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Three Monographs: International Monetary Fund; Treasury Systems; Military Conscription and Conscientious Objection

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THREE MONOGRAPHS:
INTERNATIONAL MONETARY FUND; TREASURY SYSTEMS;
MILITARY CONSCRIPTION AND
CONSCIENTIOUS OBJECTION

by

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INTERNATIONAL MONETARY FUND

Field of Study: International government and politics

The International Monetary Fund was established in 1944 to promote global economic growth, stabilize currency exchange rates, and to expand international trade in the aftermath of the Second World War.

Principal terms

conditionality: economic reforms required by the IMF as a precondition for added loans and/or rescheduling assistance

exchange rate: the price at which two currencies can be exchanged for each other

gold standard: the value of a nation's currency is expressed as a fixed worth in gold (e.g. 1 oz. gold = $35 US) and paper money can be redeemed for its equal in gold

pegged exchange rates: Under an earlier IMF agreement, all members' currency were expressed as a certain value in terms of the dollar, which, in turn, was expressed as a certain value in gold

quota: Under the IMF, quota refers to one nation's contribution of funds, relative to total contributions. Its amount is proportional to the economy's importance in world trade

special drawing rights: SDR, or "paper gold" were initiated by the IMF in 1970 as a means of increasing worldwide liquidity and are issued in proportion to a member's quota

World Bank: The sister organization to the IMF, established in 1944 to provide long-term loans to developing economies

Overview

The International Monetary Fund (IMF) was an agreement reached at Bretton Woods, New Hampshire in 1944 to foster worldwide economic recovery and development through monetary cooperation and exchange rate stabilization. By 1993, the Fund had grown from 35 to 177 members. More than any other nation, the United States was instrumental in the establishment of the IMF, with Great Britain an important, though junior, partner. In 1944, the Second World War was still proceeding and much of Europe was devastated, while the US had emerged relatively unscathed as the premier economic and military power.

The founding philosophy behind the IMF stretched backwards to the interwar period. Policy planners weighed the havoc caused by war reparations imposed on Germany by the Treaty of Versailles and the not-coincident rise to power of Adolph Hitler. They also considered the negative effects of currency depreciation and the Smoot-Hawley tariff on domestic and international economies. The impact of onerous debt burdens and "beggar-thy-neighbor" trade policies had proven expensive lessons of history. On the other hand the opportunity to restructure and solidify a world order torn askew by war, facilitated through currency convertibility and expanded trade seemed at hand. The signing of the Bretton Woods accord signalled the full evolution of US external policy from isolationist to internationalist.

The broad goals of the IMF as stated in the Articles of Agreement in 1944 remain largely intact today. They are: (1) to expand trade and growth through currency convertibility; (2) to stabilize exchange rate fluctuations as a means of improving convertibility; (3) to provide an international forum for monetary issues; and (4) to increase international liquidity and provide short-term loans to members as a means of promoting trade and growth while reducing the need for debilitating instruments such as higher tariffs and forced currency depreciations.

Initially, the IMF adopted a system of adjustable-peg exchange rates for member currencies. Each currency was pegged to the dollar at a rate specified and maintained by each central bank. In turn, the dollar was equal to a set amount of gold ($35 = 1 oz. gold); and dollars held by foreign central banks could be redeemed in gold at this rate. Members were required to maintain their currency in a narrow deviation from the peg-rate. However, countries with a proven "fundamental disequilibrium" in their exchange rates could receive IMF approval to adjust the dollar peg, up or down. As the US dollar stood as the key currency, held as reserves by virtually every foreign nation, foreign central bankers were required buy and sell dollars in order to maintain the proper relationship between the domestic currency and the dollar.

The adjustable-peg system proved a viable mechanism into the 1960's. Initially, rebuilding foreign nations held few dollars and US gold stocks were ample to satisfy foreign central bank demand. However, as the 1960s proceeded, the Vietnam War and Great Society welfare programs pushed the US into trade and budget deficits. Foreign holdings of dollars increased and US gold stocks shrunk. By 1965, US gold stocks were no longer sufficient to redeem all foreign holdings of dollars. One option for US monetary authorities was to raise the dollar price of gold, effectively depreciating the dollar against all currencies. However, to limit speculation in gold, major industrial nations agreed to establish a two-tiered gold system, where gold flows between central banks would maintain the $35 per oz price of gold, while gold could trade as a precious metal in commodity markets for a market determined price. This became the first major step in the demonetization of gold.

Early in the 1970's, foreign holdings of dollars soared and it became clear that the link between gold, the dollar, and world currencies would have to be completely severed. In August 1971, President Nixon suspended the redemption of foreign-held dollars for gold. On January 1, 1975 ceased to serve as the standard of value for world currencies. The IMF began to sell its stock of gold at market-set prices. The movement toward managed, floating exchange rates had become a reality.

In 1969, in a move to increase world reserve assets and enhance liquidity following abandonment of the modified gold standard, the IMF instituted a new asset, Special Drawing Rights (SDR). Like gold before it, SDRs could be used to settle balances owed in foreign currencies. SDRs were literally created by a stroke of the IMF pen and were apportioned among members according to their importance in the international economy (relative size of their Fund quota). At first glance, it appears that the IMF, by issuing SDR credits to members, was acting like a bank and "creating money" through new credits for international trade. SDR credits allow a nation to borrow up to 50% of its IMF quota in a foreign currency(s) of choice. SDRs fall short of being money because their issuance is limited by quota size and they are exchanged only between governments and central banks.

