Folder Title:	Bretton Woods Documents - Chamber of Commerce Report on Currency Stabilization Proposals - Report
Folder ID:	1849650
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Dates:	06/01/1944-06/30/1944
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Bretton Woods Documents - Chamber of Commerce Report on Currency Stabilization Proposals

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World Currency Stabilization Proposals

FINANCE DEPARTMENT

Chamber of Commerce of the United States
Washington, D. C.
JUNE • 1944

THIS PAMPHLET is issued in response to requests for a review of proposals for post-war currency stabilization.

It is one of a series upon international financial problems. The pamphlets thus far released are:

1 • International Monetary Developments Between the First and Second World Wars.

2 • World Currency Stabilization Proposals.

3 • Proposed United Nations Bank for Reconstruction and Development.

The pamphlets were prepared by Arthur W. Crawford of the Chamber staff.

FINANCE DEPARTMENT

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World Currency Stabilization Proposals

STABILIZATION of currencies after the war is a common objective of the nations. Stable exchanges will facilitate post-war reconstruction. They are essential for a revival and expansion of world trade. A large volume of exports and balancing imports may make a substantial contribution to full employment and prosperity in the United States.

Methods of attaining the goal of monetary stability occasion wide differences of opinion. Differences among the nations are based on their varying abilities to export and import goods and to settle balances. Differences among individuals and groups within the United States relate to the type of approach to international collaboration. As the principal creditor nation, the United States will be asked to bear a major share of the burden of assistance to the debtors.

Increasing public attention will be given to the subject because of the deliberations and recommendations of the United Nations Monetary and Financial Conference and subsequent debates and action by Congress.

Agreement by the technical experts of more than 30 nations on a broad outline of basic principles for an International Monetary Fund paved the way for a world conference. This agreement, announced by Secretary of the Treasury Henry Morgenthau on April 21, 1944, followed discussions of formal proposals over a period of more than a year. President Roosevelt on May 27 issued invitations to 41 nations and the French Committee on National Liberation for a conference at Bretton Woods, New Hampshire, commencing July 1.

With a view to a clarification of fundamental issues, which promise to be a subject of discussion for a considerable period of time, there is presented in this pamphlet an analysis of the proposals in the joint statement of experts, together with the views of interested individuals and organizations.

The general nature of the material is indicated by ten headings as follows:

I. History of Joint Statement of Experts.
II. Statement by Secretary Morgenthau.

III. Provisions of Plan for International Monetary Fund.
IV. The Key-Countries Approach to Currency Stabilization.
V. Criticisms of Proposed International Monetary Fund.
VI. Editorial Comments.
VII. Economic Policy Commission Report of American Bankers Association.
VIII. Declaration by National Foreign Trade Convention.
IX. The International Gold Standard.
X. Future Action on Currency Stabilization.

I. History of Joint Statement of Experts

IN THE EXTENDED negotiations which preceded the agreement by monetary experts of the United and Associated Nations, many points of view were represented.

The White Plan: Discussions centered chiefly around the so-called White Plan for an International Stabilization Fund. This plan was first made public on April 6, 1943, by Secretary of the Treasury Morgenthau, who at that time invited the Ministers of Finance of 37 countries to send technical experts to Washington for conferences. The plan was the work of a group of experts of the United States Government headed by Harry D. White, Director of Monetary Research of the Treasury Department. It was issued in revised form on August 19, 1943, after discussions had taken place with experts of many of the nations.

While announcement of its terms came on each occasion from Secretary Morgenthau, who stressed the desirability of an agreement among the nations, the plan was put forward as a tentative suggestion of the experts without the official endorsement of the Treasury Department or the United States Government.

The Keynes Plan: The British Government made public a plan for an International Clearing Union on April 8, 1943, two days after publication of the White plan. Like the White plan, it represented the tentative suggestions of government experts. Its chief author was the well known economist, John Maynard Keynes, now Lord Keynes. The Keynes plan had greater inflationary possibilities than the White plan and gold was less important in its operation.

Reasons for support by Great Britain of a scheme of great

flexibility and expansionist possibilities are found in its present international position. Lacking extensive resources of food and industrial materials, the United Kingdom for considerably more than a century imported more goods than were exported. As a strong creditor nation prior to the First World War, Britain paid for the excess of imports by invisible trade balances and by the interest and dividends on investments in foreign countries.

The Second World War has further increased the difficulties which have confronted the United Kingdom since its creditor position was weakened during the First World War. It will continue to be necessary to import a large part of its food supply and also materials for reconstruction. Revival of British export trade will be difficult, both because of the destruction due to the war and the development of industry in other countries. British shipping, which was a major source of revenue, will encounter greater competition from the United States than before the war. Britain has lost world financial leadership. Its foreign investments have been largely drained by war necessities and in consequence the revenue from this source, which heretofore helped to pay for the excess of imports of goods, will be greatly reduced. The blocked balances, which have been piling up in the United Kingdom on account of a lack of foreign exchange, will present a problem.

These various factors account for some of the concessions made to the British by the United States in the compromise plan and also for failure to reach a complete accord on many points.

The French Plan: A group of experts identified with the pre-war French Government prepared a plan for stabilization of currencies, which was made public on May 9, 1943. This program, which had been formulated prior to the announcement of the White and Keynes plans, was much less far-reaching than those offered by the United States and the British. It was more on the lines of the tripartite agreement of 1936. The proposal contemplated the fixing of official parities of currencies by agreement, the purchase by central banks and stabilization funds of exchange of other participating countries at the specified rates, the securing of these transactions by deposit of collateral in the form of gold, foreign bills, approved securities and raw materials, and an International Clearing Office to facilitate clearings but without broad powers.

