were magnificent successes.

Two facts stand out - first, the exchange rates remained stable,

which allowed the economic life of the country to be reconstructed; secondly, the State deficit was wiped out within a year, and waste and abuses were abolished.

Confidence returned slowly, but was constantly gathering force. Just as Austria was being ruined by lack of confidence, she revived once she had regained confidence in herself.

"Confidence, confidence, confidence was the magic power which made everything possible which before had been impossible." [9]

Part II - 1930 - 1939

The 1930's were characterized by the appearance of devices to stimulate economic recovery by the development of export industries. The depreciation of currency, in an effort to improve balance of payments, the use of exchange equialization funds as an artificial stimulant to the purchase or sale of effected currency and other currency devices (which will be dealt with in turn) were all means to this end.

An epidemic of exchange depreciation started in early 1930 in agricultural countries such as Australia, New Zealand, the Argentine, Brazil and Peru. This was not abnormal but rather the usual reaction of agricultural countries to cyclical depressions, which tended to upset their balance of payments through the fall in prices of crude products and through the cessation or even reversal of capital imports.

A more unusual event - an event that marked the collapse of the post-war gold standard - was the suspension of gold payments by the Bank of England and the subsequent fall of the sterling exchange. This was because the level at which the pound was fixed in 1925 proved to be "overvalued". The undervaluation of the French franc and after 1929, the violent deflation of prices and incomes in the United States proved

9 J. Van Walre de Bordes. The Austrian Crown, pp.32

too much for the overvalued British pound. The decline of sterling after the suspension of gold payments in September, 1931, removed the overvaluation. But the extent of the depreciation was determined by abnormal capital movements and bore no relation to the equilibrium of the normal balance of payments. The depreciation went beyond what was needed to remove the overvaluation.

Unlike sterling, the U. S. dollar was devalued not under the pressure of external forces, but in a deliberate attempt to relieve the desperate financial and economic conditions in which the new administration assumed office in March, 1933. However, though the causes and motives may have been different in the two cases, the use made of devaluation with a view to promoting recovery in national income and employment was similar. Efforts made previously to expand the credit base by open market operations had been neutralized by internal as well as external losses of gold. This was viewed with concern and an embargo was placed on gold exports on April 20th, 1933 as a means of rendering internal credit expansion effective.[10] This occasioned very little recovery in employment, production and national income.

The suspension of the gold standard in the United Kingdom and the dollar devaluation in the United States both led to exchange depreciation in a large group of countries most of which were pegged either to the sterling or the dollar.

Two small countries devalued independently - Czechoslovakia in February, 1934, who chose her rate of devaluation (16%) simply with a view to removing the existing disparity between domestic and foreign costs

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[10] Rogers, J. H. The Lessons of Monetary Experience (ed. by A. D. Gayer. New York: Farrar and Rinehart, Inc., 1937)

and prices; and Belgium in March, 1935 who chose a rate (28%) designed to leave a margin for an expansion of domestic demand and industrial activity.[11]

The devaluation cycle of the 30's must be viewed within the general cycle of prosperity and depression. Devaluation was felt to be necessary and was used chiefly as a means to obtain freedom of national action in combatting depression, in maintaining or reviving aggregate demand and employment at home. Unfortunately monetary expansion was unco-ordinated in time as well as degree. There was a complete lack of agreement, within as well as between countries, as to what should be done to combat the depression. The bewildering diversity of views expressed by various obligations at the London Monetary Conference in 1933 was a striking demonstration of this lack of common ground.

Under the Tripartite Agreement of September - October, 1936, a compromise was reached whereby the Exchange Funds of countries with fixed and flexible gold prices could have access to each others' markets and could co-operate in the management of gold shipments in both directions. The prices governing official transactions in the countries with flexible gold prices were held stable for a period of time (twenty-four hours), long enough to enable the authorities of countries with fixed gold prices to complete the conversion operation without risk. The importance of this agreement was in the antecedent understandings concerning the exchange rates on which the gold prices were based and its effect was to allow the various Exchange Funds, Central Banks and Treasuries to operate an international gold settlement system that was an amalgamation of conflicting techniques and principles.

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[11] League of Nations, International Currency Experience, p. 128

The "Tripartite Agreement" came into being when the cycle of devaluations was completed. Though it did not provide for co-ordination of domestic policies (a serious omission if stable exchange rates were to be useful) monetary expansion was in fact under way in all the three principal countries concerned (France, Britain, U. S. A.). The immediate object was to prevent a re-opening of the devaluation cycle. In spite of the "24-hour" clause mentioned above, the agreement did seem to imply a recognition of the value of exchange stability, or a recognition at least of the fact that exchange variations are not solely a matter for national sovereign action.

Exchange Stabilization Funds

An Exchange Stabilization Fund is a collection of assets (large sums of domestic currency for the purchase and sale of foreign bills) segregated under a central control for the purpose of intervention in the exchange market to prevent undesirable fluctuations in exchange rates. During the seven years preceding the outbreak of war in 1939, the most active Exchange Funds were developed as instruments for administering an international gold settlement system which was the successor in a large part of the world of the international gold standard system. This development in time was the product of a compromise between the principle of adaptation to the requirements of membership in a world monetary system. This compromise was begun by the use of open market operations as the major instrument of credit control and the disregard by central banks of international gold movements as guides to credit policy. It was carried further by the device of exchange stabilization funds.

The British Exchange Equalization Account was designed as were

other Exchange Accounts, to iron out undue fluctuations in the exchanges caused by erratic movements of capital and the disturbing activities of speculators. The objective was even extended to include combatting seasonal exchange fluctuations. In practice, however, it proved impossible to confine the effects of the Exchange Fund activity within such limits.

In view of the inevitable international reactions of the manner in which the Exchange Funds of Great Powers were operated, proposals were made in the preliminary discussions of the World Economic Conference in London, in the summer of 1933, for co-operation between Exchange Funds. No effect was given to these suggestions, and when an American Stabilization Fund was established in April, 1934, its dominant purpose was retaliatory. The aim of the American Fund, like that of the British Fund was to promote greater exchange stability. The smoothing out of "undue" fluctuations due to temporary causes was indeed an important objective, but it was subordinate to the "defence" of the dollar against any general movement in other major currencies, sterling in particular, to levels that were not satisfactory to the United States. The defence of the dollar was conceived of primarily as a defence against competitive exchange depreciation, and the American Stabilization Fund was established as an instrument for preventing the dollar from rising in value in terms of other currencies.

Exchange Funds were developed not to replace but to supplement the traditional system under which central banks and treasuries bought and sold gold at a fixed price. The willingness of the American Treasury to buy gold at a fixed price, and to sell it at a fixed price under certain conditions, was the major factor in American intervention to control the exchanges. The American Stabilization Fund did, however, perform certain

important functions even as a subordinate administrative agency of the Treasury, such as the purchase and sale of gold abroad, the holding of gold abroad under earmark, intervention in the exchange market to combat speculators, and the giving of technical assistance in the transfer of large gold shipments.

The Exchange Stabilization Funds, with the outbreak of World War II, became merged in the general machinery of war finance and in their proper field were replaced by various measures of exchange control. Like all pieces of machinery, they were and never can be more than a means to achieve certain ends in the field of international finance and foreign exchange. During this period of the hectic 30's, the Exchange Equalization Funds were not the all inclusive cure it was thought to be, and as a result countries began to adopt more direct (quantitative) methods, a system of Exchange Controls.

Exchange Controls.

The original object of exchange control in the early 30's was to curb an outflow of capital.[12] Certain countries, however, including Hungary, Greece and Bulgaria appear to have suffered no capital outflow in the year in which they adopted exchange control (1931) and it seems that the chief original motive in these cases was to collect exchange for the government's foreign debt service. But in at least seven countries (Argentine, Austria, Czechoslovakia, Denmark, Estonia, Germany and Latvia) the fall in central gold and foreign-exchange reserves in 1931, which lead to the imposition of control in that year, was far greater than any current deficit in the balance of payments and was obviously very largely due to capital outflows.