Nonetheless, SDRs have become an internationally controlled reserve, replacing gold to a large extent, and the dollar to a much lesser extent. SDRs are more stable in supply, being tied neither to production (gold) nor variable US trade deficits (foreign dollar reserves). Initially, the price of the SDR was pegged at $1 US. However, dollar devaluations and the unlinking of currencies with gold, made a "market basket" approach to SDR valuation preferable. Currently, the SDR valuation basket includes the currencies of the US, Germany, Japan, Great Britain and France.

Over time the IMF has evolved from a "credit union" configuration, in which members subscribe and draw on their own subscriptions, to one closer resembling an international bank. The IMF has periodically borrowed from its stronger members, under the General Agreements to Borrow, to improve liquidity and increase the overall pool of loanable funds. And, the IMF allows credit, above and beyond quota level, for members experiencing chronic cash flow problems in financing international trade. Typically, deficit nations borrow from the IMF by purchasing needed foreign currency with their own currency, replacing that amount in a set period of time with a "hard" or internationally acceptable currency.

The changing nature of the IMF mission is reflected in its role in the international debt crisis of the 1980's. Previously, during the 1970's, oil and other commodity prices had spiralled upwards. OPEC nations, flush with dollars, maintained huge sums in US and European banks. The banks, in turn, loaned very large amounts of their surplus cash to developing nations (LDCs), under the strong assumption that ever-rising commodity prices would enable repayment.

However, the decade of the 1980's brought falling commodity prices, rising interest rates, and recession. The interest rates on many LDC loans were flexible by design. Therefore as world-wide interest rates climbed, so did the costs of debt service. With exports to industrialized nations declining because of recession, many developing nations found themselves unable to repay loans. In turn, major money-center banks in the US and Europe found themselves pushed toward bankruptcy, as failing LDC loans reduced assets relative to liabilities. Needless to say, the flow of new loans to capital starved LDCs dried up.

Sensing a financial crisis of truly international proportion, the IMF, along with the banks and government agencies, initiated a program of containment. In the years 1983-1985, more than 70 separate agreements were hammered out between LDCs, banks, and the IMF to reschedule loan repayments. Generally, the new accords included a postponement of principal repayment (while maintaining interest payments), and extended loan maturities. "Bridge loans" were made by the IMF and the US Treasury to help debtors with critical, short term fiscal needs. Finally as a necessary condition for access to IMF loans and rescheduled loan terms, nations were required to undertake basic, often painful, economic reforms.

Applications

The debt crisis of the 1980's redefined and elevated the role of the International Monetary Fund in the world economy. The "conditions" imposed by the IMF on economies seeking loan rescheduling established the organization as a global, economic traffic cop. Generally, as a nation seeks more in terms of IMF loans or intervention in a debt issue, it is subject to increasing levels of IMF supervision and policy constraints. This "conditionality," as practiced by the IMF, is a subject of ripe controversy in many LDCs. On one hand, accepting International Monetary Fund conditions may provide the only pipeline to foreign capital and, thereby, economic growth. On the other, the economic costs imposed on LDCs by IMF conditionality can be severe.

The economic rationale backing IMF-imposed conditions on nations seeking debt relief is three-fold. First, disciplined (painful) economic policy is necessary to restore a nation's ability to service debt and thereby maintain IMF liquidity. Secondly, as an outside agency, the IMF can objectively control for external effects and best effect the collective welfare. Finally, the IMF has a level of experience, expertise, and information second to none and thereby is more likely to propose an effective policy prescription.

Generally, the IMF conditionality package will contain elements of the following: (1) Reductions in the annual excess of government spending over revenues; (2) Reduction or elimination of subsidies to consumers and producers; (3) Devaluation of an artificially high price for the domestic currency (to encourage exports); (4) Throttling back growth rate of the money supply; (5)Lowering of barriers to freer international trade; (6) Allowing the marketplace to set prices and value resources while reducing the government's role in administering prices; and, (7) Reducing the annual rate of inflation and wage growth.

During the international debt crisis of the 1980's, and even today, LDC's have been vociferous in their complaints over the constraints imposed by IMF conditionality. They contend that reductions in deficit spending and food subsidies disproportionally effect the poor and thereby increase the inequality of income distribution and the costs of social unrest. LDCs argue that the deflationary medicine prescribed by the IMF negatively effects their employment and consumption, but has no impact on those who helped create the problem; i.e. OPEC which forced up oil prices and, the US, which forced up interest rates. Furthermore, LDCs contend, deflation spreads. Nations which traditionally buy LDC products have less income for imports.

The International Monetary Fund has responded that conditionality provisions are necessarily strict because the IMF must convince private (risk minimizing) banks that new loans will be repaid. In the 1970s, more LDC assistance came in the form of direct governmental aid and government subsidized loans. Also, making an LDC "bite the bullet" in terms of curbing excessive domestic spending is always less costly now than later. The IMF argues that the conditionality package may be harsh, but it is the sole means of reopening the pipeline to foreign capital flows. Without an inflow of foreign capital, conditions are likely to become even worse. Finally, the IMF proposes that LDCs could reduce defense expenditures rather than some programs which directly effect the poor.