While the French group held that gold should resume its role as an international currency for settlement of international balances, it did not believe that its function as an economic regulator should be revived. The latter function, it was held, should be exercised through the concerted action of the competent authorities on the volume of credits and of goods.

The Canadian Plan: Experts of the Canadian Government, following study of the other plans, submitted a proposal for an International Exchange Union. It embodied features of both the White and Keynes plans but resembled more closely the former. The plan was made public on June 9, 1943.

In summing up general observations, the Canadian experts said that an international agreement for the establishment of an international monetary organization which involves the extension of credit is essential if international cooperation in the post-war world is to be achieved, that such machinery will deal with only one of the numerous problems but provides a logical and convenient starting place for joint action, that the credit should be adequate to deal with that portion of current account surpluses and deficits which is not met by relief and other concerted international action, that it should be sufficient to provide a firm basis on which multilateral trade can be reestablished after the war, and that the extension of credit is not a cure-all, any arrangements being likely to break down unless unbalanced positions are brought into equilibrium.

The Russian Attitude: Russia did not offer a separate plan but its representatives came to the United States to participate in the informal discussions. The attitude of Russia was regarded as important because of its position as the second largest producer of gold in the world as well as because of its increasingly prominent role in world affairs. Its experts were among the last to give approval to the joint statement.

Russia heretofore has played a lone hand in its monetary policy. Its State Bank has complete control over all transactions in foreign exchange and the government monopolizes all export and import trade. Its spokesmen have professed an interest in the stability of currencies of those countries with which it carries on trade relations, and in a fixed world price of gold. With its gold, Russia is in a position to buy products of other countries.

The Joint Statement: Announcement of the agreement of experts of more than 30 countries upon basic principles to govern an International Monetary Fund was made by Secretary Morgenthau in appearing in two executive sessions before Congressional Committees. Present in one of the sessions were members of three Senate Committees: Foreign Relations; Banking and Currency; and Post-War Economic Policy and Planning. At the other were members of five House Committees: Foreign Affairs; Ways and Means; Banking and Currency; Coinage, Weights and Measures; and Post-War Economic Policy and Planning. This procedure, adopted at the time of earlier announcements, was in accordance with Mr. Morgenthau's promise to keep Congress advised of developments.

The basic principles agreed upon by the experts of the nations follow for the most part the pattern of the White plan, but the influence of the other proposals is apparent.

The name of the International Monetary Fund represents a slight change from the International Stabilization Fund proposed in the White plan.

II. Statement by Secretary Morgenthau

IN APPEARING before Congressional committees on April 21, 1944, in connection with the joint statement of experts, Secretary Morgenthau said in part:

> I am frank to say that in my opinion the agreement of the technical experts to these principles constitutes a long step on the way toward preventing a breakdown of currencies and the imposition and retention of restrictive and discriminatory exchange measures after the war. Through international cooperation now, we can assure a stable and orderly pattern of post-war exchange rates.
>
> The purposes set forth in this joint statement have long been the international monetary policies of the United States. For years it has been our objective to have these policies adopted by other countries. We know of no better way of assuring general adherence to these policies than through international cooperation in an International Monetary Fund.
>
> We believe that it is of the greatest importance that all of the United Nations are in agreement on the best means to deal with these international financial problems after the war. This is concrete evidence that the United Nations can and will work together in establishing a peaceful and prosperous world just as they are now fighting together to destroy tyranny and oppression.

International cooperation on monetary and financial matters is the keystone of successful cooperation on all international economic problems. Unless we agree to expand world trade and develop the world economy, few other economic agreements which we might make will or can be effective.

The tentative proposals that have been under discussion by the technical experts are part of a program for cooperation on international economic problems among the United Nations. The objectives of this program are the expansion and development of international trade, the restoration of international investment for productive purposes, the maintenance of stable and orderly exchanges. Through these means we can contribute to a high level of employment and production. The establishment of an International Monetary Fund and a Bank for Reconstruction and Development are important steps in the attainment of the objectives of this broad program.

III. Provisions of Plan for International Monetary Fund

Purposes and Policies: Under the terms of the joint statement of experts, the International Monetary Fund would be guided in all its decisions by the following purposes and policies:

1. To promote international monetary cooperation through a permanent institution which provides the machinery for consultation on international monetary problems.

2. To facilitate the expansion and balanced growth of international trade and to contribute in this way to the maintenance of a high level of employment and real income, which must be a primary objective of economic policy.

3. To give confidence to member countries by making the Fund's resources available to them under adequate safeguards, thus giving members time to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

4. To promote exchange stability, to maintain orderly exchange arrangements among member countries, and to avoid competitive exchange depreciation.

5. To assist in the establishment of multilateral payments facilities on current transactions among member countries and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

6. To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

This statement of purposes and policies implies the vesting of somewhat less authority in the Fund and thus less encroachment upon the sovereignty of the nations than contemplated under the White plan and very much less than under the Keynes plan. The phrase "for consultation on international monetary problems" was not used in the statement of purposes in either the first or second draft of the White plan.

Omitted from the new statement of purposes is the clause in the second draft proposing "effective utilization of the blocked foreign balances accumulating in some countries as a consequence of the war situation." This omission is in keeping with the understanding that facilities for relief and reconstruction and for dealing with international indebtedness growing out of the war should be handled otherwise than through the Fund.

Composition and Management of Fund: Member countries would subscribe in gold and in their local funds quotas to be agreed upon, amounting to about $8,000,000,000 for all of the United and Associated Nations, or about $10,000,000,000 for the world as a whole. Quotas might be revised from time to time but changes would require a four-fifths vote and no member's quota might be changed without its assent.

The obligatory gold subscription of a member country would be fixed at 25 per cent of its quota, or 10 per cent of its holdings of gold and gold-convertible exchange, whichever was smaller.

