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JUSTICE AND INTERNATIONAL FINANCE

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*October 25*

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During the discussion on October 11th. Professor Kerby-Miller said, "If the common man thinks a law is unjust, it is unjust." The vagueness here, of course, lies in the definition of the common man. Fortunately for us Thorstein Veblen long since wrote a book entitled The Vested Interests and the Common Man in which he classified the human race into common and uncommon individuals; and he described the differences between the two. With the use of this description we can, perhaps, arrive at a definition of the common man. Veblen's distinction is: (pp. 162-163)

"The kept classes, whose free income is secured to them by the legitimate rights of the vested interests, are less numerous than the common man - less numerous by some ninety-five per cent or thereabouts - and less serviceable to the community at large in perhaps the same proportion, so far as regards any conceivable use for any material purpose. In this sense they are uncommon. But it is not usual to speak of the kept classes as the uncommon classes, inasmuch as

(and this is the important matter)

they differ from the common run of mankind in no sensible respect.

Perhaps it was a difficulty such as this which Professor Kerby-Miller had in mind when he added - as an afterthought - "in most cases." The exceptional cases, I take it, are those in which the common man doesn't have common sense. The economist, unfortunately however, has thus far placed common sense into the category of uneconomic goods because he finds that nobody demands more common sense than he has already. And so when an economist appeals to the fiction of the common man, we know that his definition in fact becomes: "A common man is a man who agrees with me." In other words, when an economist appeals to the common man, other economists recognize that this is a polite admission of defeat.

This, of course, is not the usual scientific method. "The fundamental postulate of science is the Uniformity of Nature" (Thomson: Introduction to Science, p. 80.) Upon the basis of this <sup>single</sup> assumption, however, the scientist proceeds inductively; that is to say, he discovers uniformities and gives them a name. He does not begin with a name, and then proceed to discover the uniformities. To the exponents of scientific method the name is of no importance - one might use the Greek symbol  $\alpha$  (for scientists try at present to be erudite). To the ~~xxxxxxxxxxxx~~ exponents of the latter method the particular name seems to be of importance. *But I do not wish to go off on a tangent here*

Fortunately we can get along without this fiction in International Finance. Its subject matter is rather complicated. <sup>I am rather inclined to agree with</sup> In a speech in Parliament on the foreign exchanges <sup>in which</sup> a member said: "There are only two persons who understand the foreign exchanges: one is dead and the other is in an insane asylum." Unless we want to run the risk of putting all persons into the grave or into such asylums, we had better leave them out of the discussion. The common man may feel the effects of international financial maneuvers; he does not understand their operation.

I introduced him at all only because he is <sup>has been introduced</sup> ~~so well known~~ to this group <sup>as to</sup> require no introduction. Our only argument - since argue we must - concerns who shall introduce him ~~first~~ into the discussion first - hence he should appeal to this group - which so dearly loves an argument.

As a benighted economist I have difficulty in thinking in terms of ~~an~~ a nebulous omnipresent JUSTICE. The term is not used in International Finance (though it has been used in international politics). I have attempted, therefore, to get at certain evidences of it - assuming for the moment that it exists. <sup>insert 2a</sup> ~~(This, of course, is not the usual scientific method).~~ <sup>which proceeds on certain non-veridical judgments which are not subject to uniformity but which are subject to individual differences</sup> Professor Kerby-Miller at the ~~same~~ <sup>mentioned above</sup> meeting stated that an evidence of the existence of a concept of Justice which is more than an empty phrase is the fact that a court system cannot continue to exist unless it ~~expresses~~ is an expression of the particular content of justice. Of course, this does not mean that the continued existence of a system of courts is an evidence that whatever is, is just.

Granted that Justice exists, we can, if I understand Professor Kerby-Miller correctly, find evidences of ~~it~~ what particular content



One farther preliminary matter should be stated. I am not trying to prove that the content given to the term Justice by one country is better than the content given by another. <sup>though I think that we might discuss that problem.</sup> I do not conceive the function of the scientist to be the settlement of ethical problems of this sort. Given the objective to be achieved, he can (theoretically) indicate the means <sup>which are likely</sup> to accomplish it. Or given the means which are to be employed, he can give the probable results. But he cannot - as a scientist - answer the question: What should be accomplished? To the scientist, every weed is a flower; the human being, like the mosquito, is raw material for generalizations. Because scientists are sometimes human beings as well as scientists, they have opinions on other matters; but they do not have these opinions as scientists

----- Well, I have argued the hind leg off a donkey in trying to introduce this problem. Yet I am rather inclined to agree with John Galsworthy: "Human nature may argue the hind-leg off a donkey; but the donkey will have four legs when the argument is over." So I proceed to International finance.