Context

Along with its sister organization, the World Bank (The International Bank for Reconstruction and Development), the International Monetary Fund was instituted to restore and improve the world economic order in the aftermath of World War II. Specifically, the role of the IMF was to foster trade and thereby economic growth through a system of stable, convertible currencies and an international pool of loanable funds.

Since 1944, the scope of IMF operations has increased markedly, while its mission continues to evolve. The abandonment of the international system of fixed exchange rates and a modified gold standard in the early 1970s and its replacement by floating exchange rates freed the IMF from one of its "watchdog" tasks. Nonetheless, facilitating currency convertibility as the means for enhancing trade and development remains at the heart of the IMF mission. As the IMF has increased in membership and subscription quotas have been raised (to approximately SDR 150 billion in 1993), the pool of internally loanable funds has grown. However, the demand for IMF financing has paralleled the increase in the capital base.

How large the Fund may become is in part a function of future economic events that effect both the current (spending) and capital (investment) side of nations' Balance of Payments. Certainly, the debt crisis of the 1980's has made private sector banks reluctant to make loans to many LDCs. Therefore, the IMF is the only recourse for poorer nations who have failed the credit worthiness test in the private sector. It should also been noted that the lesser developed countries of today will, in the future, provide the growth markets for products of developed nations.

Thus, there is a significant body of thought that regards the future place of the International Monetary Fund is to function as the central bank of the global economy - truly, the "lender of last resort." While this transition would constitute a quantum leap in terms of the mission and scope of the IMF, the momentum toward a global economy allows such an institution to be conceivable.

In an economy, a depositor "run" on a single bank will quickly deplete that banks of ready reserves to meet depositor demand for cash. While the bank may be perfectly solvent in terms of asset/liability management, it will suffer a "liquidity crisis" in not being able to convert sufficient assets to cash in a short time frame. Prior to establishment of a central banking system (such as the Federal Reserve) this bank would have been allowed to fail. However, a central bank would provide the bank with a cash loan sufficient to sustain the run.

Similar panics might occur at a national level where all the bank lenders to a country decide to withdraw their funds. In this case the IMF would step in to provide sufficient liquidity to prevent economic collapse and reassure banks that the economy remains viable. However, while national liquidity runs (e.g. Mexico, 1982) have occurred, the most serious problem facing many poorer nations is one of long run insolvency and inability to repay foreign debt. (Insight into the credit worthiness of an LDC is reflected in the price of its bonds on the secondary market).

Loans to already insolvent LDCs might be justified by imposing strict conditionality rules. Much of LDC fiscal woe can be traced to poor economic policy. The IMF has the expertise and experience to direct proper changes of policy course. Also, the IMF has more institutional throwweight than commercial banks and the ability to make unpalatable policy prescriptions stick.

On the other hand, LDC compliance with conditionality agreements has been less than strong. The existence of a large stock of foreign-owed debt ("debt overhang") may discourage compliance. Given overhang, a significant part of the expanded export income induced by conditionality will go to service foreign-held debt, providing little or no stimulus to economic growth. Thus, the role of world lender of last resort is not without peril.

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Cross-References

Debts and Deficits, ###; Trade with Foreign Nations as a Function of Government, ###; International Agreements, ###; Underdeveloped and Undeveloped Nations, ###; World Bank, ###; World Political Organization, ###.

TREASURY SYSTEMS
(money oversight as a function of government)

Field of Study: Functions of government

For millennia, money has been used as a means of facilitating the exchange of goods and services. What constitutes money and government control of its supply to help stabilize an economy provide the thrust for this article.

Principal terms

central bank: a government entity which functions as a "bankers' bank" and acts to influence the money supply and interest rates as part of monetary policy

currency: bills and coin that are "currently" acceptable in exchange for goods and as a settlement of debt

demand deposits: a check drawn on a bank "demanding" that payment be made from the underlying assets in the depositor's account

Federal Reserve: the central bank of the United States created in 1913 to act as the lender (to banks) of last resort and the nation's monetary authority

fractional reserve requirement: banks are required to hold only a portion of deposits in reserve against depositor demand and may loan out the remainder

legal tender: money by governmental decree or "fiat," which must be accepted in payment of debt

liquidity: the ease with which an asset can be converted into cash

monetary policy: the means which the monetary authority uses to influence the money supply and interest rates in stabilizing the economy

panic: a sharp contraction in the US economy, historically accompanied by depositor "runs," bank failure, and a constricting money supply

specie: coins minted from precious metals which had value as a commodity as well as a set value in exchange

Treasury: The US cabinet office which acts as the nation's fiscal agent, collecting taxes, making expenditures, and borrowing, as necessary, to finance the spending deficit

Overview

Historically speaking, the earliest method of exchanging goods and services was barter. In barter, goods or services are exchanged directly for each other. However, a major hindrance to a barter economy is the "mutual coincidence of wants" necessary for a transaction to occur; e.g. farmer A, a pig producer and farmer B a wheat producer must want each other's goods, concurrently, for a transaction to occur. To circumvent the barriers to commerce that barter presented, commodities of common use were advanced as crude measures of value; e.g. beans, shells, metals, tobacco. These intermediate commodities could then be exchanged in measured rates for goods and services. However, large variances in size and quality of "trading commodities" made exchange a slow process.