The Fund would be governed by a board, on which each member would be represented, and by an executive committee. The executive committee would consist of at least nine members, including the representatives of the five countries with the largest quotas. The distribution of voting power on the board and the executive committee would be closely related to the quotas. Except with respect to changes in quotas, for which a four-fifths vote would be necessary, and uniform changes in the gold value of member currencies, for which approval of every member country having 10 per cent or more of the aggregate quotas would be required, all matters would be settled by majority vote.

A member country might withdraw by giving notice in writing and would not be subject to the obligations of the Fund for a period of one year thereafter as was provided in the White plan.

The above paragraphs contain all items of agreement with respect to the composition and management of the Fund, which appear in the joint statement of the experts. The present plan in these respects is much less detailed than either the White plan or the Keynes plan.

The general scheme follows the lines of the White plan, which called for minimum subscription of $5,000,000,000. The sponsors of the White plan, however, had in mind a total of $8,000,000,000, which was the amount definitely proposed in the Canadian plan for an International Exchange Union.

Under the Keynes plan for an International Clearing Union no provision was made for a fund or stated assets at the time of its organization. Overdraft facilities, in accordance with British banking practice, were to be established for member countries. The Union would settle balances between countries by debiting one and crediting the other, the extent of these transactions being regulated by the quotas assigned to them.

The French plan proposed neither large capital contributions to a fund nor the creation of an international clearing union. Its central board would have little authority and be designed merely to facilitate an exchange of information among countries participating in agreements on official parities of currencies and similar matters.

The subscription requirements of the joint plan represent a compromise and an easing of the burden upon nations without ample stocks of gold. The first draft of the White plan required the initial payment of only 50 per cent of total quotas, including 12½ per cent in gold, 12½ per cent in local currency and 25 per cent in government securities. The revised draft of that plan required each country to meet its quota in full at the beginning of operations, the gold portion of the quota being graduated in accordance with the size of its gold holdings up to 50 per cent of the quota, which would have been the share of the United States. Under the joint plan of the experts the obligatory gold subscription of 25 per cent of the quota reduces the requirement of the revised White plan for the larger nations by one-half. The alternative 10 per cent of holdings of gold and gold-convertible exchange is one-third of the smallest requirement of the revised White plan. The smaller minimum subscriptions in gold reflect the influence of the Canadian plan, which proposed a 15 per cent payment in gold. The joint statement does not indicate whether the entire quotas would be paid at the start.

Nothing is said in the joint statement about a formula for the

determination of quotas for subscriptions and voting strength. This question conceivably may furnish difficulty when the official delegations of the nations attempt to perfect the plan.

Under the White plan the quotas for individual nations would be determined by a formula giving due weight to important relevant factors, including a country's holdings of gold and free foreign exchange, the magnitude and the fluctuations of its balance of international payments, and its national income. As proposed in the Canadian plan, the quotas would be determined by a formula which would give due regard to factors such as international trade, national income and holdings of gold and foreign exchange convertible into gold. The Keynes plan suggested initial quotas for purposes of overdraft privileges and voting power equal to 75 per cent of the sum of the average of each country's exports and imports for the three pre-war years.

The method of determination of quotas and voting power originally was one of the major points of difference between the United States and Great Britain. Use of totals of foreign trade would give the British an advantage while emphasis upon national income and gold holdings would give greater strength to the United States.

While the joint statement contains no estimates of quotas of the various countries, it was made known unofficially that the United States would be expected to subscribe from $2,500,000,000 to $2,750,000,000; the United Kingdom, about $1,250,000,000; other parts of the British Empire, about $750,000,000; Russia, $1,000,000,000; and China, $550,000,000 to $600,000,000. These quotas presumably are computed on the basis of the White plan formula. It has been estimated that under the Keynes formula, with all nations except those of the Axis as members, the United Kingdom would have 16 per cent of the votes on the governing board, the entire British Empire, 35 per cent, and the United States, 14 per cent.

Status of Gold; Exchange Rates: Gold would occupy a prominent position in the plan for an International Monetary Fund although its status is far from satisfactory to advocates of a return to an international gold standard. The par value of a member's country, as agreed upon at the time of admission to the Fund, would be expressed in terms of gold. The framers of the plan thus recognize that nothing else is a satisfactory substitute for gold as a common denominator of currencies. There is recognition of the value of gold in international transactions in other provisions of the plan, including the requirement for the payment of a specified part of members' quotas in gold.

While the plan may be considered as establishing a modified form of gold standard, it would not assure an automatic equalization of interest rates and price levels, as was implied in the former international gold standard. Present-day techniques for the management of currencies, which are in use in most countries to a far greater extent than in the period of the former gold standard, are inconsistent with automatic adjustments such as once were contemplated. To such extent as the various countries use gold in reserves in their currency systems, it will act as a stabilizing factor.

The agreement by the experts upon basic principles marked the abandonment of the idea of creating a new monetary unit for bookkeeping purposes, known as "unitas" in the White plan and as "bancor" in the Keynes plan. Elimination of these proposals tends to strengthen the place of gold in the international exchange mechanism psychologically if not otherwise.

The manner in which gold is linked to currencies and to the Fund is less rigid than was proposed in the original White plan. Sufficient concessions were made to satisfy the British. Under the Keynes plan the value of bancor would be fixed in terms of gold by the governing board, but subject always to change. In the official British statement on the Keynes plan it was asserted that the purpose of the proposed Clearing Union was to supplant gold as a governing factor but not to dispense with it. There was recognition in the Keynes plan that gold still possessed great psychological value, that the desire of nations to possess a gold reserve was likely to remain, that gold would continue to be useful in settling some part of the favorable balances of creditor countries, and that it was not reasonable to ask the United States to demonetize its stock of gold. The large gold production of the British Empire was a reason for preserving its value. The British, however, viewed the gold provisions of the White plan as deflationary, although there was no such rigid connection between gold and credit as was commonly associated with the traditional gold standard.