In the early 30's, a great many countries practised both exchange

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[12] Note: Exchange Control is only necessary when currency is overvalued.

control and exchange depreciation from the outset. Thus, most of the Latin-American republics whose currencies depreciated in 1929 and 1930 adopted exchange restrictions in 1931 or 1932. In Europe, a number of countries practising exchange control at the end of 1931, including Denmark, Estonia, Greece and Portugal, had already depreciated their currencies or were to depreciate them shortly afterwards.

In these conditions, to a great number of countries in the 30's, exchange control seemed the only solution. It meant that all exchange transaction had to be centralized, so that applications for foreign exchange could be officially examined and, if found to involve a capital transfer, rejected.

It was lack of confidence that made exchange control necessary for the prevention of abnormal capital exports. But experience has shown that the introduction of control itself has tended to upset confidence further, increasing the urge to export capital and making it necessary to tighten the control and to scrutinize even commercial transactions more closely. The process is thus self-aggravating. However, once the control has passed its most rigorous stage and has begun to be relaxed, the result was a revival of confidence making possible a further loosening of the restrictions. It was in this manner that exchange controls were progressively alleviated in respect of foreign trade and practically confined to capital transactions in such countries as Austria, Estonia and Portugal after 1933 and 1934. By that time, the current balance of payments of these countries had been brought to a sounder condition through adjustments in exchange rates accomplished under the cover of exchange control.

In the Latin-American exchange-control countries, currency depreciation was, on the whole, greater than anywhere else. In Europe

also, there were a number of controlled currencies which were allowed to depreciate from the outset. But in the great majority of European exchange-control countries, the control came to be used as a means of protecting the old currency parities. These countries came to form an area of overvalued currencies extending over most parts of Central and South-eastern Europe.

The overvaluation existed in relation to the outside world. Within the area, disparities between individual currencies were less marked and, while trade with the outside world declined, there arose in consequence a tendency for trade to expand inside that area though as time went on it was more and more Germany's planned trade campaign rather than any "automatic" influence of currency relations that was responsible for this development.

The controlled currencies adhering to the old parities were not the only overvalued currencies. Those in the gold bloc prior to September, 1936, were in the same condition. Any currency parity, however greatly overvalued, can be maintained if imports are cut down to the appropriate extent corresponding to the decline in the competitive capacity of exports. In the exchange-control countries, the cut in imports was effected through exchange control. In the gold bloc countries, it was effected mainly by the quota system, even though in view of their large gold reserves, there was less need for these countries to avoid deficits in the current balance of payments. It was, therefore, the maintenance of overvalued currency parities rather than exchange control as such that was responsible for the contraction in trade.

In the pre-war-sterling area, a general depreciation occurred

between June, 1938 and September, 1939, largely in terms of the British currency. Reasons for this exchange movement may include a flight of capital in the face of which the British authorities may have decided to relax the efforts at stabilization which they had been making through their Exchange Equalization Account. The depression in the United States was also partly responsible for the depreciation of sterling. During the early period of exchange control, a free market in pounds sterling developed at rates considerably below the official rate, but by the end of 1940, the free rate was approximately the same as the official rate, and both the free rate and the official remained stabilized throughout the war years at $4.03 to the pound, the same rate accepted for the United Kingdom by the International Monetary Fund after the war.

Exchange-control countries adjusted their exchange rates towards the equilibrium level in a variety of forms. Open and outright devaluation was one method. Another was that of permitting exporters to sell the whole or a part of their exchange proceeds freely, or of legalizing a pre-existing black market where exporters evading the obligation to deliver their foreign exchange to the control sold it at a premium to importers and others whose demand was not met from official sources.

The extension of free-market transactions as a method of exchange adjustment had the advantage of allowing the "correct" rate to be gauged as a result of the free operation of demand and supply.

In Germany, the differential export subsidies introduced in May, 1935,[13] and the limited exchange depreciation permitted in certain bilateral

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[13] The subsidies were differentiated according to the elasticity of foreign demand.

channels of trade were quite insufficient to offset the overvaluation of the mark. Though this parity was economically unsound, the German authorities had very solid reasons for maintaining the reichmark parity by means of exchange control. Overvaluation, combined with bilateral clearings and other devices was an instrument of national policy, useful for economic penetration in certain areas and useful especially for stimulating the importation of vital commodities needed for war preparations.

Undoubtedly the experience of the 30's tended greatly to discredit the system of exchange control. It has been blamed with the policy of war preparations and national expansion pursued by Germany. It was also accused of playing a disastrous part in strangling international trade. In the first case, exchange control was a mere tool, and as such may serve various purposes. In the second case, it must be admitted that the administrative burden of exchange control certainly increases the cost of trading. But in the cases where exchange control was used to maintain currencies above their equilibrium level, it was the overvaluation rather than the exchange control that was responsible for the contraction in trade.

The volume of trade varies among countries not according to the existence or non-existence of exchange control, but rather according to the currency's external value.

Capital flight, withdrawals of foreign credits and deficits in the current balance of payments resulting from overvaluation combined in varying degrees to drain away the international currency reserves of many of the countries which resorted to exchange control in the 30's. In

consequence, these countries sought tomaintain their trade by what was essentially a form of barter, namely, the reciprocal offsetting of transactions between individual pairs of countries without the medium of international currency. The Bilateral clearing agreement was the typical instrument of bilateralism under exchange control. The highly objectionable policy commonly associated with exchange control was not due to exchange control as such, but to certain underlying conditions, some of which were monetary (overvaluation, lack of international currency, etc.) while others were not strictly monetary (e.g. the search for export markets to reduce unemployment at home) or not even economic.

Exchange control was also used to attempt to improve a country's terms of trade at the expense of other countries. It also enables a country to pursue an independent policy of preventing depression or promoting recovery from depression. However, a country adopting this policy would be deliberately sacrificing some of the potential benefits of international division of labour in return for fuller employment at home. The actual need for exchange control could be avoided by a "cyclical equalization policy" covering temporary deficits in the balance of payments by temporary shifts of international currency reserves or international credits. Such an organization eventually came into being at Bretton Woods in 1944 with the formation of an International Monetary Fund,[14] serving along with its companion organization, the International Bank for Reconstruction, as an alternative to exchange controls and for the purpose of covering discrepancies on account of trade, services and

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[14] Dealt with in detail later in this thesis.

productive investment.

The chaos in international monetary relations during the inter-war period was due to the First World War and to the complete absence of any co-ordinated international effort to solve the monetary problems of its aftermath. This failure in turn resulted from the nationalist and isolationist attitudes then existing throughout the world.

The inter-war period was characterized by violent changes in the purchasing power of most of the world's currencies. All the countries of the world went through periods of inflation and deflation at different times and in differentdegrees; so much so that international exchange stabilization was impossible.

The overvaluation of the pound in Great Britain has been dealt with elsewhere in this thesis, so will not be elaborated upon here. Her eventual depreciation of the pound gave her an artificial advantage and relatively prosperous conditions, though partly at the expense of other countries. Before her depreciation her insistence on the old pre-war sterling-dollar exchange put her unnecessarily into a difficult and dangerous position. England's gold parity put her export industries at an artificial disadvantage at a time when the exporttrade was in a most embarrassing position, owing to the disruption of her foreign markets and other structural changes as a result of the war.

Germany had introduced foreign exchange control which she soon used as an instrument of economic warfare.

The United States had devalued the dollar in order to increase the domestic price level, but was unsuccessful. She only succeeded in exporting her unemployment and in stimulating the flow of the world's gold to the United States.

An international credit crisis took place in 1931 caused by what Cordell Hull called "reckless international borrowing and lending".[15] It was reckless because of inconsistent economic policies in both debtor and creditor countries. The only way many debtor countries could pay was on the condition that creditor countries would accept commodities and services. The main creditor countries used protectionist devices to prevent this commodity payment of short-term loans. This was one of the most glaring inconsistencies of the inter-war period. By failing to act consistently, the creditor countries drove the debtor countries into deflation, devaluation, and exchange control.

Exchange controls and bilateral agreements made their appearance in the inter-war period; both with the accompanying restrictive effects. Exchange control was in effect a price ceiling which did not permit equilibrium of demand and supply as determined by the free forces of trade. The monetary disintegration caused by bilateral agreements tended to eliminate the advantages of multilateral trade so that international trade tended to shrink to the level of comparative advantages as between only two countries.