Efforts to standardize trading commodities increased the level of commerce but revealed new flaws in the exchange system. Commodity monies such as rings or measures of metals, precious or nonprecious, were subject to large variations in supply, as mines were opened or closed. Thus, the value of early "money" was given to enormous fluctuations. As a result, at the community level, efforts were made to control the "currency" (what, presently constituted a means of exchange) and the issuance of crude money. Trading communities came to stamp metals with their own particular seal and to forbid the circulation of other coinages. The intervention of trading communities to state in law, what is currently ("currency") legally acceptable in exchange, constitutes the beginning of money as we known it.

However, the broad definition of money is an elastic one, since what is acceptable in exchange for goods and services may change with economic conditions. Only "fiat" or governmentally designated money must be accepted in resolution of debt. While the acceptability of various forms of money may change, the characteristics of an acceptable money do not. An effective money will function as a medium of exchange, a store of value, and a standard of value and debt. Acting as a medium, money encourages exchange while removing the encumbrances of barter. Since money gained in a transaction is held by the seller, that money must be able to retain its value (command over goods and services) until the seller makes a purchase decision. Finally, a reliable money serves a "yardstick" function in comparing values and in allowing for long term debt contracts.

In the United States, the evolution of the money system and of the respective roles of the Treasury and central bank is an ongoing process. In colonial times and post-1776, corn, tallow, wheat, skins, pork, fish, and brandy circulated as commodity monies; e.g. in 1789 the salary of the Governor of Tennessee was stated as 1,000 deer skins. Additionally, the currencies of Spain, England, France, and most European trading partners circulated in the US as well. However, the scarcity of foreign specie and the absence of minting facilities in the colonies, prolonged the use of commodity monies and encouraged the circulation of promissory notes, colonial bills of credit, and "private monies" as media of exchange.

It followed that one of the most onerous tasks facing the founding fathers of the United States was establishing a standardized, efficient currency. The issue of whether a "hard" rather than a "soft" money policy better suits national needs persists to this day.

With the ratification of the Constitution, Alexander Hamilton, the first Secretary of the Treasury, launched a campaign for a national bank which would increase the quantity of paper currency in circulation while acting as the nation's bank (and source of loans). Patterned after the Bank of England, which had been successfully operating as Britain's central bank for 100 years, The First Bank of the United States functioned both as a commercial bank and the Treasury's bank. The First Bank was essentially privately owned and the largest bank in the new nation, a lender of specie to smaller banks; and the depository for federal tax receipts. The Bank monitored the quality of the money supply by presenting notes drawn on other banks for payment in specie.

The congressional charter for the First Bank was not renewed in 1811. Opponents had successfully attacked it as unconstitutional, controlled by foreign investors, and a money monopoly. However, difficulties in financing the War of 1812 and other monetary problems inspired the establishment of the Second Bank of the United States in 1816. Under the presidency of Nicholas Biddle, the Second Bank prospered mightily, extending the central banking functions instituted by its predecessor, and tightening control over the national money supply. But, the election of President Jackson in 1828 provided Biddle and the Bank with a formidable opponent. In his premier address to Congress, Jackson questioned the constitutionality of Second Bank in firing the first shot in what was to become the "Bank War." After a furious battle in the press and on the floor of Congress, Jackson delivered the deathblow to the Bank by transferring federal deposits to state banks. In 1836, the charter of the Second Bank of the United States was allowed to lapse.

Thus, for the period 1836-1914, there would be no entity performing functions of a national, or central bank in the United States. From Hamilton to Andrew Jackson's second term, the nexus between "national bank" and Treasury, in terms of policy and cooperation, had been tight. In the aftermath of the Second Bank fiasco, advocates of a hard money policy urged a complete separation of banking and the federal treasury. Arguing that the federal government should receive only specie in payment of debt, opponents legislated a "divorce" between treasury and the banks in 1846. Hereafter, monies paid the government in hard currency would be stored in the Washington treasury or in treasury-owned buildings in other cities.

The negative economic consequences of sequestering government surpluses (then, often the case) in treasury vaults became apparent. For seventy-five years, a succession of Secretaries of the Treasury found means to circumvent the law. For example, one way to recycle government revenues was for the Treasury to buy government bonds on the open market, effectively returning monies to the bank system. The independence of the treasury from the bank system was to be de jure, not de facto.

After the concept of central banking was allowed to lapse, an era of free banking commenced. Under free banking, any individual or group could begin a bank provided they comply with state regulations - which varied considerably. Needless to say, a good number of banks were founded with the sole, and realized intent of bilking depositors out of their hard earned savings. Nonetheless, the bank industry flourished during the period before the Civil War. Economically mature states required heavy specie reserves against issued bank notes, but only a few required reserves against deposit liabilities. The number of state banks grew from 330 in 1830 to over 1,500 by 1860.

Although the bank industry grew and prospered, overall, during the antebellum period, the issuance and acceptability of paper currency had become a serious problem. By 1860, with 1,500 banks issuing 6 or more denominations of notes each, 10,000 different banks notes circulated in the economy. Whereas some notes were as good as the specie backing them, others issued by less scrupulous "wildcat" banks were either unacceptable or acceptable only at a huge discount. Counterfeiting and alteration of notes were rampant. Periodicals, which itemized notes in circulation and approximated their discounted value in exchange, became a necessity for merchants.