The original draft of the White plan made no provision for changes in the value of the unitas in terms of gold, a unitas being

equal in value to $137\frac{1}{7}$ grains of fine gold, which is equivalent to $10. No changes might be made in the value of the currency of a member country in terms of gold or unitas without the approval of four-fifths of the member votes. The original draft also provided for redemption of unitas deposits in gold and required a 100 per cent reserve in gold against deposits. These various provisions appeared also in the Canadian plan.

Under the revised draft of the White plan a change in the gold value of the unitas might be made with the approval of 85 per cent of the member votes, which gave the United States a veto power. Initial rates of exchange for member countries' currencies, under this draft, would be based on values in terms of dollars on July 1, 1943. If such a rate were clearly inappropriate, the initial rate would be determined by consultation between the country and the Fund. During the first three years changes in rates might be made at the request of the country concerned and with approval of a majority of the member votes. In that period a member country might make a change of not more than 10 per cent upon notification and consultation with the Fund. After the first three years, no changes could be made except with the approval of three-fourths of the member votes, including the representative of the country concerned, and for the purpose of correcting a fundamental disequilibrium.

In the case of the Keynes plan, a majority vote would be sufficient to change the gold value of bancor and also to change the value of currencies in terms of bancor.

Under the joint plan of the experts a uniform change in the gold value of member currencies might be made, provided every member country having 10 per cent or more of the aggregate quotas approved. Individual changes in the par value of a member's currency could not be made without the country's approval. Member countries would agree not to propose a change in the parity of their currencies unless they considered it appropriate to the correction of a fundamental disequilibrium, in which case a majority vote of the Fund would be sufficient for approval rather than a four-fifths vote, as in the first White plan, or a three-fourths vote, as in the second draft. The Fund would not reject a requested change, necessary to restore equilibrium, because of the domestic social or political policies of the country. In considering a requested change, the Fund would take into consideration the extreme uncertainties prevailing at the time the parities of the currencies of the member countries were initially agreed upon.

After consulting the Fund, a member country might change the established parity of its currency, provided the proposed change, inclusive of any previous change since the establishment of the Fund, did not exceed 10 per cent.

All transactions between the Fund and its members would be at par, subject to a fixed charge payable by the member making application to the Fund, and all transactions in member currencies would be at rates within an agreed percentage of parity.

Transactions with the Fund: Member countries would deal with the Fund only through their Treasury, Central Bank, Stabilization Fund, or other fiscal agencies. The Fund's account in a member's currency would be kept at the Central Bank of the country, which in the case of the United States would mean a Federal Reserve Bank.

Transactions between member countries and the Fund in connection with exchange stabilization would be in the form of purchases rather than of borrowings. A member would be entitled to buy another member's currency from the Fund by payment of its own currency under certain limitations. The currency must be needed for payment consistent with the purposes of the Fund. The Fund's total holdings of the currency offered, after having been restored, if below that figure, to 75 per cent of the member's quota, shall not have been increased by more than 25 per cent of the member's quota during the previous twelve months, and shall not exceed 200 per cent of the quota. Use of resources of the Fund would be denied to countries making improper use of them.

In the event of the scarcity of a currency, the Fund might apportion its holdings and recommend measures for relieving the scarcity. Limitations on the freedom of exchange operations in the affected currency and determination of methods of rationing the limited supply among its nationals would be under the jurisdiction of the member country concerned.

The Fund would be entitled at its option, with a view to preventing a member's currency from becoming scarce, to borrow its currency from a member country, and to offer gold to a member country in exchange for its currency. No provision is made for the issuance of its own securities as in the White plan.

A member country entitled to buy another member's currency from the Fund in exchange for its own currency would be prepared to buy its own currency from that member with that member's currency or with gold.

A member country desiring to obtain, directly or indirectly, the currency of another member country for gold would be expected to acquire the currency by the sale of gold to the Fund, provided it could do so with equal advantage. This would not preclude the sale of newly-mined gold by a gold-producing country on any market.

The Fund could acquire gold from member countries in several ways. It might sell a member country's own currency to it for gold. In selling foreign exchange to a country whose holdings of gold and gold-convertible exchange exceed its quota, the Fund would require that one-half of the net sales of such exchange be paid for with gold. If a member's holdings of gold and gold-convertible exchange increased during the Fund's financial year, the Fund would require up to one-half of the increase to be used to repurchase part of the Fund's holdings of its currency, provided this did not reduce the Fund's holdings of its currency below 75 per cent of its quota or the member's holdings of gold and gold-convertible exchange below its quota.

The proposed mechanism, resembling that under the White plan, is much different from what was contemplated under the Keynes plan.

Under the Keynes plan the creditor countries as a group would, in effect, be extending credits to the debtor countries as a group. Countries with an unfavorable trade balance, requiring an excess of payments for imports over receipts, would develop a debit balance with the Clearing Union proposed by that plan. Countries with a favorable trade balance, resulting in an excess of receipts for exports over payments for imports, would develop a credit balance. Overdraft facilities contemplated by the Keynes plan would permit an adjustment of accounts. Lack of exchange or gold with which a debtor country might liquidate its trade balance with a creditor nation would be remedied by bookkeeping transactions between the Clearing Union and the central banks of the respective nations.

Capital Transactions: The resources of the International Monetary Fund could not be used to meet a large outflow of capital.