One farther preliminary matter should be stated. I am not trying to prove that the French content of the term Justice is better than the English content

## International Finance

If a country insists, by law or custom, upon maintaining a relatively fixed relationship between the volume of its means of payment on the one hand and the volume of gold on the other, then an export of gold will necessitate a reduction in the means of payment and a corresponding tendency toward deflation and depression - which in extreme cases may mean a crisis. It should not be difficult, therefore, to see that a country might be willing to make some concessions in order to keep its gold. For the alternatives are depression on the one hand and abandonment of the gold standard on the other. Financiers being what they are, the second result is considered an even greater evil than the first.

But why is gold ever sent from one country to another?

We must distinguish between certain direct or immediate reasons and certain more remote causes. First, as to the direct reasons:

### Direct Reasons for Gold Shipments

One reason is easily discoverable. Suppose that the bankers in England find that Englishmen have larger payments to make to Frenchmen than Frenchmen have to make to Englishmen. There are two ways in which the French money may be secured. In the first place, those who have payments to make in France may purchase French money from the Frenchmen who have payments to make in England. Suppose, for example, that an English Importer must pay the French Exporter and that the French importer must pay the English Exporter. If the bills are for the same amount, the French Importer may pay the French Exporter and the English Importer may pay the English Exporter. The debts are settled with no movement of gold.

But since we have assumed that there is a net balance of payments due to France, the demand for French money is greater than can be

~~supplied~~ bought in the fashion indicated. This excess demand for French money will force up its price in terms of English money. When this price is forced up high enough, however, it becomes profitable for English bankers to create French money in another way. The English bankers can take English money to the Bank of England and redeem it for gold, ship the gold to Paris and exchange it at the Bank of France for French money. In the technical jargon, the price of franc drafts in London reaches the gold export point. All that this means is that it is now cheaper to create French money by shipping gold than by buying French money directly.

II. Causes for Gold Shipments.

Behind these direct or immediate transactions, however, there lie other motives for gold shipments. Why, that is to say, do the citizens of one country have more payments to make to those of another country than they are scheduled to receive from them? For the purpose of discovering these causes I select two countries which are lenders on international capital account ~~is~~ because that simplifies the problem somewhat. With governments, as with individuals, the rich and liquid are more apt to be able to dictate terms than are the impecunious or frozen. The countries selected are England and France.

A. ENGLAND.

What unifying principle is there, that is to say, what content must we give to the concept of Justice, in the case of British international financial transactions? (I admit that you must take my word for the accuracy of the presentation).

As far as the British have anything to do with the matter, the primary reasons for gold export are as follows:

1. That English prices are too high in relation to the prices in

other countries.

Suppose, for any reason, that the prices of goods, measured in gold, are higher in England than elsewhere. Persons in other countries will be inclined to sell more goods to England in order to receive these higher prices. On the other hand, English merchants will find it increasingly difficult to sell their high priced wares in foreign countries, where prices are lower. Stated otherwise, British exports fall, British imports rise; and Britishers have a net payment to make abroad. Sterling depreciates in terms of foreign currencies and gold may be exported. Now the movement of gold, unless counteracted, means that England must reduce the volume of her means of payment and correlatively her level of prices. Other countries, which receive the gold, can expand their means of payment and force prices up. The British prices, which were higher are forced down; foreign prices which were lower are forced up. Hence we get into a new position of equilibrium.

2. That the rate of interest in London is too low in relation to the rates ruling elsewhere.

Suppose, for any reason, that the rate of interest in London is too low in relation to the rates elsewhere. Persons who have loaned in the London money market will be inclined to withdraw their funds in order to be able to lend them at a higher rate elsewhere. Similarly, Englishmen will tend to lend funds in the higher rate centers instead of in London. Again, the withdrawal of funds from London will force the low British rate up; and the increased funds in other centers will force their high rates down. Equilibrium is again restored.