In 1863, the federal government ended its "hands-off" policy toward the bank industry and intervened with the passage of the National Bank Act of 1863 and subsequent amendments. The purposes of the bill were twofold: (a) to control for the proliferation of currency; and, (b) to help finance the Civil War. Under the enactment, national banks were to be chartered by the newly formed office of comptroller of the currency. Capital requirements for the new banks varied by population served, while the purchase of war bonds in an amount at least equal to one-third of a bank's capitalization was required. In return, the nationally chartered banks received an new issue of legal tender, national bank notes equaling 90% of the face value of the new bonds. A tax of 10% was imposed on the acceptance of state bank notes, with the intent of driving them from circulation.

Initially, the 10% tax caused the number of state chartered banks to dwindle. But as demand deposits replaced banks notes as the primary medium of exchange, the number of state chartered banks rebounded to over 9,000 by 1900, while the entire banking system included over 13,000 banks.

After the Civil War, while state bank notes ceased to circulate, national bank notes, US bank notes (termed "greenbacks" and backed solely by the name of the government), specie and specie representatives all functioned as money. Different currencies resulted in different price systems and a clamor for more uniform currency. In 1900, the Currency Act formally placed the US on a pure gold standard. Henceforth, currency would be "priced" in gold (25.8 grains of 0.9 fine gold per $1.00), redeemable in gold, and trade deficits settled on the basis of gold. It appeared that America's money woes had ended. This was not the case.

Applications

The word "panic" might be defined as hysteria in the face of crisis. In US history, panics effected the economy in 1819, 1837, 1857, 1860, 1873, and 1907. Generally speaking, in a panic, depositors ran to banks to withdraw their deposits, banks suspended specie and/or cash payments, banks failed, and the economy contracted. The triggering mechanism might be a cyclical downturn, a drop in stock markets, or banks restricting depositor demands for cash. The Panic of 1907, was no exception and from 1907-1908, net national product fell by more than 10 percent. A silver lining for the last panic was its role as catalyst in the creation of the Federal Reserve System.

Actually, one individual, J. Pierpont Morgan, was responsible for quelling the panic of 1907. By marshalling loans from and to financial institutions, Morgan was able to provide sufficient liquidity to resolve the crisis. His status as the premier financier/banker of his era enabled Morgan to act as a one man central bank. The emergency, and Morgan's rescue of the economy, again convinced politicians that some form of a central bank was needed.

In 1908, Congress passed a partial measure toward creating a central bank in the Aldrich-Vreeland act. The Act focused on the necessity of the bank system being readily able to provide depositors with large quantities of cash (or liquidity) on demand. Under the present system, a depositor run would quickly deplete reserves, leading to the calling in of loans (typically to brokerage houses), the dumping of stocks to generate capital, and a plunge in the stock market. This sad scenario had played out too many times. Therefore, the Aldrich Vreeland act allowed banks to form National Currency Associations which could, in an emergency, issue emergency cash (backed by commercial paper and bonds). At the conclusion of the money crisis, the emergency paper would be retired.

A important provision of Aldrich-Vreeland was the creation of the National Monetary Commission which provided the basis for the Federal Reserve Act. The Commission studied the monetary system in order to identify its deficiencies and suggest plans for reform. The results of the study were somewhat ambiguous, suggesting a weak form of a central bank that would operate only in emergencies. Nonetheless, the Commission report brought the issue into sharp focus and energized Congress to improve upon its suggestions.

In 1913, President Wilson signed the Federal Reserve Act into law. The bill was a compromise between congressmen who favored greater centralization of power in Washington and those who favored a retention of power at the state and regional level. As a result, a Federal Reserve System (Fed) was established with 12 separate bank districts, each headed by a Federal reserve bank, and a 7 member Federal Reserve Board of Governors in Washington.

The new Federal Reserve was created to serve two basic purposes: (1) To provide a currency that was responsive to the demands of commerce (and depositors); and, (2) to act as a banker's bank - a lender of last resort. Unfortunately, the Federal Reserve would selectively renege on both mandates in the years to come.

The new banking system was technically owned by its members; all members were to buy stock in, and receive nominal dividends from, the new entity. All national banks were required to join, while membership was optional for state chartered banks. All members were required to maintain reserves at the district Federal Reserve Bank.

Although 100% of its shares were held by member banks, the Federal Reserve was created to be independent of outside influence. The past interferences of the Treasury in money matters and the everpresent tinkering of Congress were instrumental in the decision for Fed independence. Furthermore, the Treasury needed help from a central bank. The isolation of Treasury activities from the bank industry after 1836 resulted in a system of increasingly outdated procedures with respect to taxing, spending, borrowing, and foreign exchange transactions. An official, independent institution of high stature was needed to guide the increasingly complex monetary system of a rapidly growing economy.

Context

The Federal Reserve System of today bears slight resemblance to its predecessor of 1913. Over time, the Fed's responsibilities as the nation's central bank grew as has its role as monetary authority. The failure of the Federal Reserve to act decisively in the early years of the Great Depression worsened the economic landslide and prompted new reforms.