However, it is stated that this prohibition is not intended to prevent capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business. Nor is it intended to prevent capital movements which are met out of a member country's own resources of gold and foreign exchange, provided such movements are in accordance with the purposes of the Fund.

The joint statement does not go as far as either the White plan or the Keynes plan toward the regulation of short-term capital movements, a major source of disturbance to the international balance of payments in the years preceding the present war. One of the obligations to be assumed by member countries under the White plan was to cooperate effectively with other countries which, with the approval of the Fund, adopted controls for the purpose of regulating international movements of capital. Among methods of cooperation cited in the White plan were refusal to accept deposits, securities or investments from the nationals of any member country imposing restrictions on capital exports except on permission of that country and the Fund, and the furnishing of full information on foreign investments.

The official British statement on the Keynes plan asserted that there was no country which could in the future safely allow the flight of funds for political reasons or to evade domestic taxation or in anticipation of the owner turning refugee. Equally, it was stated, there was no country that could safely receive fugitive funds. Control of capital movements, both inward and outward, it was suggested, should be a permanent feature of the post-war system.

Obligations of Member Countries: Modification of previous proposals in such a way as to reduce to a minimum any encroachment upon the sovereignty of the nations is evident in the section of the joint statement dealing with obligations of members.

Only three obligations are listed. One is not to buy gold at a price which exceeds the agreed parity of the currency by more than a prescribed margin and not to sell gold at a price which falls below the agreed parity by more than a prescribed margin. The second is not to allow exchange transactions in its market in currencies of other members at rates outside a prescribed range based on the agreed parities. The third is not to impose

retrictions on payments for current international transactions with other member countries, outside those involving capital transfers, or to engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund.

The White plan listed eight obligations of member countries. Among them was to give consideration to the view of the Fund on any existing or proposed monetary or economic policy, the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries. This implied assurance by a member country that it would be guided by the views of the Fund on such matters as domestic tariff policy.

Transitional Arrangements: During the period of transition following the war, member countries would be permitted to retain their exchange controls with the expectation that they would gradually be relaxed. Three years after the establishment of the Fund any member still retaining restrictions inconsistent with its purposes would consult with the Fund as to their retention. The transition period is recognized in the statement as one of change and adjustment and in deciding on requests presented by members the Fund would give them the benefit of any reasonable doubt.

A definite assertion in the joint statement that the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war removes doubt which existed as to the program under the White plan. The specific proposal in the White plan to allow the Fund to absorb blocked balances is eliminated. The first draft of the White plan contained a very liberal provision under which the Fund would take over these balances and extend their payment over a long period of years. The blocked balances are those held in the United Kingdom and are equivalent to several billion dollars. A modified provision was incorporated in the revised draft of the White plan.

Under each of the plans it has been intended that other international agencies should be established. The Treasury memorandum announcing the White plan stated that among the agencies needed in the field of international economic cooperation besides a monetary stabilization fund were those to provide capital for post-war reconstruction and development, to provide funds for rehabilitation and relief, and to promote stability in the prices of primary international commodities. Subsequently, the Treasury made public its plan for a United Nations Bank for Reconstruction and Development.

In the Keynes plan it was stated that the proposed Clearing Union might become the instrument and the support of international policies in addition to those which it was its primary purpose to promote. It might become the pivot, it was stated, of the future economic government of the world. It was suggested that the Union might set up a clearing account in favor of international bodies charged with post-war relief, rehabilitation, world policing, commodity controls, and international investment.

Under the joint statement it is made clear that the International Monetary Fund would not be used as the basis of credit for any of the various types of economic collaboration other than the stabilization of currencies.

IV. The Key-Countries Approach to Monetary Stabilization

MUCH SUPPORT has been given in the United States to what is known as the "key-countries" approach to monetary stabilization. It contemplates an initial agreement between the United States and Great Britain and the gradual inclusion of other countries in a stabilization program. Such an approach is held to provide a more enduring foundation than the more far-reaching proposals which have culminated in the joint statement of experts.

Modification of some of the more objectionable provisions of the original White plan has not changed the opinion of many authorities that the "key-countries" plan is preferable.

John H. Williams: An early and influential exponent of the "key-countries" approach has been John H. Williams, professor of economics at Harvard University and vice president of the Federal Reserve Bank of New York.

Mr. Williams has developed his ideas in several magazine articles and speeches.

In an article in the July 1943 issue of *Foreign Affairs,* shortly after announcement of the White and Keynes plans, Mr. Williams said:

> With the past record of international cooperation what it has been, special thought should be given to the dangers of launching too ambitious a project prematurely under conditions which might discredit it unnecessarily in its early years. . . .
>
> The difficulty for me is that I have long believed that there is another kind of approach to the problem, and one that deserves equally well the name of international collaboration even though it is constructed on less elaborate lines. This is what might be called the key countries, or central countries, approach to the problem. It is closer in conception than either the Keynes or White plan to the way the gold standard actually worked, around England as the central country, in the nineteenth century; whereas I have the feeling that those plans have a closer family relationship with what might be called the textbook type of gold standard, which implied that monetary stability was maintained by the compensatory action of a large number of countries of equal weight. What I call the key-countries approach to monetary stabilization could be tried with or without an international governing board, though I think this is not the main point of difference between the two ways of going at the problem.
>
> The main difference is in the conception of how trade and finance are organized in the world, and of the importance of stabilizing the truly international currencies whose behavior dominates and determines what happens to all the others. Though the organization of trade and finance has undergone much change since the nineteenth century, it still seems true that stabilization of the leading currencies with each other, combined with cooperation among the countries concerned for the promotion of their own internal stability, would be the best foundation for monetary and economic stability through the world. . . .
>
> It might be more feasible to start with a scheme embracing fewer countries, which is less ambitious only in the sense that it is less extensive and more ambitious in the degree of cooperation contemplated, and tie in other countries as conditions warrant. That was the method followed in the tripartite agreement of 1936. I am not suggesting that agreement as the model, however, unless it can be greatly strengthened in its provisions for external collaboration and supplemented by provisions for cooperation on internal policies, to which it made no reference. There might be many advantages in such a piecemeal procedure. We could start, for example, with plans for stabilizing the dollar-sterling rate and for measures of cooperation on internal policy, while postponing until later the many difficult questions about the relation of sterling and the dollar to the European currencies which cannot conceivably be settled, I think, except after a period of European reconstruction.