Principles of sound international investment were not heeded during the inter-war period. Foreign funds were borrowed for purposes of dubious productivity, sometimes at exhorbitant risk premiums. The transfer problem was equally ignored in the borrowing and in the lending countries and the latter excluded, through increasing tariffs, the very payments on which they insisted. Short-term credits were used for long-term investment and reparations were transferred through the medium of commercial credits. The whole international credit system disintegrated finally causing deflation, unemployment, increasing protectionism, and exchange control.[16]

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[15] See The Committee on Ways and Means, January 11, 1940. New York Times, January 12, 1940.

[16] Halm, G. N. International Monetary Cooperation Chapel Hill: The University of North Carolina Press, 1945.

CHAPTER III

The Second World War

An evaluation of the movements of currency values during the second war period can be facilitated by a simple but not exhaustive division into three groups of the countries concerned.[1]

(1) the countries occupied by the German Army,

(2) the countries in the British Commonwealth of Nations, and other countries such as Sweden and Argentine which followed a policy before the war of stabilizing the value of their currencies in terms of pound sterling,

(3) the Latin-American countries, exclusive of Argentina.

The countries occupied by Germany, Belgium, Czechoslovakia, Denmark, France, the Netherlands and Norway were cut off from the dollar and sterling markets during most of the war years. In several instances, the post-war exchange rates of these countries, therefore, represented a more or less complete break with the past. When the period of occupation ended, there were no customary or accepted rates which could be used as a guide to the new dollar and sterling rates for these currencies. As a result of German expenditures in the occupied countries, prices and costs in most of them had risen during the war more than they rose in the United States or the United Kingdom, and largely, for this reason, the rates at which the former occupied countries began doing business in dollars and pounds sterling were usually well below pre-war rates.

In the sterling area, Canada, United Kingdom, Sweden and Argentina, as in the case of the occupied countries, the inflexible

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[1] Metzler, L. A. "Exchange Rates and the International Monetary Fund" Postwar Economic Studies, No. 7, Sept. 1947, pp. 7 - 14.

exchange rates of the early post-war period contrast sharply with the exchange fluctuations of the years prior to 1940. It should be noticed here that the general depreciation which occurred between June, 1938, and September, 1939, was a most striking feature of exchange movements in the pre-war sterling area. This depreciation was largely caused by the depreciation of the pound. As with the countries occupied by Germany, the flight of capital was undoubtedly a contributing factor. With the outbreak of war in September, 1939, extensive exchange controls were introduced, and the pound sterling was depreciated sharply by the control authorities from more than $4.60 to $4.03. The Canadian dollar remained close to parity with the U. S. dollar until this time when the United Kingdom depreciated her currency. Canada then followed part way by depreciating its currency about 10 per cent relative to the American dollar. Between, June, 1938 and March, 1940, the decline in dollar prices of the currencies of Australia, India, New Zealand, the Union of South Africa and the United Kingdom was approximately 18.5 per cent whereas the decline in the price of the Canadian currency in the same period (based upon the official rate in 1940) was less than 10 per cent. As in the case of the pound sterling,the depreciated rateswere subsequently maintained throughout the war years by means of exchange controls.

The movements of Latin-American exchange rates are extremely difficult to describe because of the multipe currency systems which prevail in many of these countries. The multiple exchange system had its origin in the Great Depression of the 30's, when the rapid and pronounced decline in raw material and agricultural prices created serious balance of payments problems for the Latin-American exporters of such products. Depreciation, it was felt, would not solve the problem, as their export s

consisted largely of products for which the demand was relatively unresponsive to changes in prices, in which case price concessions would reduce rather than increase the amount of foreign exchange accruing to the Latin-American countries.

The situation was further complicated, in many countries, by the fact that substantial amounts of foreign exchange were required by governments to make payments on foreign debts denominated in foreign currencies. Currency depreciation, in such cases, would not have reduced the demand for foreign exchange, but would merely have increased the price which the Latin-American countries had to pay in their own currencies to service their foreign obligations. While this budgetary problem was essentially an internal one, there is nevertheless considerable evidence that it played an important part in the decision of some countries to adopt measures other than currency depreciation when confronted with deficits in their balances of payments.

In the end, the balance of payments problems were temporarily solved by a widespread adoption of exchange controls. Foreign exchange acquired by exporters had to be sold to a central authority, at fixed prices, and importers, in turn, purchased their needed exchange at rates prescribed by the central authority. Thus having become monopolists in their foreign exchange markets, the governments of many of the Latin-American countries found it profitable or desirable to set up schedules of varying rates for the purchase and sale of foreign currencies. Certain features of these multilateral exchange systems were common to most Latin-American countries. Preferential treatment was accorded to governmental agencies which needed exchange to service their foreign

Favourable prices were also accorded to importers of commodities which were regarded as necessities, with correspondingly more expensive rates established for luxury imports. Also in the case of the purchase of foreign exchange from exporters; high prices were paid for foreign exchange arising from the export of products which the government wished to encourage, and somewhat lower prices were paid for exchange arising from other exports. Thus, in effect, the Latin-American governments frequently depreciated their currencies for some purposes, such as luxury imports and certain classes of exports, but left the rates at the old levels for other purposes, such as government debt service and the import of certain necessary items.

The period between 1938 and 1940 was thus a period of fluctuating exchange rates, the general tendency being a reduction in currency values relative to the dollar. In most countries, these currency fluctuations were finally stopped after the outbreak of war, by the introduction of exchange controls, and thereafter the pattern of exchange rates was relatively stable throughout the war years. The foreign exchange market was noted by its extreme rigidity with little or no monetary or commercial development. All countries entered into foreign exchange control programmes and maintained this pattern throughout the war period. Ordinary commercial trade was relatively unimportant, and was in every way subject to the demands of allied and enemy war requirements.

Dollar Finance in England 1939-45

The task of organization of war finance in England fell on the Overseas Finance and Exchange Control Departments of the Treasury, and the corresponding departments of the Bank of England. Their plans came

into effect with the Defence Finance Regulations of August, 1939, providing for the registration and later gathering in of all gold, dollars and dollar investments. An export drive was pressed forward even in the early days of the war, when England was fighting alone in order to solve the wartime dollar problems then; but in the main it was the drawing on reserves of investments, gold and dollars, reserves which were to be desperately needed in the post-war days to meet the series of gigantic problems, largely created from the war.

In 1940 the deficiency in the balance of payments with the United States was covered by the drawing of gold and dollars when needed, and to supplement this the selling of government securities was started. In the early days, in order to prevent "dumping", selling was graduated to the changing appetite of the Market and cloaked in secrecy. Another source of dollars was the increased export programme entered into in spite of the need for all out war production. Dollars were vital, obviously. Meanwhile, the bulk of Britain's food supplies were being drawn from soft currency countries, while the dollars were being kept for those weapons of war which the United States alone could supply. This ended with the collapse of France, when Europe as a source of food was lost. And the shortage of shipping limited drastically the amounts which could be brought from Australia, New Zealand and the Argentine.[2]

By the end of 1940 England was nearing the end of her dollar resources, and attention now became focussed on direct investments. To part with these at any price was an even greater sacrifice than the surrender of more liquid reserves. Besides, the sale itself could not

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[2] For a facinating account of England's shipping difficulties during the war, read W. S. Churchill's The Second World War (Book I "The Gathering Storm", pp. 332-5, 392, 413, 446-7, 569

possibly realize the full value of the business to its British owners.

On March 11, 1941 the Lend-Lease Agreement with United States became law. Broadly speaking, this only applied to future requirements, and in the meantime the selling of securities was pressed on to the limit of the market's appetite. The state of British finances at this time was utterly critical, and during April, 1941 net gold and dollar reserves had all but vanished at $12 million. Fortunately, means appeared to stop the Clearance Sale of British securities in depressed markets. The American government legislated for loans to foreign governments adequately secured by collateral, and England borrowed $425 million dollars secured by marketable securities, direct investments, insurance companies and the income of insurance branches. This arrangement enabled England to finance dollar needs until Lend-Lease had taken up the slack, and some sort of precarious equilibrium had been achieved.