The increased awareness of monetary significance in stabilization policy is reflected in the Bank Acts of 1933 and 1935. The Glass-Steagall Act of 1933 regulated interest rates but, most importantly, created the Federal Deposit Insurance Corporation which insured depositor accounts and effectively eliminated disastrous runs on banks. The Bank Act of 1935 vested more powers in the Federal Reserve Board of Governors and added to the arsenal of Fed stabilization weapons. Whereas in 1913, the Fed essentially relied on changes in the discount rate (rate charged on Fed loans to members) as the instrument of credit and money control, effective instruments of Fed policy grew to include changes in bank reserve requirements and open market purchases of government securities on a daily basis to effect the money supply.

Furthermore, the money supply itself has become more complex since the early 1900's. New monies have evolved from innovations in the financial industry and the distinctions between different categories of money has softened, blurred by a common denominator of greater liquidity in nearly all components of the money supply.

Monetary policy has become the stabilization instrument of choice, with fiscal (government spending) a real recourse only during recession. Through manipulating reserves, the Federal Reserve seeks to hit money supply and interest rate targets. By "fine-tuning" the economy through appropriate day-to-day monetary policy, the Fed hopes to lower the amplitude of business cycles and reduce the need for more drastic policy prescriptions.

As the economy has become more global in nature, economic phenomena elsewhere may negatively impact the US, requiring a monetary policy response. Through the Federal Reserve Bank of New York, official reserve transactions are conducted with other central banks. Finally, the Fed will occasionally select to intervene in foreign exchange markets to buy or sell dollars or other currencies in support of domestic or foreign economic policy.

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Cross-References

Debts and Deficits, ### Government Agencies, ### Bureaucracies, ### National Economies, ### Public Policy.

MILITARY CONSCRIPTION AND CONSCIENTIOUS OBJECTION

Field of Study: Military

Conscription entails government-mandated service in the military. The burden of conscription, or the draft, may fall evenly (all eligible serve) or selectively (only a portion of the draft eligible population is chosen to serve).

Principal terms

draft: selection, via lottery or other means, of individuals for compulsory military service

conscientious objection: refusal to serve in the military on grounds of religious beliefs or conscience

religious objector: an individual who holds pacifism as part of his religious beliefs and thereby refuses to serve in the military; e.g. Quakers and Mennonites

secular objector: an individual who refuses to perform required military service because of personal, non-religious philosophy

Selective Service Act: the legal and procedural mechanism by which a draft becomes operational

universal military service: all eligible, physically able individuals are required to serve a prescribed period of service

Overview

The antecedents of conscription date back to the Egyptian Old Kingdom, 27th century B.C. Then, as in modern times, conscription was perceived as a means in achieving goals of the state; namely, defense or territorial acquisition. Over time, the need to require military service from a citizenry has been a function of political, economic, and social forces. As societies evolved from feudalism to more cohesive nation-states, the role of the military became more critical. By the end of the 18th century, no nation was deemed a power without both commercial wealth and military might.

Governments came to monopolize the production and employment of military force as a way to insure the power of the nation-state. Accordingly, manpower levies progressed from occasional impressment of peasants by the nobles to a citizen-militia raised by the central government, to a professional standing army employed by the government. Centralization of military power was complete, but standing armies were small, expensive, and insufficient to conduct large wars. Large wars would require mass armies and ultimately, conscription of the masses.

Both ancient Greece and Rome offer early examples of conscription under democracy. In Greece, the military forces of the city-states of Athens, Marathon, and Salamis were assembled via drafts of their respective citizenries. These soldiers and sailors received no pay, were required to supply their own weapons, and served for an extended period of time. Nonetheless, compulsory service, with all its attendant hardship, was viewed as superior to a state open to foreign attack. 80% of the qualified male citizenry served in the Athenian militia during the Periclean Age (490-429 B.C.).

In Rome, during the 4th and 3rd centuries B.C., the entire freeborn body of male citizens was subject to conscription. Like the Greeks, the Roman draftee received no pay and provided his own weapons. As a result, the wealthiest citizens (best equipped) tended to enter the cavalry, while less well-to-do citizens became infantry. The least well-off, those without property (proletari), were left home.

The Middle Ages offer but one notable example of conscription - the Swiss model, which operates in modified form today. In 1291, three Swiss states (cantons) united in a program of universal conscription as a means of self-defense against stronger neighbors. In a much more inclusive definition of citizenship than in Greece or Rome, all Swiss males aged 16 and upward were subject to military training and service in war. Those physically unable paid a compensatory tax, while draft avoiders became social and economic outcasts. Thus, through universally shared sacrifice, the Swiss were able to knit a tight social fabric which remains intact today.

In 1793, Napoleonic France instituted the "levee en masse," a trend that would spread across Europe, and be retained, albeit in somewhat different form, throughout the 20th century. The French government enacted a draft levy on all men, aged 18-25, to aid in the war against Prussia and Austria. Within several months, more than a million conscripts were added to the military rolls. Exemptions were limited to the physically incapable, while the guillotine awaited draft protestors.

In the United States, the public perception of conscription and of military manning in general followed the nation's evolution from a loose federation of states to a national entity. Fear of centralized government power gradually gave way to common purpose against foreign aggression.