In a subsequent article in the January 1944 issue of *Foreign Affairs,* Mr. Williams stressed the desirability of treating separately the problems of the transition period and those of long-run currency stabilization. He said that the immediate post-war problems of relief and rehabilitation and liquidation of blocked balances should be handled by special means and that the various countries should be brought under a long-run plan for currency stabilization only gradually as they became ready for it. Mr. Williams' argument on this line probably was an important factor in causing the experts to assert in their statement that the immediate post-war problems should not be handled through the Fund.

With respect to the long-run plan, Mr. Williams pointed out that currency stabilization is only one part of a broader program, other parts having to do with commercial policy, long-term and medium-term investment, and the stabilization of prices of primary products in international trade. Until the whole program is ready, Mr. Williams was of the opinion that action on currency stabilization could wait.

Leon Fraser: A plan in harmony with the "key-countries" approach has been offered by Leon Fraser, president of the First National Bank of New York and formerly the American president of the Bank for International Settlements at Basle, Switzerland. Mr. Fraser in an address at the *New York Herald-Tribune* Forum on November 16, 1943, proposed a dollar-sterling accord as the starting point in post-war currency stabilization. He also suggested a $5,000,000,000 gold credit by the United States to Great Britain and reorganization of the Bank for International Settlements.

Mr. Fraser's plan, which he described as forming a nucleus for a wider compact, follows:

> **(a)** A credit to Great Britain in the form of a call on gold in the amount of, say, $5,000,000,000, on the understanding that neither nation would engage in competitive exchange depreciation and that the dollar-sterling exchange rate would from time to time be fixed by mutual agreement. Such a credit would constitute a constructive use of some of our surplus gold.
>
> **(b)** Formal cancellation of the balance of the British war debts of World War I.
>
> **(c)** Provision for a moratorium for a period of five years of any post-war lend-lease repayments involving any transfer by Great Britain; any repayments thereafter to be limited to the return, if needed by the creditor, of the same commodity as was shipped.

> **(d)** An understanding that both countries would eschew economic domination and would pursue international economic policies designed to promote stability of currencies in other nations. This means that we must act like a creditor nation, encouraging imports of goods and exports of capital.
>
> **(e)** An agreement to reorganize the Bank for International Settlements on a wider basis in a different situs and to use it as a center of international monetary consultation and planning, as a common agency for the joint action of Treasuries and Central Banks in simplifying international clearings, and for dealing with the various monetary problems of the various nations as they arise, including the granting, against proper commitments, of temporary stabilization credits to smaller nations. We should build on the experienced machinery we have instead of creating elaborate new machinery. And it is necessary to dispel the illusion that any international instrument can work miracles or bring about stable currencies in an economically anarchic world.

V. Criticisms of Proposed International Monetary Fund

WHILE the discussions over a period of a year appear to have brought the governments of the nations somewhat closer together on a program for currency stabilization, unanimity of opinion among authorities in the United States continues to be lacking. Some of the most conspicuous opponents of the original White and Keynes plans have expressed themselves strongly against the plan for an International Monetary Fund in the form approved in the joint statement of the experts.

Benjamin M. Anderson: One of the most vigorous critics of the White and Keynes plans was Benjamin M. Anderson, now professor of economics at the University of California at Los Angeles and formerly economist for the Chase National Bank of New York.

Mr. Anderson's objections to the plan as revised by the experts were set forth in an article in the *Commercial and Financial Chronicle*, New York, on May 4, 1944. In this article Mr. Anderson said in part:

> I said in my address of May 11, 1943, that both the Keynes and the Morgenthau plans were, in my opinion, British plans. Both were Keynes plans. The plan released April 21, 1944, is still a Keynes plan, though it is quite possible that Lord Keynes may himself repudiate it. It does not provide for a world inflation in

so simple a manner as the original Keynes plan does. The new plan would rather pave the way for a world inflation with a series of somewhat brutal interruptions, though the ultimate result might be expected to be the same, and although the first joyride could well be very intoxicating.

In one important point Lord Keynes has triumphed over Mr. Morgenthau. The original Keynes plan provided a new international currency called "bancor" which was to be fixed in gold "but not unalterably," whereas Mr. Morgenthau's original "unitas" was to be fixed in gold with no provision for alteration. The new plan drops both bancor and unitas but provides that "an agreed uniform change may be made in the gold value of member currencies, provided every member country having 10 per cent or more of the aggregate quotas approves."

This means that the President of the United States, through his representative in the international fund, could make an agreement changing the gold content of the dollar without the consent of Congress—a power which Congress took away from the Executive in 1943, and a power which the Executive should never have.

There has been some suggestion that the dropping of bancor and unitas, and the frequent mention of gold make the revised plan a gold standard plan. This is wholly erroneous. The new bank ("fund") must have some "money of account" in which to keep its books. This could be the dollar, or some other currency, as easily as bancor or unitas. The important question is as to whether the unit is fixed in gold and redeemable in gold. The answer is "No" on both points.