From the end of 1941 the position slowly improved, although never to former levels. Lend-Lease was to some extent offset in due course by Reciprocal Aid which, under American pressure, was in 1943 extended to British Colonial raw materials previously earning dollars for Great Britain. Also from the end of 1943, Britain received substantial amounts of American dollars from out-of-pocket spending by American troops throughout the Sterling Area. This spending, together with convertibility of sterling for gold in South Africa, helped to stop the flow of dollars away from Great Britain. The net change in reserves of American dollars rose from 395 million at the end of 1941 to 1,710 million at the end of 1944,[3] at which time the reduced scope of Lend-Lease came fully into play, and the

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[3] D. F. McCurrach, "Britain's U. S. Dollar Problems 1939 - 45", The Economic Journal, Sept 1948, pp. 364

position became more or less stabilized. At the end of hostilities, a very considerable achievement was accomplished when, within the following four months, a settlement of all financial claims arising out of Lend-Lease or Reciprocal Aid or otherwise, between the two Governments during the war, was made.

The absolute dollar cost of the war to England was $9,000 million. It is interesting to note that this would have financed sixteen years of imports from the United States at the 1938 level, even if there had been no exports or any other dollar income. The difficulties then of Britain's U.S. dollar problems during the war period were handled with a mixture of luck and good management; but served only to lead to further dollar problems dealt with later in this thesis.

Canada

With the outbreak of the second World War, Canada realized that the expansion of her war economy would increase the demand for her limited supply of U.S. dollars. In order to ration out her available supply of these dollars, the Foreign Exchange Control Board began to operate (it had been organized and planned previously), setting up fixed rates of exchange between the Canadian dollar and other currencies. Restrictions on capital transactions prevented any appreciable attempt to liquidate and convert investments by non-residence holders, which would have had a disastrous effect upon Canadian reserves of United States dollars. Restrictions were also placed on current transactions in order to prevent the expanding Canadian national income from stimulating undesirably the import of relatively non-essential consumers' goods, and to encourage an expansion of their domestic production. A further objective of exchange control was the elimination of the disturbing fluctuations of

a "free" exchange rate, fluctuations which the currency experience of the nineteen-thirties had frequently shown to be of a disequilibrating character. It is of special interest to consider the administrative control exercised by the Foreign Exchange Control Board, because it represented the outstanding instance of direct intervention in wartime monetary affairs.

Concerning Canada's relations with the sterling area, transactions could be effected either in Canadian dollars or in sterling, and no restrictions were placed upon payments to the sterling area in either currency. While the actual financing of the United Kingdom's Canadian dollar deficit involved a variety of techniques, among the most important were the repatriation of Canadian securities held in the United Kingdom, the accumulation of sterling balances in London, which were later converted into an interest-free loan, and the appropriation of funds under the terms of the War Appropriation (United Nations Mutual Aid) Acts. The immediate financial burden of each of these techniques fell upon the Canadian taxpayer.

Despite early attempts to increase Canadian exports to the United States, and to encourage increased United States investment in Canada, and despite severe restrictions upon the non-essential uses of United States dollars by Canadian citizens, Canada's exchange position vis-a-vis the United States became increasingly serious. Canada's supply of excess sterling was no longer convertible into United States dollars, for with the beginning of the war Britain had been forced to suspend convertibility, thus closing Canada's traditional method of balancing payments; of using her surplus in sterling to pay for a deficit in United States dollars. By 1941 the increased seriousness of the situation was effectively eased

only with the completion of the Hyde Park Agreement in April of that year. In this agreement United States undertook to buy more from Canada, and the two countries agreed to work closer for the furthering of the allied war effort. From that date until the end ofthe war, Canada's holdings of gold and United States dollars steadily rose, exceeding $1.5 billion at the end of 1945.[4]

CHAPTER IV

Post World War II

Economic Conditions in Europe

The task of European reconstruction has been consistently underestimated on this continent. In addition to its immense toll of human life and suffering, the war caused heavy destruction of physical capital - of homes, farms, factories, railway and port facilities. Such losses were the direct and visible results of the war. Not so apparent, but vitally important, were the economic losses involved in the overworking of capital equipment, because of the lack of replacements and improvements and in the impairment of human working capacities by years of hardship and terror. Not so apparent, either were the losses involved in the disorganization of normal social, political and economic relationships within the war-torn countries, and the heritage of monetary difficulties piled up by years of deficit finance and resort to the printing press. Europe's losses and particularly Britain's, in foreign investments and shipping are measurable and well-known, but the further economic losses involved in broken trading connections, in the disturbed state of affairs in the Far East, and in the breakdown of a multilateral trading system are less easy to evaluate.

Perhaps one of the most serious impediments to European recovery has been inflation. Money supplies were greatly overexpanded. Prices

had risen to great heights, currency had lost much of its usefulness, and black markets, barter and hoarding were commonplace. War had also dissipated a good deal of the accumulated wealth of Europe represented by foreign investments.

Such losses in external income, combined with the impairment in productive capacity and the tremendous needs for relief and reconstruction, left an appalling gap between Europe's external expenditures and receipts. The mechanism of multilateral trade, which had been under great strain during the 'thirties, broke down completely. The virtual elimination of Germany as a major country in the European economy also disturbed the balance of European trade. Thus, since North America was the major area where production was unimpaired, and indeed considerably expanded, it was inevitable that Europe's gravely unbalanced external position should reflect itself in the form of a dollar problem.

The cause of Europe's inflation lies, to a large extent, in the great supply of accumulated purchasing power and a great demand for goods, relative to the supply available. When the war was over, demands from every direction converged on the much reduced volume of production. The monetary reforms to counteract inflation, which were taken by the various European governments, were generally quite drastic but, essential though they were to economic recovery, they were in themselves seldom sufficient to relieve the upward pressures for very long. The problem of inflation has an important bearing on the trading position of the countries concerned, and on the question of their exchange rates, so the countries concerned have suffered in the world markets roughly in proportion to their degree of inflation.

Most of Europe's trading deficit has been with the United States.

A dollar deficit was normal in pre-war times, but it has been much enlarged by rising prices, and even more by Europe's insufficient production. Greater imports than pre-war are necessary to Europe, and yet because of the condition of her economy, greater exports to U.S.A. are impossible with the obvious result of lack of balance in international trade and payments.

However, considering the staggering difficulties and losses resulting from the war, European recovery in the past three years represents a remarkable achievement. On the whole, it has been more rapid than after World War I, despite the much greater destruction and dislocation. Production this year has practically regained pre-war proportions; after World War I, it was 1924 or more than five years before the same stage was reached. Nvertheless, Europe has obviously a long way to go before it can pay its way and re-establish satisfactory economic conditions. Inflation is still impeding the effective working of the economic system. Production must be built up so as to increase exports further and to add to productive capacity, while at the same time providing tolerable living conditions. Output at present is clearly insufficient to achieve these ends. So in an effort to give Europe some latitude to go ahead with much needed reconstruction and to make progress in reducing its large trade deficit, the European Recovery Programme has been instituted.

The European Recovery Programme

The proposal made by George C. Marshall on June 5th, 1947 was that the countries of Europe work out a co-ordinated recovery programme, after which the United States would consider providing what aid it could to make the programme work.

The early post-war efforts to meet the problem of European

reconstruction, though helpful, had proved quite inadequate. The work of U.N.R.R.A. was confined to countries whose circumstances were desperate, and its limited resources could do little more than provide for urgent relief needs during its short space of life. The new permanent organizations (dealt with below), such as the International Monetary Fund and the International Bank for Reconstruction and Development, were designed more to facilitate the working of an international trading system than to establish the conditions under which such a system could work. Between the provision of relief and the establishment of machinery to foster trade was a huge gap representing the immense requirements of reconstruction and recovery. The severe winter of 1946-47 and its accompanying fuel shortages and curtailment of production hastened the crisis. The poor crops of the following summer and Britain's abortive attempt to restore convertibility of sterling under the terms of the Anglo-American Loan Agreement[1] only emphasized the urgency of the Marshall approach.