However, in spite of a cohesive nation-state, the US has historically been of two minds with respect to national defense. Should the US military be a force of military professionals or should it be manned by citizen-soldiers responding to a call to duty? The US response to security threats, internal and external, has reflected this dichotomy. Generally, as an external threat grew, a conscriptive system became more desirable.

The obligation of each male to bear arms in times of national peril is one cornerstone of Anglo-American history. The British tradition of the citizen-soldier militia was adopted by the colonies, with one notable exception. Each American colony maintained its own militia, manned by its own citizens; a separate and distinct force from any national army. Subsequently, the American Revolution was fought by a small Continental (national) Army augmented by a larger force of militia from the various states, many of whom were draftees. In 1783, George Washington voiced the dangers that a professional (mercenary) army posed for nationhood, while extolling the Swiss model of universal service by citizen-soldiers.

As ratified by the states in 1789, the US Constitution established the legal authority of Congress to raise an army, but did not explicitly allow for drafting of citizens into the standing army. However, through its provisions for "calling forth the militia," the Constitution channels the authority to conscript citizens for temporary service through the respective states. Subsequently, the constitutionality of Congress' authority to conscript citizens has survived a number of tests before the US Supreme Court.

The first serious call for mass conscription in the US was issued by President James Monroe during the War of 1812. The proposal was hotly debated in Congress but not enacted. It remained for the Civil War to provide the testing ground for conscription in the US. Initially fought with relatively small armies of volunteers, the conflict expanded as both North and South resorted to conscription to build their forces. Both sides were liberal in their exemption policies and allowed draftees to pay a fee in lieu of service - which became a "bounty" for the substitute soldier. Resistance to the draft was vocal and violent in both camps, culminating in the bloody New York City draft riots of July 1863.

By 1912, proponents of compulsory military training began a campaign for conscription, based on the inadequacies of the volunteer armed forces most recently evidenced in the Spanish-American War of 1898 and the resultant Phillipine insurrection. Advocates of universal military training believed that such a program would: (a) enable the nation to quickly react to foreign aggression; (b) foster mental and physical fitness; (c) be in keeping with the spirit of democracy by imposing a more equal burden; and, (d) harness the natural aggression of man in constructive pursuits.

The arguments for universal military training gained support with World War I and America's entry in 1917. The Selective Service Act of 1917 was enacted to raise armies through a draft and to establish a system of draft exemptions that would maximize the efficiency of human resources in both military and civilian employments. The military quickly grew to over 2 million in number. With victory in 1918, the draft was quickly dismantled and the standing army was reduced to a force of less than 200,000. In 1939, the US armed forces had shrunk to the seventeenth largest in the world.

The onset of World War II in Europe led to the Draft Act of 1940, which established the first US peacetime system of conscription. American entry into the war in 1941 allowed for automatic extensions of the draft. By 1942, voluntary enlistment was shelved in favor of the draft as the more efficient allocator of human resources.

After World War II, The draft was allowed to expire in 1947. However, in 1948, following Soviet success in expanding their influence into Europe and the onset of the Cold War, Congress reinstituted draft legislation. During the Korean War (1950-1953) Congress voted on the principle of universal military training to even the burden of military service, but the bill failed by a narrow margin.

The Vietnam War proved the catalyst for abandonment of conscription and the transformation of the armed services into an all volunteer force. By the late 1960's, the draft came to be viewed as an inequitable, inefficient, and arbitrary institution and the Gates Commission was convened by President Nixon to consider its demise. In 1973, the conscription system was dismantled after a quarter century of continuous operation.

Conscientious Objection

A conscientious objector opposes war as a matter of conscience and refuses to participate in military training or service. Conscientious objection can be traced to the Protestant reformation in Europe, and particularly, the Anabaptist movement. Sects within the movement (Hutterites, Mennonites) stressed pacifism and withdrawal from the greater society.

The first conscientious objectors in the United States belonged to religious groups opposed to the concept and practice of war. The Quakers arrived in 1657, followed shortly by the Mennonites, Brethren, Shakers, Christadelphians, and Rogerenes. These groups refused to take part in the militia duty required of all male citizens and, as a result, were vilified by their fellow settlers. Eventually, however, their adamant stance against militia service was ameliorated by good citizenship (otherwise), hard work, and strong moral character - and the sects won acceptance within their home colonies.

Problems arose when conscientious objectors were conscripted to national service, as in the Civil War. Their objections to service won no sympathy before military tribunals, composed in large part of fellow draftees. As a result, the physical abuse of conscientious objectors was not uncommon.

Over time, the ranks of conscientious objectors became more diverse. By 1917, Jehovah's Witnesses claimed draft exemption as ministers, and were joined by the Molokans and the Dukhobors, who had emigrated from Russia to escape military service under the czar. As before, conscientious objectors were offered alternate, non-combatant service to fulfill their service obligation. Those who refused to participate were jailed in federal penal institutions including Alcatraz and Fort Leavenworth.

By the time of the Korean War, the face of conscientious objection had begun to change, becoming less religious and more secular in nature. Political and philosophical objections to war, or even some wars, shared equal stage with religious, pacifist beliefs. This evolution continued throughout the cauldron of the Vietnam war, where, toward its end, as many young men were being exempted from service on the basis of principle, as were inducted.