The great essentials of the Keynes plan remain. The strong currencies of the world, which means chiefly the dollar, are to put their strength behind the weaker currencies so that all the currencies look strong, and so that the weak may pull the strong down. When weak and strong alike have grown weaker against gold, then weak and strong alike may agree to repudiate their gold obligations in part by making "an agreed uniform change" in their gold obligations, and doubtless expect to retain their respectability while so doing. This plan, which thus definitely contemplates world-wide repudiations of gold obligations, has, as one of its avowed objectives "to give confidence."

The new plan, like the old plans, seeks to achieve exchange stabilization without doing anything about currency stabilization and without doing anything about budget balancing or other things necessary in a particular country as a foundation for currency stabilization. The new plan, like the old, would allow a weak country whose finances were out of hand, whose money market was in disorder, whose government, taxing inadequately and avoiding internal funding loans, was borrowing from the central bank of issue to meet its expenses, to continue in this course without concern for the standing of its currency in the

international exchanges, up to 200 per cent of its quota. The country would be supposed to put in 25 per cent of its quota in gold, if it had the gold, but if it didn't have much gold, it could put in only 10 per cent of the gold it had and obtain the foreign exchange it needed from the fund up to a multiple of many times the gold it had put in. It could import food and other things needed by its people as long as this foreign exchange lasts, and it could put off the politically unpleasant day of drastic internal financial and currency reform until double the quota is exhausted. Meanwhile the strong countries and particularly the United States, exporting to weak countries, could have a boom, ending violently when the borrowing power of the weak countries is exhausted. We could repeat the post-war boom of 1919-20 and then have the violent post-war crisis of 1920-21.

Mr. Anderson described the proposal for apportionment of scarce currencies as "one of the very imperfectly thought out aspects of the new plan." The rationing of dollars in the weaker countries, he said, would destroy a free foreign exchange market in the dollar in those countries. As part of the process, American exporters, he said, would find their holdings of weak currencies blocked. To free the blocked foreign exchanges, the Fund would resort, Mr. Anderson asserted, to "borrowing in the most inflationary manner of all, namely, from the Federal Reserve Banks." He noted that authorizations in the White plan to issue securities and otherwise to get funds from investors had been eliminated.

With respect to some of the changes in the joint plan of the experts, Mr. Anderson said:

> The new plan drops a good many of the things that have been criticised in the earlier plans. The notion that the fund should have liabilities in the form of deposits, and the notion that a country's claims upon the fund should be counted as part of the gold reserves of its central bank, have both been dropped. The plan says nothing whatever about what the liabilities of the fund shall be. We are told what its assets shall be, but we are not given a balance sheet plan showing its liabilities. . . .
>
> It is significant that the new plan drops the provisions in the earlier plans for taking care of "blocked balances" and "abnormal war balances" and "abnormal balances in overseas ownership." . . . The original Morgenthau plan blithely started out with a five billion dollar fund which should take care of the abnormal war balances and stabilize the foreign exchanges. When it then developed that Great Britain's blocked balances alone amounted to four billion dollars and were increasing in India alone at the rate of twelve hundred million dollars a year, the inadequacy of the Morgenthau fund of five billion dollars to deal with this vast

problem became apparent, and the next version cut down the amount of blocked balances that could be dealt with in the first two years to something like five hundred million dollars. The new version drops the blocked balance problem. Lord Keynes had a better perspective on this when he provided a fund which could expand indefinitely merely by marking up its assets on one side and its liabilities on the other! The bancor fund could swallow anything, but the newly revised Morgenthau fund, even expanded from five billion to eight or ten billion dollars, refrains from undertaking to swallow any of the blocked balances.

This means that the new plan gives up the great problem of setting the foreign exchanges free. It means that sterling will be left tied up so far as existing blocked balances are concerned. It means that the world is called upon to subscribe eight to ten billion dollars without being promised anything like free exchange markets. The plan indeed contemplates that exchange restrictions and bilateral trade arrangements and extraordinary interferences with foreign trade shall only gradually be ameliorated. We ought to get very much more than that for very much less money.

The whole approach is wrong. The problem is not a problem of foreign exchange stabilization. The problem is a problem of currency stabilization for each country separately.

B. H. Beckhart: Objections to the plan for an International Monetary Fund were offered by B. H. Beckhart, professor of banking at Columbia University and director of research for the Chase National Bank, during testimony before the House Committee on Foreign Affairs on April 27, 1944. Mr. Beckhart advanced five points, as follows:

(1) The operation of the Fund might stimulate inflation in the creditor nations and the inflationary influences might be exerted at the wrong time. The major portion of the initial quota of the United States would probably be contributed from the unused profits of gold devaluation. The Fund thus would be given a credit balance on the books of the Federal Reserve Banks which, when used, would increase member bank reserves and stimulate credit expansion. Similarly loans to the Fund by the Federal Reserve Banks (unless offset by a reduction in their security holdings) would increase member bank reserves and induce credit expansion. The inflationary influences of the Fund's operations might be exerted in the immediate post-war period which, from the point of view of the United States, might be the wrong time economically, for then the problem in this country might be that of controlling inflation.

(2) The plan establishes no criteria in the extension of loans. Contrary to the usual practice in connection with commercial and central banking statutes, the experts' proposals establish no criteria for credit extensions either as to purpose or length of life. Each nation, irrespective of the reasons for its desire to borrow and irrespective of its creditworthiness, would have the right to a certain loan total. It is obvious that under these conditions loans would be used for purposes disassociated from that of exchange stabilization and that they would become frozen. Furthermore the plan does not contemplate reliance upon the rate of interest as a deterrent of loan increases.

(3) The plan attacks the symptoms of exchange depreciation rather than basic causes. The proposals rely on the extension of loans to solve both exchange instability and disequilibrium in the balance of payments. . . . Exchange rates must reflect basic conditions and only on the firm basis of internal stability can external stability be achieved.

