COMMENTS ON SPEECH OF ROLAND L. STANGER BEFORE REGIONAL CONFERENCE ON FOREIGN TRADE AND INVESTMENT

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If you will look at your program you will see that I am asked to comment on Professor Stanger's lecture. I consider it a great honor and distinction to comment on such a fine paper and at the same time, I can't help realizing that it is difficult to even talk on the same subject because it was covered so well.

I am very thankful to Professor Stanger for his remark that we in banking have had to live with exchange and trade regulations in our business activities and as he said, we truly were on the receiving end of such exchange and trade regulations. Many exchange and trade regulations were introduced by nations all over the world. We received the restrictions day by day and we worked on them, doing our best to explain them to our exporters and importers, as we felt it was a part of our responsibility. On account of the frequent changes it might sound like a difficult task but let me assure you, it isn't half as bad as it sounds. There is a certain definite pattern in connection with the exchange and trade controls to which I refer later.

I feel that by now, you realize that the only reason I was invited to be with such a distinguished group was that I have had 35 years of banking experience with Central National Bank of Cleveland and most of that time has been spent in the Foreign Division. Before coming to Central National Bank, I was a student at the Budapest University where I studied International Trade, but my university training was of little value to me on the subject of exchange control, for such controls were unheard of at that time. We were then on the gold standard, and at the time, exchange control was not even in the dictionary.

The gold standard was established in 1879 and England, together with all other European countries, adopted it. A minimum of 40% gold reserve was necessary to be on the gold standard which was established by the weight of gold represented in the country's currency as a middle rate and internationally accepted as such. This was the golden age of trading. At the end of each year the trade balances, favorable or unfavorable, were settled by shipping gold or receiving gold. In most cases it was just a bookkeeping entry.

In 1914, when the war broke out, most European countries had over 100% gold reserve, but what happened? Let us take one example—Germany. When she entered the war, Switzerland, Spain, Portugal and other neutral countries, who traded with Germany regularly on a credit

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basis before the war, demanded payment in gold. According to the gold system, every Wednesday all gold standard countries had to record how much gold they had, and when gold reserves went below 40% the difference in percentage was deducted from their par exchange rate. It somewhat simplified the figuring of exchange rates. All you had to know was what the gold reserve of the country might be at that particular time.

When the war ended, Germany had spent all her gold and as a result, the German mark immediately depreciated in the foreign exchange markets of the world. They were advised that their currency must have some value based on gold. The old valuation was .2387 U.S. dollars for one mark but it was suddenly realized that it took a billion marks to arrive at a purchasing power of .2387 U.S. dollars. At that time, the United States made a gold loan of 400 million dollars to Germany and their marks were revalued 1 billion to one and established a new rate of .2387 U.S. dollars per mark. With this settled situation, Germany prospered until the Hitler regime started.

Exchange controls continue to be complicated. They preceded the last world war. The real reason for the Bretton Woods Conference was that difficulties were to be expected. After 1932, 1933 and 1934, when the international depression began, there came the Hindenburg Moratorium and then the Stand Still Agreement which froze all foreign assets in Germany. Before we realized it, there were over a dozen different exchanges in use in Germany called blocked marks, which were controlled by the government. In fact, for every situation that might arise, a different blocked mark was established. That probably was the start of exchange controls.

When the second world war was over, it was realized for the first time that something had to be done. A dozen or more exchanges in every country would not be wise. Therefore, representatives of many nations met and decided to form an agreement. Out of it came the Bretton Woods Agreement. The Bretton Woods Agreement was desired because it gave countries the possibility of an international organized exchange control which would enable them to stabilize their currency and with that, help their national and international economies. Unfortunately, the definitions were very broad in this agreement, leaving many loopholes which enabled a few countries to use this agreement for their own benefit at the expense of others. In spite of all this, many countries did an outstanding job in stabilizing their monetary systems.

Italy, in my estimation, is a splendid example of what a well organized exchange and trade control can do for a country.

I had the privilege of having Dr. Moranti, the Commercial Consul of the Italian Embassy as my guest this week and naturally we talked about Italy's national economy. He showed great pride when he talked about the accomplishments of the Italian people. After the second world war Italy was a devastated country, politically impotent and with a huge financial problem confronting it. Fortunately, Italy had level-headed people work out plans for an exchange control. It was aimed to stop the flight of capital, for everyone in Italy at that time who had some lire tried to buy American dollars, French or Swiss francs to obtain deposits in other countries. With the rigid exchange control, this was stopped and the black market vanished. With the disappearance of the black market and using the middle rate of commodities, its purchasing power was stabilized. Italy probably was the first country in Europe, outside of Switzerland, to eliminate the black market and bring stability to her commodity prices.

After the exchange situation was well in hand, Italy established an import control? Why? The Italian government did not want her citizens to buy luxuries, such as nylon hose, lipstick, etc. from foreign countries, for it desired to buy only what was necessary for the good of its national economy and might be a credit to future generations.

The help Italy received from the Marshall Plan was carefully planned and the financial assistance was used to industrialize Italy. As a result, in 1953, Italy had a pronounced prosperity which continued, and at the end of 1955, the official figures were as follows: Industrial production was doubled over that of 1938. Housing and building projects were up two and a half times. Unemployment was at the lowest level in Italian history and Italy's production the highest it had ever been. This seems to prove that exchange controls can accomplish good when well managed.

Let's look at exchange control in Brazil. Professor Stanger's paper on it was excellent. I wonder if the exchange control worked there. I am afraid not, with the legal rate of 18.75 cruzeiros to the dollar and the open market rate 80 cruzeiros to the dollar. What does that mean? It means that the actual purchasing value of the cruzeiro at the official rate was one quarter of its real value.

Another case which isn't as bad is England. In fact, it may be typical of countries which have controlled exchanges. In late 1948, the British pound sterling was stablized or devalued to $2.80 per pound. The actual purchase value of a pound sterling was at that time the same as the purchasing value of $2.80 in the United States or, stating it another way, a British pound note at that time bought the same amount of commodities as $2.80 would buy in the United States. It should be assumed that the middle rates of commodities were the same in both countries and were reflected in the purchasing value of their respective national currencies. However, when the Korean War began, inflation started in the United States. Our prices went up 13% compared with 1948 and that is about where they stand today. England's prices, on the other hand, went up 44%. That means that the English premium over American food, clothing and other commodity prices is 31%. Today, $2.80 purchases in London what $2.13 purchases in the United States.

Therefore, inequality exists once again. Would it not be wonderful if international purchasing values represented in currencies could be equalized in relation to each other in order to create parity between countries which is so vital for healthy international trade?

In listening to the papers delivered by our distinguished speakers, we heard about dollar shortages which exist today all over the world. This, in my estimation, is an outgrowth of unbalanced economies. A basic economy applies to the individual and the nation in the same manner, for neither can spend more than it receives.