For a Goods and Services Basis of Trade

(London Chamber of Commerce's Attitude on Money)

That the conventions of the International Gold Standard system are so fundamentally opposed to modern social and economic conditions that no Government could, even if it wished, give effect to them, must be evident to anyone who is prepared to recognize that he is living in the Twentieth, and not in the Nineteenth Century.

Economic theories, wrongly described as "laws," upon which the Gold Standard system is based, do not even recognize the existence of two of the biggest factors in the economic life of to-day, namely, the mechanization of agriculture, industry and transport, with displaced human labour, and the power which that mechanization has given to backward races with a low standard of living to undercut and so destroy the standard of living of the more advanced nations. Under the monetary proposals of the London Chamber of Commerce, a country which kept a low general price level, with a view to undercutting the other nations, would merely be making a present to them of its real wealth. The importers of that country would not be able profitably to import and sell the more highly priced goods of the rest of the world, and so the credits created by the exports of that country would remain unused and useless.

The International Gold Standard system is an anachronism in the Twentieth Century; it can never again function, but as its high priests still hold sway over the nations and regard it as sacrilegious even to discuss alternative systems, there appears nothing for it but to await the further inevitable collapse of the structure built upon it.

When the German exchange is again threatened that country will be obliged to declare all external trade a State monopoly, as she has no intention of going through the misery of uncontrolled internal inflation for the second time in one generation. Germany would then sell her goods abroad as a nation, and with the foreign currencies thus acquired would buy her necessary imports. There would be no exchange rate for the mark, just as there is no exchange rate for the rouble. The addition of Germany to the ranks of those nations which for one reason or another are able to undersell the Western nations with advanced standards of living would bring us still nearer to the time when the need for a reformed system for the exchange of goods and services between nations must be recognized. France, when she is at length convinced that the other nations will not return to gold will herself be obliged to abandon the gold standard. Panic movements of short-term money would then produce chaos in the exchanges and so again emphasize the need for reform.

The complete failure to agree with the United States, even upon a *de facto* new parity, though described by the Prime Minister as "a little setback" and "just a little check" marks the complete failure of the Conference to achieve what it set out to do—namely, to prepare the way for a return to the Gold Standard. This would be extremely satisfactory if the Conference were prepared to consider alternatives, but it is not.

A Vicious Monetary System

Having evaded recognition of the root cause of the trouble, which, as has been consistently stated by the London Chamber of Commerce for the last eighteen months, is a vicious monetary system, the Conference will now concentrate upon trying to mitigate effects. The problems of tariffs, exchange restrictions and quotas, cannot be solved until the monetary system has been reformed, nor can prices be raised and stabilized. There is about as much chance, with the restoration of the old monetary system in sight, of inducing the nations to modify their tariffs or exchange restrictions, as there would be of persuading, by argument, a drowning man to leave go of a lifebuoy. He must first be lifted out of the water, lifebuoy and all, and then finding himself safely seated in a boat he will begin to wonder why he is hanging on to the lifebuoy and will voluntarily let go of it.

So long as nations are obliged to trade for gold, which is dear and scarce, instead of for goods, which are cheap and plentiful, so long will it be impossible to agree upon new parities between the various national currencies. Only by obtaining an active "favourable" balance can a nation obtain control of gold. It is therefore vitally necessary to every nation that it should be given a new parity enabling it to obtain such an active "favourable" balance. Unfortunately, however, if one nation has an active "favourable" balance, it necessarily follows that some other nation has an "unfavourable" balance; and in spite of all the heart-rending pleas for self-sacrifice and coöperation nations have not come forward—nor are they likely to—to offer themselves as the victims.

"I loved that cook as a brother, I did,
And the cook he worshipped me;
But we'd both be blowed
If we'd either be stowed
In the other chap's hold, you see."

Trading for Goods and Services

Under the system advocated by the London Chamber of Commerce the nations, on the other hand, would be trading for goods and services. An active so-called "favourable" balance would, under that system, merely mean that a nation had exported some of its real wealth and had not chosen to take any real wealth in exchange. The object of every nation would be to have neither a so-called "favourable" nor "unfavourable" balance. It would wish to have its total imports, visible and invisible, equal to its total exports, visible and invisible. Every nation would, therefore, be seeking a new parity which would give it that equilibrium. The prospect of finding agreement when all the nations were seeking the same thing would be considerably greater than when, as at present, they are all trying to get a rate which, supposedly advantageous to themselves, must necessarily be disadvantageous to someone else.