The western European countries enthusiastically embraced Mr. Marshall's proposal. Russia, however, actively opposed the Marshall approach, which meant that the programme could not extend to all of Europe. Moreover, Russia's attitude, by accentuating the division between the east and the west, re-emphasized the need for co-operation among the countries of western Europe, and for prompt assistance from the United States.

In April, 1948 the United States Congress approved the European Recovery Programme, and in July of the same year the programme got into full swing, with the sum finally authorized for the first year's operations

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[1] The attempt was made in July, 1947 to re-establish convertibility of sterling over a wide area in order to provide convertible exchange for the rest of Europe. But the world-wide demand for dollar goods was so great that convertibility again had to be suspended except within strict limits.

amounting to slightly over $5,000 millions, of which $1,000 millions was to be extended in the form of loans, and the remainder as grants, for which no payment was required. During the period of the loans and grants the United States will make a continuous and detailed study of the European economy and a close examination of Europe's import requirements in the light of the supplies available. This was in order to ensure that the assistance provided should be used as effectively as possible, and also to prevent E.R.P. outlays from aggravating inflationary tendencies in the United States.

The technique of the Programme is that after notifying each European country of the aid it is likely to receive during each successive three-month period, it is asked to submit to E.C.A. a report of its anticipated trading position during the three months and a schedule of all the goods it wishes to secure from the Western Hemisphere and other hard currency sources. From these schedules, the E.C.A. selects specific items to be financed by E.R.P. funds. These items make up about half the total imports actually purchased from the Western Hemisphere, the remainder being paid largely by their exports.

A substantial part of the goods and services financed by E.C.A. have come from countries other than the United States. Through these so-called "off-shore" purchase, E.R.P. dollars serve the double function of moving essential commodities from the various supplying countries of the Western Hemisphere to Europe and secondly, of paying for imports which these countries require from the United States. The system of off-shore purchase not only helps to maintain the natural pattern of trade, but adds to the ability of countries, such as Canada, to

contribute to European recovery themselves.

The European Recovery Program has placed its emphasis on a common European approach, and what the Program has done initially in this respect represents no mean achievement. However, despite this progress, there is no denying that serious barriers stand in the way of increased co-operation and even more in the way of genuine integration of the western European economy. The persistence of inflation and of social and political disorder in such countries as France and Italy has caused great difficulty in European trade. There is also the question of German economic recovery, necessary to the restoration of the economic health of western Europe, but feared and opposed, especially by Germany's immediate neighbours.

A statement of the difficulties in the way of an integrated western Europe is enough to give the impression that such an aim is almost beyond achievement. The difficulties are great, but so too is the need to surmount them. Without a health and more unified western Europe, a world with lasting peace is highly unlikely.

Europe's only way out of her present economic difficulties certainly without an intolerable reduction in already restricted living standards is through building up her production, and this production depends greatly on getting more and better capital equipment. It must be noticed, too, that not merely balanced trade, but balance at a high level of trade is the desired objective by 1952, when the E.R.P. is expected to end. In other words, the level at which Europe's trade is ultimately balanced is of great importance, both from the standpoint of the participating countries and from that of the many other countries which depend on European markets. Balancing at a low level of trade might be an accounting victory, but it would not mean European recovery

in any real sense, nor would it allow the re-establishment of a multilateral trading system.

It is clear that E.R.P. has prevented a disastrous breakdown in world trade. It has bought the time to give the policies of economic expansion a chance to reach a abalance in Europe's accounts at a much higher level than would otherwise be possible. The extent of the success of Europe's efforts will depend on whether or not the U.S. economy continues to operate at a high level, so giving other countries a reasonable opportunity of increasing their exports to that market. If U.S. becomes less receptive to foreign goods, then off-shore purchases would be curtailed, with serious results to countries like Canada. So, the fundamental problem of readjustment in Europe's trade has two sides, Europe must export a great deal more to the Western Hemisphere and to many other countries, and United States must import much more, not only from Europe, but from the whole world.

The monetary programs advocated for this current post-war period are the result in varying degrees of the lessons taught us by the monetary chaos of the inter-war period. The alternate deflations and inflations, the overvaluation in Great Britain, its subsequent devaluation and recovery (to some extent at the expense of other countries); the cheap money in U.S.A., its devaluation and the resultant gold inflow causing an export of unemployment; the reckless borrowing and lending,with a lack of equilibrium between short and long term transactions; capital flights, over-investment, controls, competitive exchange depreciations, etc. all share the organic maladjustment of monetary practices at that time.

They teach by implication, the essential objectives and requirements of a truly international monetary system; they show why the gold mechanism was inadequate to cope with the problem of post-war international finance; they prove that deliberate domestic

> and employment policies must be integrated by international institutions; and they demonstrate that national policies which are heedless of international repercussions are doomed to eventual failure in spite of their monetary success, but they also indicate that an international monetary system cannot hope to function successfully unless the nations of the world are willing to follow accepted rules of international behaviour even if these rules are occasionally inopportune.[2]

The international monetary system must allow relative freedom of action for member countries to be acceptable. It must consider "the essential position, which the idea of maintenance of a high level of employment has taken in current economic thought".[3]

Full employment must be compatible, however, with international co-operation and reasonable exchange stability. A compromise is possible to combine national policies aimed at full employment with an international system of multilateral clearing. This is possible with adequate reserves of international currency, to correct temporary maladjustments and with adequate considerations for the policies of furthering full employment firstly, and stable exchange rates secondly. One of the greatest values of an International Monetary Fund is that it "provides the machinery for consultation and collaboration on international monetary problems" (Agreement I-i) and so keeps the monetary authorities ofmember countries in constant contact with each other making them conscious of their inescapable interdependence.

There are certain requirements of an International Monetary System which are either expressly stated or implied in the International Monetary Fund. Basically and in the long run exports must balance imports.

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[2] Halm, G. N. op. cit. p. 39

[3] Raminsky, L. "International Credit and Currency Plans" Foreign Affairs, July, 1944, p. 598.

International movements of capital tend to be in the direction of the highest marginal efficiency. International trade must take place in fair competition and under strictest elimination of competitive exchange depreciation and other unilateral actions designed to secure unfair competitive advantages. The trade should be multilateral, and not bilateral, since that proposes the maximum advantage of trade and a higher standard of living and employment as a consequence. International trade is multilateral when "each nation can be assured of facilities for spending in our part of the world what it is earning in some other part of the world".[4] There should be reasonably stable rates of exchange so that exchange fluctuations should not interfere with trade and investment. The exchange rates should be such that no country suffers from an export advantage or disadvantage through the undervaluation or overvaluation of its currency. Domestic policies of economic stabilization and full employment should be compatible with a reasonable amount of exchange stability. Full employment should be a constant domestic aim, and there must be a stabilizing mechanism to ensure readjustment of member countries in a state of temporary disequilibrium. There must be reserves of international money[5] to be put at the disposal of member countries, but which should not be squandered on payments which are not likely to return in due course.

So it was with the idea of satisfying these many and exacting requirements of an international medium of exchange that plans were drawn up in United States, England and Canada for the formation of some international institution to enable the world to trade with the maximum of ease and efficiency in the post-war days. That institution was born the

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[4] Robertson, D.A. "Post War Monetary Plans" The Economic Journal, Dec, 1943, pp. 353.

[5] International money - money acceptable everywhere - cannot be created but national currencies and gold can be pooled and the member countries may have the right to buy any currency they desire from the common Fund.

International Monetary Fund at Bretton Woods, New Hampshire on July 22nd, 1944.

Bretton Woods

On April 7th, 1943, the Secretary of the Treasury of the United States made public a Preliminary Draft Outline of a Proposal for an International Stabilization Fund of the United and Associated Nations.[6] At the same time, proposals by British experts for an International Clearing Union were released.[7] The American proposals are known as the White Plan after their main author, Dr. Harry D. White, Director of Monetary Research of the Treasury Department. The British proposals are known as the Keynes Plan.

