Gold Free

(Rene Leon - received 8/21/37)

"HOT MONEY"

The creation of the Sterling Bloc, with the aim of supplanting gold by the Sterling Bill of Exchange as its "monnaie courrante" and with London as its axis and Clearing House, may sound well in theory, but in practice it is, to say the least, debatable as to workability.

The Pound Sterling is the currency unit of Great Britian and its colonies; it is not the unit of those other members of the Sterling Bloc who manage their own currencies on the basis of the Pound, however rigidly or loosely they may link their monies to Sterling. With the exception of India, which has yet to achieve complete Dominion status, and the value of whose Rupee is still fixed by London, the other members of the British Empire jealously retain their complete monetary independence. The same applies to other members of the Sterling Bloc such as the Scandinavian group, Japan, China, Egypt, Argentina, Brazil, Chile, etc. All these members of the Sterling Bloc fix their rates of exchange in relation to the Pound Sterling according to their own convenience and without necessarily consulting Britian as to ratios. They then proceed to "manage" their currencies by buying and selling Pounds Sterling in the exchange markets and thus maintain the "stability" of their currencies. If stability, as they alone conceive it, is not feasible at a given ratio to the Pound, they change that ratio to another; but in changing ratios they suit their own convenience - no one else's - which demonstrates the definitely nationalistic character of the principle of currency management. Any system which knows only such rules as are dictated by national convenience, and only such restraints as are self imposed, obviously cannot endure.

The linking of a currency to the Pound Sterling necessarily involves the creation of substantial balances in London for purposes of management. Because these balances have no commercial significance whatsoever and are seldom created by loans, they can only result from balances of payments achieved by other means. These are sometimes produced by the shifting of gold reserves to London, directly or indirectly, thus leading to the unhealthy concentration of yellow metal at that center and, consequently, imposing the system of gold sterilization upon an unwilling market under penalty of price inflation. But more often still these Sterling balances are created by the arbitrary reduction of the rate of exchange through currency devaluation, which automatically reduces home costs in their relation to British costs, and thus give an artificial stimulus to exports at the expense of British over-seas trade.

However, whether created in one way or in another, the setting up of London balances for purposes of currency management, develop a demand for Sterling exchange which is wholly artificial in that it has no commercial basis whatever. The combined demands of all members of the Sterling Bloc for the one exchange they all require add up to staggering totals and create in England a financial and economic problem of the first magnitude. The strength of the Pound Sterling in the exchange market and the ever increasing proportions of the Exchange Equalization Account are illustrations of but one phase of the problem. And because the foregoing applies in exactly the same way to all those currencies which are managed on the basis of the dollar, our own "unused gold fund" so-called is growing apace. Thus are the currency managers "riding" Britain and America, and it is high time they were invited to stand on their own feet. How then shall this invitation be conveyed?

To shift the burden now carried by the Treasury onto the banking system does not lighten its weight nor does it solve the problem. If by bidding a high premium for gold the Treasury attracts such alien funds as seek gold equivalence yet refuse to pay the carrying and interest charges which possession of the actual metal entail, then the logical procedure is to stop bidding this premium and levy charges for custodianship. It is hardly fair to penalize the banking system by demanding that it defray the costs of a policy which is not theirs unless these costs are compensated by some fair offset. Rather than approach the problem from the angle of shifting the burden, it would seem wiser to consider ways and means to lighten or remove it. For example, it might be useful to consider:

(1) Requesting foreign Central and private banking institutions to reduce their balances with American banks to "working" proportions, these balances to be measured in terms of their totals rather than as individual balances, thus preventing their distribution by way of avoiding the request.

(2) Imposing a graduated tax on all aliens' deposits in American banks, including those of their agents and nominees, such deposits to be measured as in (1).

(3) Imposing a special tax on the ownership or leasing of safe deposit vaults by aliens, their agents and nominees so as to prevent the hoarding of cash.

(4) Using the tariff as an integral part of the money mechanism, not as a mere revenue producer, and setting up rates that will coincide with the arbitrary reduction of costs through exchange in the exact ratio of currency devaluation. Currency manipulators would thus become directly responsible for such tariffs as they themselves induce.

The foregoing measures will not solve the problems arising from the increased, and still increasing, production of gold. The bidding of a premium which has no reasonable economic basis, and which causes the gold producer to be set apart to enjoy an unlimited guarantee at the expense of all other producers, must some day soon constitute a major threat to the price system unless a corrective be applied which shall, once again, restore gold production to a normal economic basis.

RENE LEON

August 10, 1937.

(Copy - b)