

DISCUSSION FOLLOWING LECTURE ON

MONEY, CREDIT, AND PRICES

by

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Q - Is there any such thing as economic isolation for this country?

A - It is as possible for this country as for any other. I suppose you mean to maintain the standard of living - not to be like China with a lowered standard of living. I would say after a period of readjustment, yes. We should have to learn to do without coffee and we would be in serious difficulty in regard to rubber, but these are the chief things the import of which is absolutely necessary and if you are going to import them you have to have something to pay for them. It is obvious that if we stop consuming coffee we would have more money to spend for cotton and it would be a difficult process to readjust the tastes and habits of the people. I don't know what we could do in the automobile industry in regard to rubber, if you could take^{care} of that and magnesium, tin, etc., I see no reason why, given time to adjust itself, this country could not function in economic isolation. We would have to do without a lot of things or find substitutes for them.

Q - I understood you to say we received slight benefit from going off the gold standard other than an increase in foreign trade. What was the real gain in going off the gold standard?

A - I don't think I said just that - it was not what I meant to convey. England I think benefited from going off the gold standard but for the U. S. the net balance is against it. I am working on that question now but have not yet reached a conclusion. It certainly looks as if England benefited, however There you had a very difficult situation for when

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she went back in 1925 she went back at a value of the pound that did not correspond to the wage level internally. As a consequence she was very much handicapped in export markets by the price level at home. The result was a prolonged acute condition of unemployment which lasted until 1931. In the latter part of that period she would have had it anyway, due to the world depression. There was a case where the value at which they restored gold was such as to call for contraction of circulation internally. That necessitated reduction of the value of the national income as measured in pounds which would not have meant anything at all as measured in actual living conditions. Wages had fallen but the British wage level is controlled more by wage unions than in any other country. Furthermore, public policies were directed vigorously toward bringing about readjustment, not to postponing it, and the devaluation did enable them to overcorrect that situation. Moreover, the British had been unable to pursue, during the earlier years, the policy of credit expansion pursued in this country, Sweden and Australia, and going off the gold standard enabled them to do it. They did it with a great deal of caution. They did not utilize their new-found freedom as a means of creating a big deficit; they did not undermine the confidence of the country in their investment. It is a highly debatable question as to whether they could have gotten by without going off the standard, and the argument is greater in this country.

In the case of the U. S. the situation was quite different. The general wage level had fallen off 15%, we were not dependent on external trade, there was an excess of exports over imports and gold was

flowing in. When gold is flowing in, on the whole currency is undervalued. ~~say~~ If country A sells more goods to country B so that gold is flowing from B to A the monetary action would be for country B to expand and country A to contract. What we did in this country was to take action appropriate to a country losing gold when we were obtaining it. We pulled gold out of the world - one billion two hundred millions dollars worth of it, seven hundred million at a time when we were forcing the dollar down to a new level. What benefit was derived? The trade benefit was this the Government buys, say one billion dollars worth of gold abroad. It puts foreigners in possession of one billion dollars in American money which they can hold or spend in this country. Obviously, that country will tend to increase its imports. What benefit does that give? There is one way in which it may benefit. If you had normal employment it would not be of any benefit. The country would be paying one billion dollars for the purpose of export with no economic reason for doing so. But in a case where the country is concerned over a large volume of unemployment and where the wage level does not adjust itself, what you do is shift unemployment from one country to another. It means that a market is created for one billion dollars of a different product and the effect of creating unemployment in this country is the same as buying that billion dollars worth of products and dumping them into the sea. What happens is that the South African mines expand and take out a lot of gold and we put it back in. As soon as it is actually utilized you reverse that flow. Theoretically, if you absorb it for a time in a country with large amount of unemployment you create employment in this country at the expense of unemployment abroad. You simply sell the countries and are then able to import commodities which will be of real value to the community and not

create unemployment. Aside from that, the other thing that devaluation accomplishes is that by going off the gold standard you prevent being driven off. If you pursue these policies, under the gold standard you might as well be driven off, ~~in order to avoid being driven off.~~ We were not driven off in 1933 and we had an enormous amount of gold, loans were relatively small and it would have been the best thing if we had loaned one billion dollars or so but it does make it possible without exciting public distrust to pursue a cheap money policy which has a temporary benefit. Cheap money stimulates business activity at a time when a community is tending to hoard money and it may be successful. In 1927 it was distinctly successful.

Q - You have given us a very interesting explanation of the effect of foreign trade. Is that appreciation of the value of foreign trade general throughout the United States or limited to the coastal cities where they have to deal with foreign currency?

A - I should judge it was very much limited to communities having direct dealings and probably in the South. The Texas Weekly has been doing a lot of propoganda work trying to educate the people to the importance of the e xport market. I have not lived in the Middle West for ten years but my impression is that there is very little interest in the thing one way or another. When I was at the University of Iowa a couple of fellows were doing some work in the interest of the League of Nations. They asked me my attitude. I told them there wasn't any, the community didn't care about it. You can't do anything to create favorable sentiment until you create the awareness that it exists. The extreme case came to my attention in Kansas. Two weeks after war was declared I talked

to a number of people and never heard the war mentioned. Of course, somewhat later, when the draft reached there you heard more about it. That was the only reference I heard to it. The sinking of the Lusitania was a tremendously important thing to those who had seen the Lusitania come in and go out but to people who had never seen a ship it was just something to read about, as you now read about Ethiopia. The country is still very much divided.

Q - Is the cotton surplus in this country likely to constitute a problem of major importance calling for great readjustment ~~both~~ in manufacturing, in finance, and in agriculture, as well as export.?

A - I am not an expert on that question. There is a study now being made at Brookings on it, but I don't know much about ^{it}. The shrinkage in export has been accomplished by curtailment of stocks abroad. So far as the immediate surplus is concerned it is not quite as serious as it looks. The serious thing probably, is the stimulus being given the growing of cotton in other parts of the world, particularly the export of cotton textile machinery in Brazil. If as a result of that policy Brazil and India and North Africa develop a cotton industry that will mean permanent cutting into our market, that will necessitate ~~readjustment~~ . That is the sort of thing in which this country is consistent in lack of experience and knowledge, - the same sort of thing England accomplished by exporting textile machinery. She helped the machinery industry for a time but ultimately undermined her textile industry. We are undoubtedly building up cotton growing industries and cotton textile industries. Certainly we have a much bigger share of the world's cotton trade than we need.

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Q - Since this depression there have been several unsuccessful attempts to have international monetary conferences and agree on some standard of currency. Is the reason for the failure of that attempt due to the fact that some parts of the world are deflation minded and some inflation minded?

A - Yes it is. The important occasion of its breakdown was the receipt of a message from the President of the United States announcing our new policy attempting to raise the price level and repudiating any effort at currency stabilization at that time. If the U. S. had not broken up the conference it probably would have collapsed anyway because of the difference in attitudes between the U. S. and France. There has been no official conference since. I attended an unofficial conference in London in March sponsored by the Carnegie Endowment for International Peace and if that conference was representative the chances for stabilization would seem to be pretty good. The British delegates were certainly favorable to stabilization but I don't think they were really representative, and I don't think the American delegation was particularly representative either. The continental delegation included a gentleman who went back to Belgium and became Prime Minister and they devalued the belga within two weeks after the conference closed. He had voted for stabilization. I don't think unofficial conferences of that kind are very good indications of the majority point of view.