This is a beautiful mechanism of equilibrium - it is what Professor Commons calls equilibrism economics. It should be noted that the whole matter is left to individual choice or volition. Though the actions

I do not want to create the impression that Britain takes gold from other countries only when those countries want to get rid of it. When Britain returned to the gold standard in 1925, she reestablished the old pre-war parity with gold. In order to keep the mechanism going, she felt impelled to increase her gold stock. The method <sup>used</sup> was the one described viz., to increase the interest rates relative to other countries and to decrease her prices. When England imported some £ 11.5 million of gold in 1926 and an additional  $4\frac{1}{4}$  millions in 1927, she exerted some pressure upon other countries. Those countries did not want to lose gold; but to get it back, they had to deflate. I do not want to picture England as an angel among devils. What I do want to show is that England imported gold when she did because she needed the gold and not because she wanted to create depression elsewhere - If I may use an analogy: it is small comfort to one who has been forced to repay a loan to know that the reason the lender demands payment is that he needed the money himself - and not that the lender wanted the borrower to suffer. He suffers in either case.

were essentially those of bankers and finance dealers, each individual might enter the market on the side of demand or supply as he saw fit - or he might stay out of the market completely if he saw fit. The function of the Government was to keep the mechanism operating - to maintain the gold standard, to retain a fixed relationship between gold and the means of payment, etc.; but above all it was the function of the Government not to enter as an initiating or interfering agent.

Subject to certain modifications - which are extremely important from the point of view of the economist, but which are of no importance for the problem at hand - this is the British system.

I may summarize it for the purposes of our discussion: The content of the term Justice which one may read into British International Financial Transactions without doing violence to the facts is: The British Act as if the economic interests of the individual should be given free reign; and the function of politics is simply to keep the machinery operating.

**B. FRANCE.**

We come next to France. It should be stated at the outset that French policy has been designed with enough care to keep the direct or immediate reasons outlined above operative. That is to say, gold has gone to France when the price of bills was at the gold import point. The difference between the policies of the two countries lies in WHY the price reached the gold point. Let us pass some movements of gold to France under review.

In 1927 France was in the midst of her policy of stabilization. The Bank of France began to make large purchases of gold in London. The Bank of England protested against these special transactions.

The British financial press (Financial News, The Banker) called the policy inspired by Poincaré a "financial Ruhr adventure."

In July of 1927, at a conference of central bankers in Washington, an agreement was reached as to the principle of non-interference by central banks with each others gold reserves. In theory the understanding was perfect. But the agreement concerned only the purchase of gold by one central bank <sup>from</sup> ~~to~~ another central bank. Purchases continued but under the guise of commercial transactions.

In 1929 (?), soon after Mr. Snowden assumed the office of Chancellor of the Exchequer, he declared that he intended to insist upon payment by the French to the British holders of French Government bonds. Gold began to leave London for Paris.

In August, 1929, Mr. Snowden took up a firm attitude against those clauses of the original Young Plan which favored France to the detriment of British interests. The result was a sharp rise in the franc against sterling and gold again went from London to Paris.

In 1930 when, during the Young Loan negotiations, British and French interests clashed, sterling fell again, and gold flowed to Paris.

In July 1931, another political crisis broke out, and \$110 millions of gold left Britain for France.

Indeed, so regularly have gold exports followed political strain between Britain and France that the market began to expect that result and discounted it.

**The political factor enters in a negative sense as well. During the**

period between the two Hague Conferences in 1929 gold withdrawals from London were very small. It is not excluded that the French were trying to court the favor of the British at this time. Again, early in 1931, that is before the July episode already described, only \$80,000 of gold went from London to Paris. The French withdrawals were halted because the French wanted British cooperation against the German demands for revision of the Young Plan and especially against the Austro-German Customs Union.

Summarizing these gold movements we may say that whenever relations between Britain and France became strained, the franc moved against sterling and gold was shipped from London to Paris. On the other hand, periods of conciliation saw a recovery of sterling and a cessation of gold movements or at least saw them reduced to a mere dribblet.

