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GARY NORTH

DOMESTIC INFLATION versus INTERNATIONAL SOLVENCY

IN RECENT MONTHS there has been an increasing amount of discussion concerning "international liquidity," "balance of payments," "dollar glut," gold outflow, and monetary stability. Economists, even when they agree on the nature of the problems involved, seldom are unanimous on the solutions. The debates that are going on among economists, bankers, and politicians are frequently phrased in highly technical and abstruse language, but the basic issue is simply this: how can nations continue to inflate their domestic currency and credit systems, and at the same time preserve mutual trust in each other's solvency?

The "ideal" economic world, in the view of many of our leading economists, is one in which we would have "freedom for each country to pursue its own independent economic policy unhampered by balance-of-payments considerations; and stability of [monetary] exchange rates to encourage international relations."[1] Unfortunately, as the author hastens to add, "the two are incompatible...." The goal of today's international finance experts, therefore, is to discover the best compromise possible, the most workable balance between the two alternatives.

In the context of contemporary economic theory and practice, the phrase, "freedom to pursue domestic economic policy," invariably means the freedom of the monetary authorities to inflate a nation's circulating media (currency, coins, and credit). The motivations be-

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[1] Tibor Scitovsky, "Requirements of an International Reserve System," in *Essays in International Finance*, #49, November, 1965 (Princeton University's International Finance Section), p. 3.