In their insightful text, <u>The New Conscientious Objection</u> (1993) Charles Moskos and John W. Chambers II categorize the variants of conscientious objection. Conscientious objectors (COs) can be broadly segregated as <u>religious</u> (pacifist religious beliefs) or <u>secular</u> (personal or philosophical objection to war). Based on beliefs, COs can be described as: <u>universal</u> (opposed to all wars); <u>discretionary</u> (allowing certain weapons, disallowing others - such as nuclear bombs) or <u>selective</u> (considering some wars just, others not). Henry David Thoreau provides a premier example of a selective CO. Thoreau regarded the Mexican-American War as anathema and a means of expanding slavery in the US. He refused to pay a tax in support of the war and as a result, spent a night in jail. Conversely, when John Brown led his abortive raid on Harper's Ferry as a means of provisioning a slave revolt, Thoreau praised the act. He likened the subsequent execution of Brown to the crucification of Christ.

Also distinguishing the degrees of conscientious objection, is the willingness of the CO to comply with the will of the state. Moskos and Chambers provide the following gradient. <u>Noncombatant</u> COs are willing to serve in the military in an unarmed, "pro-life" function; typically in the medical corps. <u>Alternativist</u> COs agree to serve in public, non-military projects such as health, education, and conservation. This form of alternate service is particularly popular under draft regimes in Europe. <u>Absolutist</u> COs refuse to participate in any aspect of a conscriptive system and therefore are the most apt to be prosecuted.

Applications

The Vietnam war was to provide the crucible which put conscription in the US to the ultimate test. During the 1950's, 70%-80% of eligible males were needed to man the military. There was little resistance to the draft because serving in the military had come to be regarded as part of citizenship. By the mid-1960's, the leading edge of the huge baby boom (1947-1963) came of age and the percentage of eligible males required by the military fell to 30%-35% Given the excess supply of eligible males, the Selective Service system widened the scope of deferments. Channeling manpower resources away from the military toward other occupations weakened the consensus behind conscription. Increasingly, the burden of the draft fell on the less educated, the less skilled, and minorities, while the more advantaged obtained deferments.

As the Vietnam war lengthened and deepened in the 1960's, American support for a distant war declined. In an effort to make the burden of the draft more fair, deferments were reduced, subjecting many college students to draft eligibility for the first time. Protests against the war and the draft became more numerous as casualty and draft rates rose. For the first time, major politicians and public figures spoke out against the futility of the Vietnam war.

Draft evasion and draft avoidance increased. During the Vietnam conflict, draftees failing to report for duty numbered approximately 500,000. An additional 50,000 are estimated to have avoided the draft by moving to Canada, Britain, and Sweden. Concurrently, the Supreme Court redefined conscientious objector status in a more inclusive manner, allowing exemptions for "beliefs that are purely ethical or moral in source." By 1971, for every 100 inductees, 42 received conscientious objector exemptions. In 1972, there were 130 conscientious objector exemptions granted for every 100 inductees. Between 1965 and 1970 more than 170,000 draft registrants were successful in applying for conscientious objector status.

In 1967, presidential candidate Nixon became an early proponent of an all-volunteer military service (AVS).
Upon election he appointed a commission (the Gates Commission, chaired by former Secretary of Defense, Thomas Gates) to study the abandonment of the draft and enactment of the AVS. The findings of the Commission were unequivocal. From a perspective of economic efficiency, the costs of a draft in terms of unfairness, disrupted careers, and evasion exceeded its benefits. As a "tax," on both draftees and the greater society, conscription was perceived as

excessively inefficient.

Consequently, the draft was abandoned in 1973, and the all-volunteer service was reborn. Since 1980, young men aged eighteen have been required to register for a draft, but the potential of its occurring is slim. Many questions remain pertaining to the AVS concerning its lack of representativeness, disproportionate minority composition, and ability to quickly expand in the event of national emergency.

Context

The need to provide for the national defense and the right of individuals to refuse to participate in that defense provides one of the inherent conflicts of a democracy. As part of the social contract of democracy, individuals accede to an elected government necessary powers that a centralized polity can provide more effectively; e.g. coinage, national defense, and other public goods. When some individuals refuse to honor a contract agreed upon by the majority, the social contract weakens. On the other hand, in a democracy, individual rights (so long as they do not impinge on the rights of others) are held in the highest accord. Because the right to conscientious objection is not directly addressed by the social contract (US Constitution), it is a grey area and a subject of continuing debate.

Conscription involves the power of government to require individuals to serve in the military. Where the burden of conscription is spread evenly over the population (universal conscription or military training) a draft is regarded as "fair." As a draft becomes more selective and fewer individuals are conscripted, the burden of a draft becomes more unfair.

Conscription may become necessary in the event of war or the need to maintain a large standing army. The alternative to a conscripted army is a paid, professional army. In times of national peril it may become difficult to raise military pay to levels where sufficient personnel are enticed to voluntarily enlist. Also, military service has been viewed by many national leaders as a duty of citizenship, much like voting or jury duty.

Public attitude and court decisions have become less restraining on the right to conscientious objection in the US. Founded originally in religious liberty and later in civil liberty, CO status has become more encompassing and more accessible to individual dissenters with conscription policy.

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Cross-References

Civil Disobedience ###; City-State, The ###; Armed Forces ###, Civil Wars ###; Military Structure ###; War ###; Government, Powers of ###; Patriotism ###; Social Contract ###; Nation-State ###.