It would be a mistake to conclude from this however, either that England has been the sole beneficiary of French hospitality or that the maneuvers have been uniformly successful. A single illustration will show this. When the negotiations were in progress on the Young Plan (Paris Conference of Reparation Experts early in 1929), the French tried to exert pressure upon Germany in the usual fashion. Dr. Hjalmar Schacht, the President of the Reichsbank, instead of trying to hinder the movement of gold, actually encouraged it as much as possible. Then he argued: - and with effect - that the French were in a ridiculous position. They insisted upon reparation payments and upon Germany's ability to pay; and yet the events, that is the loss of gold, demonstrated the impossibility of farther payment. Passive resistance has been used by Germany more than once against France. But revenge is sweet; and in June 1931 the French withdrew \$98 millions of gold from Germany thus helping in their small way to precipitate the bank crash.

policy has been successful.

Perhaps a word should be said about the source of French power in these matters. Perhaps many countries would like to be able to exercise such power; certainly Britain should have liked to keep its gold. Why were the French peculiarly able at will to increase the demand for francs sufficiently to force their price to the gold point? The French, for reasons unnecessary to catalogue here, built up large volumes of short term loans in London and elsewhere - that is deposits in British banks which were subject to call upon demand. When the French government wanted to exert pressure, they simply advised the holders of these deposits to request repayment. These French depositors in London offered their deposits in exchange for francs. The increased supply of sterling and increased demand for francs forced the price to the gold point. The essentially political nature of the movements of gold is scarcely to be doubted.

Certain other actions of the French - in connection with matters other than gold movements - help to substantiate the conclusion. When, as a result of the French withdrawals in the summer of 1931 Britain was forced off the gold standard, the French of course lost money on the deposits which remained in London. The Bank of France had about £ 62 millions of such deposits. The loss was about 2.5 billion francs. In order to ~~take~~ take this loss from the shoulders of the Bank of France, the Government guaranteed the deposits. Why? It had been lost by a French institution for la belle France!

Finally, if one reviews the Government loans which have been floated in France, he will note at once that (except for such international loans as the Young and Dawes Loans) they have been made almost exclusively to members of the little entente - or other friends, for the present, of France. That is they go to Central and Eastern European countries. for political reasons. Inasmuch as the French government steps into the money market (to some extent, at least, even guarantees these loans); flotations by private persons or institutions are correspondingly reduced. Not economic efficiency, but politics dominates.

It goes without saying that I am not here interested in these conflicts between countries per se. Similar conflicts of interest might arise even though the two countries concerned had the same ideas of Justice. What I am interested in showing is that these conflicts have grown out of the content which the respective countries read into the term Justice.

If I may conclude the French position: The content of the term Justice which one may read into French international financial maneuvers, without doing violence to the facts is : The French act as if the matters of state - of foreign policy - are paramount; the function of the financial machinery is simply ~~is~~ that of putting the Government into a sufficiently strong position to enable ~~it~~ to force its will upon its opponent.

### CONCLUSION.

Summarizing the paper as a whole: To the British, economic efficiency is paramount, and politics is a matter of distinctly secondary importance. To the French, political power is paramount, and economics is permitted an entry only in-so-far as it strengthens that power.

### Note.

The topic for this paper was assigned. I would not deliberately introduce the concept Justice myself. The conclusion is that various nations have different concepts of justice. But if various nations why not smaller areas? why not groups of individuals within areas? in short, why not a separate concept for each individual? But if that be the case, where do we get with the concept? The other approach: the unification of the two concepts under a broader concept (e.g., self-interest) avoids the issue; because the concept which is read into self-interest is not the same for the two.

The question might very legitimately be raised: "What has all this to do with Justice?" I admit that I have not dealt with what the English and French have said about Justice in the field of international finance; but have, instead, tried to read content into the term out of their actions.

Now the things which these countries have done in the sphere indicated have affected people elsewhere. They have helped to cause starvation and suffering. It seems to me that we must have a concept of Justice broad enough to decide: was it Just that these persons were inflicted in that way? *Justice, in the sphere of international finance, concerns more than court systems.*

Reduced to final terms the issue becomes. The French actions in the field of international finance are such as to place the state in the dominant position, with the individual an unimportant cog in the machine. The British actions in the same field, on the other hand, are such as to place the individual in the dominant position, with the state as one of the institutions necessary to enable him to operate most efficiently.

We might discuss the problem which content of the term Justice is the better. *for which ~~action~~ contribution is best?* This cannot be answered scientifically in any final sense.