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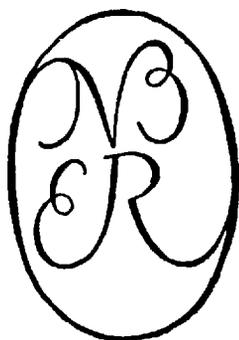
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# International Financial Transactions and Business Cycles

BY OSKAR MORGENSTERN  
PRINCETON UNIVERSITY



A STUDY BY THE  
NATIONAL BUREAU OF ECONOMIC RESEARCH

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*(Resolution adopted October 25, 1926  
and revised February 6, 1933 and February 24, 1941)*

## PREFACE

THIS book contains an investigation of some phases of the interaction of international money markets. It is primarily concerned with the classical period of the gold standard before the first World War and with the different conditions between the first and second World War. The study is limited to the exploration of certain types of contact, notably interest rates and exchange rates, but it does go fairly deeply into the interdependencies of these factors. The limitation is partly self-imposed, insofar as a more thorough study of a restricted number of variables was intended in preference to a more inclusive but *a fortiori* less detailed description of the period. In part, the limitation was forced upon the study for want of data (such as national income figures, balance of payment figures, etc.) or because certain readily available data were found to be lacking in quality (such as the statistics of international gold movements).

The problem of the international spread of business cycles is discussed—and, I hope, to some extent formulated—in Chapter I. There it becomes apparent that this book deals with only a small segment of the whole complex of issues arising in that connection. Chapter XI contains a summary of the findings and tries to place them in proper perspective. The reader will quickly observe that a curious dilemma results: either we should reject most of our data in order to salvage large parts of previously abstracted and widely accepted theory, or, accepting the data we should modify the latter, chiefly by depriving it of much of its intended precision. Or else we have to look for entirely different interpretations. Whatever the outcome may be, it is fairly certain that the international monetary system allowed for a greater amount of flexibility even during the classical gold standard period than might be assumed. This becomes particularly clear in Chapter VII where a new method is designed for determining the degree of pressure exercised by one money market upon another, a method which allows us to talk sensibly and with a fair degree of quantitative precision about standards and their violations. The series computed there form, moreover, possible substitutes for the lacking monthly balance of payments figures.

## PREFACE

The work contained in this book was started a long time ago at the suggestion of Wesley C. Mitchell. He was aware of my interests in this area; indeed one of my very first publications was an extensive discussion of Mitchell's introductory paper to W. L. Thorp's *Business Annals*. Mitchell showed great interest in my work right up to his death and from him I received much stimulation. He had the rather unique ability of being critical and yet supporting. Many years have gone by since the first steps were taken. There have been countless interruptions: by the last war, by other work, some of it very taxing though of such a nature that it could not be postponed. It suffices to mention the theory of games which inserted itself while this investigation was in its early phases. Furthermore the scope of my plans was unfortunately such that the manuscript grew beyond the limits of a single large volume. Thus much has been omitted, for example extensive studies on gold production, circulation, the price of gold, foreign securities, etc.; and minute studies of particular critical phases of the international transmission of financial disturbances. Some of this material may sometime be made available through some other medium. Finally extensive bibliographies were prepared, and a great effort was made to secure copies of all items; but since, at any rate, this work was never planned as a contribution to the history of doctrines, and for want of space, their publication has been omitted. I want to take this opportunity, however, to acknowledge my indebtedness to the many previous workers in this area, an indebtedness that is only inadequately expressed even in those instances where specific works are mentioned in the text.

It is a pleasant duty to express my thanks for assistance of various kinds to a number of persons. Some of them were associated with this work and labor for only short periods and a long time ago. They have gone on to other work of their own and established themselves in the profession. I mention in particular Katherine H. Bell, Arthur I. Bloomfield, Harry Chester, George Garvy, Harry T. Oshina, T. C. du Plessis, Mrs. Pearl Friedman Staller. I owe a particular debt of gratitude to Professor Edward Marcus who with much understanding and patience helped me in the final organization of the manuscript. Dorothy Collins, librarian of the Pliny Fisk Collection in the Firestone Library of Princeton University, has over the years put at my disposal her great knowledge of literature and the bibliographical resources which she commands.

George Soule with his unique ability of writing economics in good English was kind enough to edit the text. Geoffrey H. Moore read

## PREFACE

the entire manuscript and made numerous valuable suggestions; perhaps this would be a better book if I had accepted more of them. I thank him for the sincere interest he took in the entire enterprise. I am grateful also to Ilse Mintz for her comments on an early draft.

In the final stages of making the manuscript ready for the printer, the editors, Margaret Thomas Edgar and Ellen Viner Seiler have done invaluable work in tying all ends together. H. Irving Forman has executed the charts with his well known and incomparable skill. Richard G. Davis and José Encarnacion did most of the final checking of the tables, and W. Giles Mellon was the mainstay in the last trying months of getting everything ready for the printer. His help was truly invaluable. Irene Butow, my secretary, could unfailingly be relied on to keep everything in smooth working order.

The appearance of this book will be, I am sure, a great relief to my wife, Dorothy, who for many a year has heard me say that it was "finished," only to discover that writing a book is one thing but writing it for the National Bureau of Economic Research with its exacting standards is another.

OSKAR MORGENSTERN

*Easter, 1958*

*Econometric Research Program  
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