Both plans were considered as preliminary documents intended only as a basis for discussion, criticism, and constructive amendment.[8] On April 21st, 1944, the publication of a Joint Statement by Experts on the Establishment of an International Monetary Fund[9] brought the discussion to a preliminary conclusion. The Joint Statement was the result of discussions at the "technical level" and a formal conference was to be held by the delegates of the United and Associated Nations after which governments were asked to give final approval. This conference was held in Bretton Woods, N. H. from July 1st to July 22nd, 1944. Delegates of forty-four nations attended and on July 22nd, 1944 signed Articles of Agreement of the

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[6] The original version of the proposals for an International Stabilization Fund was published in the New York Times, April 7th, 1943 and in the Federal Reserve Bulletin, June 1943.

[7] Also reprinted in the Federal Reserve Bulletin, June 1943.

[8] See Keynes Plan, p. 2 of the reprint by British Information Services.

[9] New York Times, April 22nd, 1944. Federal Reserve Bulletin, May, 1944.

International Monetary Fund and International Bank for Reconstruction and Development.[10]

It is important in an examination of the Monetary Developments after World War II to consider the vital role the Monetary Fund has wished to play and for this reason the details outlined above of the discussions leading to its formation are considered important. The formation of the Fund met with some opposition principally from two groups of critics. First, the "hard money" advocates desiring an international payment system similar to the one that operated successfully prior to the First World War. They believed in a return to the gold standard and a stabilization of the internal values of national currencies after which international stability will follow more or less automatically without any sacrifice of national sovereignty. Only if national currencies are stabilized first can an international institution successfully bring about exchange stability.

The second group of critics wanted to eliminate gold altogether. Price stability was not considered desirable and national economies should under no condition be put under deflationary pressure. Full employment should be achieved and maintained even at the expense of multilateral trade relations.

Both these extreme groups suffer from a misconception of national sovereignty. The gold-standard game requires rules more rigid than any proposed by the International Monetary Fund. The idea of advocates of strictest non-interference with domestic monetary and credit policies resembles the mistakes of the inter-war period. This group would find it difficult to justify in their monetary programs such unilateral policies

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[10] New York Times, July 23, 1944

as, for example , exchange control, competitive exchange depreciation or multiple currency devices preventing a joining of a multilateral payment system.

Fortunately, the plan of the International Monetary Fund is between the two extremes. Actually, what the scheme is trying to do is to project into the international field the principles of Central Banking which are generally accepted in the domestic field. Though it resembles the operating of a Central Bank, it is no means as simple for the Fund has to pool efficiently the resrouces of different monetary systems and co-ordinate the credit policies of nations - not simply of commercial banks.

The International Monetary Fund also faced the difficulties of establishing a workable exchange rate for the member countries. Each country decided to keep the pre-World War II rates though it was realized at the time that these rates would have to be altered after the purchasing power of the countries became relatively stable. When the war ended all the countries of the world found themselves again in a state of economic disequilibrium. The shift from wartime production to the production of civilian consumers' goods was not without its economic hazards. Dis-saving and the shortage of consumers' goods as well as loans and European relief projects have had inflationary trends. Under these conditions, domestic controls have had to be retained in order to keep the inflationary tendencies of the war economy in check. So long as domestic economies are subject to price ceiling, rationing, priorities, and other devices, their actual domestic purchasing power of the different currencies cannot be determined; and this makes it exceedingly difficult, if not impossible, to determine the foreign exchange rates which correspond roughly to the relative purchasing powers of the different national currencies. Therefore, many

countries have been obliged to retain their exchange control measures until they are able to stabilize their national economies.

To many countries, the balance of payments problem represents a question of more formidable proportions than the mere transition from war production to a peacetime economy. The distress will arise from the fact that the countries in question will have neither gold nor other internationally marketable reserves to take care of a deficit in the respective balances of payments; these balances will be in disequilibrium due to the depletion of inventories the accumulation of short term debts, the destruction of productive faculties, the loss of external sources of revenue and difficulties in adapting their exports to new competitive situations.[11]

In order to prevent the hapless practices of the inter-war period, a concerted effort has been made by creditor countries (especially U.S.A. and Canada) to ease the economic situation in the many deficit countries of the world. Gifts and long-term lending (amounting almost to gifts) of U.N.R.R.A. and the E.R.P. (Marshall Plan) as well as the companion to the International Monetary Fund, namely the International Bank for Reconstruction and Development have all made large contributions to debtor countries. Without these efforts on the part of creditor nations, "the debtor countries would most certainly refuse to pay the deflation price of unemployment for international payment equilibrium, and would again embark on competitive exchange depreciation, exchange control, and bilateralism".[12] Even the creditor countries understand that helping the debtor countries

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[11] Palyl, M. "A Tentative International Monetary Stabilization Plan". The Commercial and Financial Chronicle, Aug. 12, 1943.

[12] Halm, G.N. op. cit. p. 47

to solve their problems will in the long run be in the interests of the creditor countries themselves.

The International Monetary Fund has certain specific purposes. These purposes are to facilitate the balanced growth of international trade, thus helping to eliminate the multiple exchange restrictions and so to encourage a high level of employment in member countries. The Fund desires to provide exchange stability without undue exchange rigidity (a fault of the gold standard method of exchange). It wishes to establish a multilateral system of payments and to give confidence to member countries by making resources available to correct temporary disequilibrium inthe balance of payments.

The Fund's idea of announcing the present exchange rates between currencies as the initial rates for the Fund's operations was more to get the mechanism of the Fund going rather than to expect results. The Fund Agreement recognized that the gold parities of different currencies are important primarily because they govern relative currency values in international trade. Thus far, progress in exchange rate policy has not gone much beyond statements of principle, for the exchange rates announced by the Fund involve, to some extent, discrepancies similar to those which disturbed world trade after the First World War. Many currencies appear to be too expensive relative to prices, while a few are too cheap.

There are some convincing reasons for postponing action in the adjustment of exchange rates, particularly in the adjustment of rates at present too high. Inflationary pressures are still strong and persistent in many countries having currencies which are expensive relative to prices, and depreciation at this time would curb these inflationary tendencies

by increasing the domestic prices of imports. Depreciation, moreover, would not increase the foreign exchange available to such countries from the sale of exports for under present market conditions, the limitation on exports is usually inability of export industries to produce, rather than inability to sell, and depreciation would do little to increase a country's capacity to produce for export. High rates must also be retained in some countries because these countries with apparent overvaluation in their currencies are countries which will probably be borrowing heavily in the next few years. That means an even balance of payments on current account cannot be expected in the near future. They would expect rather to have an excess of imports of goods and services over exports, and an exchange rate appropriate to this situation would be a rate somewhat above the parity rate.

The large amount of uncertainty regarding the future development of world trade both with respect to the pattern of trade and the pattern of prices has further influenced the Fund's decisions to accept existing exchange rates as initial rates. Two countries, Germany and Japan, have been almost completely eliminated from world markets, and it is not known to what extent their trade will revive, or what effect their diminished importance will have on the trade of other countries. In any event, many uncertainties remain both with respect to changes in the pattern of trade and with respect to future price movements, and these uncertainties make it almost impossible to establish a pattern of long run exchange rates immediately.

On the other hand, there have been certain criticisms[13] of the

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[13] Graham, F. D. "The Cause and Cure of Dollar Shortage" Essays in International Finance, No. 10, Jan. 1949.

techniques of the International Monetary Organization regarding fixed exchange rates. He argues that we must either forego fixed exchange rates or national monetary sovereignty if we are to avoid the disruption of equilibrium in freely conducted international trade. Exchange control is necessary to prevent wide, non-functional, hour to hour, or day to day fluctuations in rates and also to stop fear-inspired flights from currencies. So much was provided by the British Exchange Equalization Account, in the years 1934 - 1936. Anything beyond this limited"control", however, would do more harm than good. The attempt to keep rates fixed over substantial periods of time, during which the relationship between independently determined national price levels is changing, is certain to cripple trade, evoke disequilibrium in the international accounts, and distort the composition of production in the several trading countries. The inevitable exchange overpricing of the currency of countries of relatively rising price levels will discourage exports and encourage imports and set its production in a mould that will make extremely difficult the eventual balancing of its international trade structure. With domestic industries profiting at the expense of export industries, international accounts can only be attained by the drastic control of imports, and a forced draft on exports, a situation which is unlikely to further any prospect of a free economy.