Under the Gold Standard system, England passes a law by which she announces to the world that her pound contains 113.016 grains of gold. Canada passes a law announcing that her dollar contains 23.22 grains. Both these statements are pure fiction, as will be readily seen when it is remembered that the world stock of monetary gold is approximately equal to the amount of money in use in Britain alone. On the strength of this fiction 4.86 Canadian dollars are stated to be worth .21. It would be just as convenient to agree with Canada that 4.86 dollars equalled £1, or any other number which would give us both equilibrium with the rest of the world, without the intervention of this hypothetical gold.

International Payments

We are told that it would be quite impossible to maintain this fixity of exchange; it would be impossible under any system which perpetuated the false notion of international payments, which has been fostered by the existence of the Gold Standard.

Nationally, we recognize that a debtor has paid his creditor when he hands him a claim to goods and services in the form of legal tender. Whether the creditor then chooses to exercise that claim to buy goods or services, or, on the other hand, chooses to light his pipe with his pound note or keep it in his pocket, is a matter of complete indifference to the debtor. By giving his creditor the claim, he has paid his debt: he is not obliged to offer more and more of his goods at knock-down prices until his creditor is satisfied. The same principle should be applied internationally. The individual exporter, having sold 100,000 marks' worth of motor-cars to a German buyer, would draw a bill on his buyer, and after it had been accepted would discount it with his local bank. He would, in this way, have received payment in his local currency, and except in the case of default on the bill by his buyer, when the bank would have recourse against him, he would be out of the picture. The English bank would then send the bill across to its correspondent bank in Germany, and the German bank, in due course, would collect the marks from the buyer. The English bank would in this way own a short-term credit in Germany.

There is nothing new about this: it happens every day. Under the International Gold Standard system, provided there were enough importers wishing to buy goods from Germany who were prepared to pay pounds to the English bank, which then released the marks, all went smoothly. If, however, there were not enough importers wishing to use the marks acquired by the discount of export bills, the English bank would then offer marks for sale, and if there were not enough buyers of marks about, marks would fall in price. The English bank, as soon as the marks fell below gold export point, ceased to sell marks, bought a lump of gold from the Reichsbank, removed it physically from Germany, sold it to the Bank of England, and so wrecked Germany. Why, in the name of reason and equity, should it have this right?

Under the Chamber's proposals, the English bank would hand over the marks to the National Central Bank. In other words, it would rediscount that bill, acquiring pounds from the Central Bank: it too would be out of the picture. The Central Bank, as representing the nation, would now hold a claim on the goods and services of Germany expressed in the form of a short-term credit. England, in other words, having exported real wealth, would be entitled, in exchange, to the real wealth of Germany. Whether or not it chose to exercise that claim would be a matter of complete indifference to Germany. If the demand from English importers were not for marks but for francs or dollars, the Central Bank would go into the Central Bankers' Clearing House and "swap" their claim on Germany, for a claim on France or the United States always at the fixed rates of exchange.

Inequity of Present Arrangement

Our present attitude toward this question of international payments is as though an Englishman owing an American £100 were not allowed to discharge his obligation by handing to that American £100, but must go to him and say, "I have a motor-car worth £100 will you take that?" and this being refused he were obliged to increase his offer, first, by adding a bicycle, and then his furniture. The inequity of such an arrangement would be readily appreciated as between two individuals, and yet that is exactly what happens as between nations. England owing America £100, and knowing that it could sell a motor-car in America for £100's worth of dollars and so discharge its debt, finds a Customs Duty put on the motor-car, with the result that it only gets £60 for its motor-car. It must therefore sell a bicycle, which is worth £10, but owing to the American duty only £7 is obtained. England has now paid £67. It must sell its furniture, which is worth £50, but after a duty has been paid England gets £33. It has now at last paid the £100.

Clearly, the equitable arrangement would be that England should have discharged its debt when it placed in this country £100 to the credit of America. American importers, having paid their dollars over to their own banking system, would be given the use of this £100 with which they could buy the motor-car or anything else they chose; if they did not choose to exercise the claim, America, through its Central Bank, would continue to hold an unused claim: that would be America's affair, and not England's. Under such a system every nation would be as concerned with its import as with its export trade.

It is clearly impossible in the scope of a short article such as this to meet all the objections of detail which no doubt will occur to the reader, but after more than a year of criticism the London Chamber of Commerce is satisfied that those objections can be met.