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Reforming the World's Money: By Sir Roy Harrod, Macmillan. 25s.

By R. C. Geary

The author advances his main thesis in his second sentence: the question of the amount and nature of the reserves (external currencies and gold) held by countries is "a major problem and indeed the most important problem confronting those responsible for economic affairs of the free world". One senses exaggeration here: is it because the author is an Englishman, for no other country seems to experience in degree of intensity these recurrent balance of payments' crises - the latest still with us - in the manner of the U.K.? Ireland cannot take a detached view of these U.K. difficulties since, because of our preponderant and increasing trade relations with our great neighbour, parity of exchange rates must continue unaltered. The quotation is puzzling for other reasons. It is quite obvious from the author's excellent chapter (the best in the book) on the International Monetary Fund that the author aspires, as every sensible man must, towards converting the International Monetary Fund into a world bank in which the cash reserves would be lodgments by countries of whatever currencies they care to hold, pending the establishment of an international currency unit. On such cash reserves could be built a large volume of credit to tide countries over temporary balance of payments difficulties. Exactly as in the case of a commercial bank vis-a-vis its customers, the International Monetary Fund could build a large volume of credit on its cash reserves. With a world bank, existing reserves would then be more than adequate and the present absurdity of each country sitting on its little store of reserves in fear and trembling, like the insects in Capek's Insect play, would cease. Even as matters stand, however, the reviewer has doubts about the validity of the author's supporting argument, which is simply that international trade has increased since pre-war much more than reserves. Surely one would expect that, with increasing intimacy of relationship between central banks, international trade can now be conducted on a lower volume of reserves? The author does not attempt to evolve a formula relating minimum level of reserves necessary for the conduct of international trade.

The author rightly states that the two countries (U.K. and U.S.A.) principally responsible for international reserve currencies, cannot vary their exchange rates. In the reviewer's opinion the sooner sterling can abdicate from its international role, the better. When sterling can revert to its position as a national currency we may be spared the atmosphere of crisis when the dollar rate moves down one point in the second decimal place. Why should not exchange rates have some freedom of movement, say, in the case of the dollar-£ rate, between 2.70 and 2.90, without a crisis of confidence? One suspects that such small movements as there are at present are due mainly to those international predators, the specualtors in currency. One of the most useful services which the international central bankers' club could render suffering humanity is to curb the activities of these people operating on a shoestring yet affecting the lives of all of us.

Some shake-down in international exchanges seems inevitable apart from movements round some kind of mean. With increasing freedom and volume of world trade the purchasing power parity, not mentioned by the author, must come into its own. It is fairly certain that, at their present levels, exchange rates are largely out of line with these parities; indeed, some of the balance of payments trouble may be attributed to this fact.

The author's view on the recent 15-10% import charges will not find favour in Ireland nor in the EFTA countries. The author approved these charges when they were first imposed: "I hastened to raise my voice in the sense that, apart from some token reduction" (the reviewer's italics and implied marginal exclamation mark) "one ought to think in terms of a two-year period. But is it long enough?... We have to have something firm, if our policy is to be guided by it... If the money is not in the bag, we should be prepared to retain our import charges, undesirable though they are, for four years, save for some unexpectedly favourable change. It is to be sincerely hoped that the British Government, whichever Party is in power, will have the good sense and calm firmness to do this". The author, it is true, does not lose sight of the main thesis of the book in adding: "These undesirable import charges are the price which the world ought to have to pay for not having given enough thought in the post-war period to the provision of sufficient reserves". This may be all very well, but there are many other things the British Government could have done (or not done, to allow different correctives to operate on their own). The import charges seem to have been selected as likely to bear least heavily on the British people: the burden of sacrifice was unevenly distributed throughout the world which has shown itself restive when, as the author suggests, our British friends have to punish us for our own good.

The reviewer does not go along with the author in his proposal, an obvious corollary of his central thesis, that to increase the money value of international reserves, gold prices in all currencies should be valued upward. He contemplates a doubling of prices. The world, and quite rightly, would simply not tolerate a vast windfall profit in perpetuity to gold producers. Such an increase would have us all panning for gold in the Wicklow brooks and atomic scientists would be transmuting lead into gold like the philosphers of old, when we might be doing more useful things.

Central bankers are advised to broaden their outlook. The reviewer would have once agreed with this view. Now he is less sure. We would be unwise to abandon recourse to the Delphic oracle (an institution which lasted so long that the oracles must have been shrewd and commonsensible) until we have acquired more confidence in some alternative authority. Then we can confidently require these inscrutable men to become scrutable. Certain it is that the famous 10-hour Action (to which the author pays handsome tribute) on 25 November 1964 on the part of the international bankers' club to save the £ sterling was in dramatically favourable contrast with the lamentable tergiversations in economics and politics in Britain during the past few years. Bankers, like businessmen, may not be able to give their reasons; nonetheless these reasons, based on great experience, may be valid. L'instinct, comme le coeur, a ses raisons.

The fact is that, as matters stand, we know little about financial cause and economic and social effect or vice versa. Until we know the debate must proceed at debating society level. The reviewer may differ in opinion from the author, an eminent authority, and the informed reader may differ from both on matters affecting the life of everyone but we can all agree that ascertainment of the truth of the matter is worth earnest search. In fact, the reviewer would accord higher priority as "the most important problem" of the author's near opening sentence to (1) attracting scholarly economic manpower towards genuine economic research, (2) discovering some way of inducing manpower generally (and especially managements) to work harder and more skilfully and (3) prevailing on everybody to give even the smallest thought to Charity and patriotism before taking action.

In September last 2,000 representatives from 102 countries met in Washington to discuss money, thus reviving the spirit of Bretton Woods, 21 years old this year. We must devoutly hope that the outcome will be the conversion with all due speed of the International Monetary Fund into a world bank, the great idea of Keynes (with whom the author was a collaborator) in 1944, but less effective in the atmosphere of 1944 than it must be now.

An informative, entertaining, timely and obviously provocative book.