On the basis of this present line of action, Graham feels[14] that lack of flexibility of exchange controls will -

> frustrate the very purposes for which the Fund was set up in that it will cumulate disequilibria, multiply and perpetuate controls, and store up shaky structures until they finally collapse in all-round devastation.

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[14] Ibid, p. 7.

There is an urgent need of a substantially automatic international monetary mechanism, persistently working toward equilibrium in the international accounts. "The only real solution is the operation of the price mechanism in a free exchange market to equate national supply and demand in international trade." [15]

Undoubtedly, Graham and those critics of the Fund who think as he does have valid objections to offer to the present structure of the organization, specially the fixed exchange rates. No one tried to pretend that it is perfect, but it is probably as satisfactory as the troubled world of the moment will permit. Of course, a free exchange market would be ideal, but this is quite impossible to establish until more normal conditions return. In the meantime, the fact that some exchange rates are out of line will not necessarily have serious financial consequences since both trade and payments will be strictly controlled during the reconstruction years. Eventually, when inflationary pressures have subsided, when individual economies have been restored to a high productive capacity, and when ability to export has been increased, many countries will be in a position to remove import controls and exchange controls, to reduce export subsidies, and to adjust the values of their currencies downward, in consultation with the Fund. When the time comes, the value of the Fund arrangements for adjusting exchange rates will be given a genuine trial.

The International Bank for Reconstruction and Development.

The Bank, as its name implies, is intended to provide funds for reconstruction and development through the medium of facilitating and promoting foreign investment. The Fund on the other hand does not provide

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[15] Ibid. p. 9.

such facilities. The Fund only furnishes short term credit in international money to enable a member to bridge temporary disequilibria in its current account balance of payments. Under no account must these short term credits degenerate into long-term "loans".

The Bank was realistically instituted when it became quite obvious that many member countries would be in need of long term foreign loans for reconstruction and development so badly that they might be tempted to spend their reserves of international money for investment purposes unless long-term capital was made available on reasonable terms.

The inability of private investors during the inter-war period to fulfill the principles of sound international investment is a strong argument in favour of the Bank as an institution for foreign investment. Added to this and of particular importance is the fact that, during the transition period from the second World War to the dubious "peace" that followed and indeed at the present moment, private capital has been reluctant to venture abroad on reasonable terms. This does not, of course, imply that the new bank is to take the place of the private investor. However, though the Bank is intended to supplement rather than to displace private long term capital movements, it seems quite conclusive that private international investment on anything like the scale of inter-war period and before is a thing of the past. Regardless of the facilities of a Rothschild or a Morgan, the demands and uncertainties accompanying large scale foreign investments can only be safely undertaken with the help of an international organization like the Bank or at least by a government or group of governments like those underwriting the European Recovery Program.

England

The United Kingdom ended the war faced with overwhelming problems. These problems - restoration of war damage, failure of former sources of supply, greatly increased food and other needs from the dollar areas, greatly increased prices for all that England imports, the burden of Germany, the conversion of sterling debt incurred for war purposes in areas themselves short of goods and equipment and the conversion of current earnings of these same areas in a world wherein those who have dollars part with them only in the United States - these problems dwarf prewar dollar needs. Yet England must face them with exhausted dollar resources.

As a possible solution, the United Kingdom is following a long-term Program in order to achieve and maintain a satisfactory level of economic activity without extraordinary outside assistance by 1952 - 1953. As a means to this end, she is making the fullest use of productive resources, is increasing production, developing and modernizing industrial and agricultural equipment, trying to maintain stability of its economy, expanding trade and joining in measures to reduce the barriers obstructing it. She is depending strongly on her close contacts with other members of the Commonwealth and on the generous assistance of the United States under the European Recovery Program in order to achieve this end.

The basic task of the United Kingdom during this period is to close the gap in the balance of payments - eventually to close this gap without borrowing or without selling her assets. This will require at least for the specified period, a large measure of control - over imports, over the total amount of home consumption and over the scale and composition of investment. This is meaning hardship to the British public who for the last ten years have been undergoing difficult restrictions and controls and

and shortages, to say nothing of the direct war activities during hostilities. However, in order to survive her import restrictions must include high tariffs, small import quotas and a restricted standard of living. She must maintain an aggressive export campaign, if necessary through bilateral and clearing agreements and export subsidies, increase productivity and reduce costs through improved specialization and through technical efficiency. Britain will also have to cut her selling prices of goods or the resulting overvaluation of the pound will require a currency depreciation in order to encourage exports and effective competition. A currency depreciation would mean that the amount of foreign exchange, especially American dollars, England would get from the sale of her goods would be appreciably less and hence the amount of real income she could purchase with this foreign exchange would be lessened, and her standard of living would fall.

The policies and programs described are designed to solve both the general balance of payments problem and within this the particular problem of the balance with the Western Hemisphere. The solution requires a continued increase of overseas earnings rather than in a reduction of overseas payments, in order to have abalancing of payments on current account at a high level in the country's standard of living. To increase overseas earnings, the possibilities of increasing income from invisible items must be given full scope. Shipping is improving considerably in spite of the American system of protectionism for her own merchant fleet. Financial earnings in insurance brokerage and trading must be given great consideration and tourism can bring in considerable American dollars to the British Isles.

All these programs can only be accomplished through the willing

co-operation of the British people themselves. Importance must be given at all times to the building up of morale and the accompanying increase in productivity. With this, and the sensible economic program of Great Britain, and barring unforeseen setbacks, she should be able successfully to weather her economic storm entering 1954 with a clear road ahead to satisfactory prosperity.

Canada

At the end of the war (1946), the exchange rate with U.S. changed. The Canadian and American dollars were now at a different par. This relaxation of controls was responsible for a rapid dissipation of Canadian foreign reserves. In less than two years, $1½ billion was reduced to $½ billion. An "Austerity Program" was clearly indicated and rapidly put into effect. Canadian imports of food and other commodities from U.S. were drastically curtailed if they were not absolutely essential. The program worked, and Canada gradually built up her supplies of American dollars again to a substantial amount. Other factors also contributed to the substantial increase in the amount of American dollars available. Canada, in the first half of 1940, imported about $100 million less than either either half of 1947 (the Austerity Program). Imports from overseas countries increased considerably. The decline in exports to overseas countries, unwelcome as it has been, has added to supplies available in the domestic market. There has also been a gradual growth of Canadian production of some of the goods which are normally imported from United States. Most encouraging in the improvement in Canada's exchange position has been the increase in exports to the United States of some $160 millions in the first half of 1948. Canada is expanding her capacity to make goods

in demand in the United States. Geneva Agreements have helped Canada considerably by reducing U.S. duties on many Canadian exports to that country. The lift of the embargo on shipments of beef, cattle, in August, 1948, was among significant changes in Canada's exports to U.S. Finally the European Recovery Program with its provisions for "off-shore" purchases has meant that Canada has been able to obtain cash settlement ona larger proportion of her trading surplus with overseas countries.

Canada has traditionally imported more from U.S. than she has exported to that country; without the possibility of conversion of her currency into American dollars she is going to have to either export more to U.S., either directly or through other countries, or else curtail her imports from U.S. to equal her exports on current account with a subsequent lowering of Canada's standard of living. Naturally, the first method is the most desirable and to augment the plan Canada must take a vital interest in the re-establishment of her balance of trade with other (notably European) countries. At the moment, the means of payment of Canada's exports are not being earned, but are being given in rather dubious loans. Thus, exports represent a one-way diversion of goods out of the country without the receipt by the country of imports in return. Inflation is easily encouraged through these activities, purchasing power being placed in the hands of the Canadian public without the necessary increase in consumers' goods being made available. Thus, by taking an active part in the rehabilitation of European countries, we directly aid ourselves by encouraging those countries to repay us with their own goods and services. Canada may be proud of what she has done for European recovery. Indeed, during 1946 and 1947, Canada's contribution was, in relation to her population and national income, much larger than that

of any other country.

The removal of import restrictions is likely to be gradual, depending on the rate of European recovery as well as on the short-term improvements in the exchange position. In the final analysis, the objective of achieving a better balance in Canada's trading position in relation to the United States will only be successful if it is achieved through expansion rather than through restriction.

France

France suffered considerably from the effects of World War II. Industrial centres and towns were badly damaged; she had four years of occupation, had a large scale deportation of her manpower and suffered considerable wear and tear on her capital machinery. But perhaps the most disastroud economic situation arose from the domestic monetary instability arising from the German occupation and their use of the printing press in order to pump money into the French economy. At the war's end, the domestic economy was badly organized and weakened, and permeated by an inflated mass liquid purchasing power.

The country doesn't seem to have been able to bring itself at the end of the war to make the unpleasant but necessary and drastic reform in her currency in order to achieve some degree of stability. Instead the government took ineffective nibbles at the problem in the form of government loans and note exchanges (at par). A tax was then instituted on capital gains. By this time, the situation had become critical and the Monnet Planning Commission was brought into effect. This Plan hoped to provide for adequate investment each year, with a priority allocation of resources leading to their rapid expansion with the acquiring of raw materials and

equipment imports. This was not too effective because of the instability of the economy, the inflation itself and the pressure for consumers' goods. This led to the Blum experiment - a psychological approach, calling for an all-round five per cent reduction, the setting up of test stores, appealing to patriotism and providing penalties for offenders. The object here was to destroy speculation and to get at commodity hoardings. The Plan met with momentary success, but couldn't be legislated without the removal of basic causes. Indeed, it was now too late to effect reforms without adverse economic consequences. France was suffering because she couldn't make up her political mind to take the necessary step at the earliest possible moment, and at that time taking action drastic enough to cut at the core of the trouble.

When the International Monetary Fund began operating in 1947, France established her exchange rate at a level considerably below its true value. She was forced to depart from this level early in 1948 and did so without thepermission of the Fund. The departure from the gold content of the franc, that is, its devaluation, was not so disturbing to the Fund as was the setting up of their own financial program based upon a multiple exchange system. This was definitely against the wishes of the Fund, but at this time, is still operating irrespective of the International Monetary Fund.

The inefficiency of the Civil Service of France, the instability of French politics and the detrimental effect on the reconstruction of the country, of the Communist Party strikes, have all hindered the return of France to economic stability. France is making some progress, however, and with the aid of E.R.P. should, like England, eventually achieve balance in her current account.

Germany

As a result of the war, there is an overall problem of German economic, political and moral reconstruction. The currency problem itself is not the least of the many problems facing the country; for without a stable currency, there is no solid basis for normal trade operations, for tax collections, and for the achievement of economic security and freedom on the part of the individual.

Since the cessation of hostilities, the markhas been literally worthless, and was replaced to a large extent by barter and by a new currency: American cigarettes. The black market, if not the official instrument of trade, was certainly the most prominent. In a word, the money economy had broken down completely. Thus three years after the war, industrial production in Western Germany was still only about one-half of the 1936 level.

In the summer of 1948, the western zones of Germany (Trizonia) adopted a currency reform which was put through from the sheer hopelessness of the situation without it, and despite the fact that the German economy was still far from self-supporting. Its chief object was to revive legitimate production and trade and strengthen incentive to work.[16] The immediate result was unprecedented bustle and activity. By September, industrial production had risen by nearly 50 per cent to 70 per cent of the 1936 level. The black market collapsed and huge quantities of goods poured from hoards. Hundreds of small businesses sprang up overnight. There was a sharp decline in factory absenteeism, and the productivity of labour was reported to have increased 35 per cent. All as a result of currency reforms.

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[16] For details of the mechanics of the reform, read "National City Bank of New York, Monthly Letter" (January, 1949)

The effective money supply was soon enlarged however by the freeing of part of the blocked deposit balances,[17] by private borrowing from the banks and by deficit spending by individual States and government-owned enterprises. As a result the total purchasing power in the hands of the people has doubled since the currency reform and prices have again turned upward. With the price rise, people have begun again to doubt the stability of the new currency. Money is circulating faster. To protect themselves, farmers and producers are once more withholding goods from the market. And with prices and costs rising, German exporters complain that the present provisional exchange rate of 30 cents is too high.

The problem of Germany is only an exaggerated case of a world-wide problem. Although governments are desirous of building up industry and carrying through vast public works, they must not go beyond their available means or wantonly resort to inflationary financing to carry them through. Currency reform is vital, of course, but in itself is not enough; sound programs of public finance must be instituted with careful considerations of the long run potentialities of their actions.

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[17] Part of the mechanics of exchange of old marks for new; that some of the new currency would be temporarily blocked in bank accounts.

CONCLUSION

It has been the aim of this student to report upon activities in currency and foreign exchange from the period immediately before the First World War until the present. The thesis began with an introduction, which outlined the basic principles of theory in this field and its application upon international trade itself. The work makes no attempt at an exhaustive study of the field, nor is there any patricular claim to originality in economic judgments. It is simply a report of conditions in the world during the period studied, and the making of certain judgments on these conditions, in the light of their relation to our economic progress.

The First World War brought its inevitable demands upon the economies of the countries participating, as indeed, it did upon countries who did not enter into hostilities. The breakdown of the gold standard, exchange controls, the issues of paper money and the accompanying inflation, the technique of war finance and its demands upon the various nations were all experience in varying degrees by nearly everyone. Peace brought economic embarrassment and famine, caused by the maladjustments and dislocations of productive resources, bank credits and exchange, as well as the exhaustion of commodity stocks. Reparations so hopefully outlined at Versailles proved a dismal failure by their impracticability (which, among other things, sowed the seeds for the rise of Adolf Hitler and a more horrible war only twenty years later). Purchasing Power Parity had its vogue, and gold tried unsuccessfully to regain the position of prominence it had once held. Inflation, a recession, a recovery then - the crash in October, 1929.

The hectic thirties with the great depression saw the introduction of devices and techniques designed as an attempt to stimulate

recovery and employment. An epedemic of exchange depreciation in early 1930 was replaced by exchange stabilization and exchange controls. Countries were just beginning to recover when Germany again plunged the world into war. This, in its turn, brought the now familiar problems of war finance into focus again, with their various techniques of restrictions and checks.

Since the cessation of hostilites the economic conditions of western Europe have been appalling, and their recovery has been restored by the seeds of discontent and confusion sown by the Communists. England, almost totally exhausted by her war contributions and by her losses in shipping and invisible services, has made a most valiant attempt at recovery by denying herself an acceptable standard of living, in order to try to balance her budget - and is succeeding remarkably well.

United States and Canada, by contributing to the European Recovery Programme, the International Monetary Fund, the International Bank for Relief and Reconstruction and other organizations devoted to progress in world economic recovery, are setting a standard in economic affairs which we hope, is leading us towards a peaceful world with a higher standard of living for all.

The thesis has been ambitious in attempting a survey of such scope, and has of necessity been obliged to ignore or deal lightly with topics that warrant more consideration. It has rejected for discussion in currency and foreign exchange, problems of many countries, particularly in India, China and South East Asia, which, though of interest to the student of economics, did not influence the world picture sufficiently to justify their inclusion in this survey.

What contribution economics can make to a better world depends

to a large extent upon factors beyond the control of our economists. Economics and certainly currency and foreign exchange techniques, can only do so much for us. In the final analysis the wisdom of our statesman and the authority of our leaders in other fields of human endeavour will determine whether our economic organizations will be allowed to progress unimpeded, or be again retarded by war and its accompanying chaos.

McMaster University,
Hamilton.

Donald R. Dawson

Commodity

Changes in the

BALANCE OF TRADE
(U.S.A., Canada, Great Britain, France)

1937 to 1948
exclusive of war years 1940 - 1944

	DOLLARS - millions				POUNDS-millions		FRANCS-millions	
Year	U.S.A.		CANADA		GREAT BRITAIN		FRANCE	
	Impts	Expts	Impts	Expts	Impts	Expts	Impts	Expts
1937	257	279	67	84	85.7	49.7	3,526	1,994
1938	163	258	56	71	76.6	44.3	3,832	2,549
1939	193	265	63	78	-	-	3,649	2,633
1945	346	877	132	272	92.0	37.5	4,765	952
1946	409	849	161	195	108.4	80.4	19,504	8,450
1947	478	1,281	215	234	149.5	99.9	28,875	17,735
1948	-	-	-	-	173.3	137.3	-	-

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