(4) The plan would tend to perpetuate exchange controls. The proposals advanced confuse exchange rigidity and exchange stability. Exchange rigidity results from the establishment of controls over foreign exchanges and foreign trade. . . . True exchange stability does not rest upon or require exchange controls but is founded on internal monetary stability. . . . Although the avowed purpose of the plan is to do away with exchange controls, the plan will operate in such a manner as to perpetuate controls on both capital and current account.

(5) By its very nature the International Monetary Fund is not designed to cope with the difficult problems of the period of transition from war to peace. The International Monetary Fund assumes a perfect world, in which economic and political stability has been achieved, in which the international balance of payments is in equilibrium and debt balances are of a temporary character. If the world were the perfect one assumed, the Fund would not be required. If the International Monetary Fund attempted to function in the imperfect world of the transition period, its assets would shortly become frozen with weak currencies and it would be compelled to call for continued assistance from creditor nations which, if granted, would tend to weaken their own financial structure.

W. L. Hemingway: The 1942-43 president of the American Bankers Association, W. L. Hemingway, president of the Mercantile-Commerce Bank and Trust Company, St. Louis, expressed criticisms of the joint plan of the experts and approval of the suggestions of Mr. Fraser in an article in the *Commercial and Financial Chronicle*, May 25, 1944. Mr. Hemingway said in part:

Now idealistically perhaps the Planners are drawing a beautiful picture, but they seem to leave out the practical question: will it work in this distraught world? Imagine for a moment that this great International Super Bank has been created and is at work. The stockholders are the 30 or more United Nations. They have selected their representatives to serve on the board of directors. The Board is in session and is considering the post-war problems before it. They are many and pressing. One director represents a great creditor nation, the United States of America, which by good fortune has great natural resources, a great industrial and agricultural plant, an intelligent and industrious population of 130 million people and about two-thirds of the monetary gold of the world. Another director also represents a great country, but it has by reason of two exhausting wars changed from a creditor position to one of a debtor in substantial amounts to other countries. This is the United Kingdom of Great Britain and Northern Ireland.

There are a few of the smaller countries represented by directors who sit in creditor seats but the large majority of the directors represent nations which either from the ravages of war or unfavorable economic conditions at home are indebted abroad. The reconstruction of many devastated countries is desired and large amounts of materials of all kinds must be imported so that the debtor nations need more credit for those purposes. It is but natural that the majority will be favorable to the liberal use of the resources of the Fund, and the creditor countries will want to be helpful of course, but as a matter of fact they must acquiesce. If they refuse or if they withdraw, as they may, they will create great ill will and defeat the very purpose for which the Fund was created. And furthermore, it is not unreasonable to expect that when the resources of the Fund shall have been exhausted, demands will be made for further assessments against the members and it is easy to see that the nation declining to contribute would be pointed out as defeating the program for reconstruction.

So we find ourselves in the position of having our original contribution frozen in the Fund, and if we didn't pay up again we would see a serious derangement in the exchanges which is the very thing we want to correct. So it seems to me to be a very impractical approach to a problem, which, all agree, should be solved if possible. . . .

Now it has been said that bankers are prone to criticize but lacking in constructive proposals. That cannot fairly be said on this subject because the excellent report of the Economic Policy Commission of the American Bankers Association has laid down the fundamental principles which should guide any program for the stabilization of currencies and defined the boundaries within which it should be confined. Furthermore, Mr. Leon Fraser, the able president of the First National Bank of New York, who has probably had more experience in international monetary affairs than any person in this country, has offered a definite proposal for the stabilization of currencies. This plan has met with general approval of the American banking profession because it is believed to be practical and sound. If adopted it would lead to an early improvement in exchanges throughout the world based on the dollar and pound sterling redeemable in gold at a stated value.

Melchior Palyi: Detailed criticisms of the plan for an International Monetary Fund were made by Melchior Palyi, Chicago economist, in an article in the *Commercial and Financial Chronicle,* May 18, 1944. He said in part:

The monetary system established by the Fund is not a modification of the gold standard; it is a complete abandonment of its essential features. That the parities are not to be defined in terms of gold, and the members are obligated to sell and buy gold at par, or that a minor amount of gold is to be paid into the Fund, are sheer concessions in form which do not affect the substance of the new monetary system. Its substance is to throw the gold standard overboard in all but name, and do so first by keeping its mechanism from going into gear, and then by sanctioning its formal abandonment.

Instead of compelling the debtors to reorganize their legal and economic houses in a fashion that would permit the reopening of commercial credit channels and the automatic adjustment of price and cost levels, the proposal amounts to providing the distressed nations with a breathing spell, without even suggesting any reform to restore the functions of free enterprise. . . .

Nor does the plan permit restoring as much as a residual of the gold standard's self-adjusting price mechanism. As a matter of fact, it accepts international disequilibrium at the outset, and sanctions its permanent maintenance. It does so by condoning, if not fostering, the continuation of the two major methods of monetary warfare, which were a major cause of the world's economic malaise: exchange restrictions of the German type, and competitive devaluations of the Anglo-American brand. Exchange restrictions are permitted from the outset on the ground that they may be needed as "transitional" arrangements, with no time limit nor any other criterion set for their discontinuation. In addition, members are entitled to keep up restrictions on international capital movements indefinitely, and almost any transaction may constitute or imply a capital movement. And if a currency held in the Fund becomes "scarce" (i. e., if the dollars paid-in near exhaustion) and the Fund declares that the scarce currencies have to be apportioned among those who demand it, this decision "shall operate as an authorization to a member country . . . to restrict the freedom of exchange operations in the affected currencies." In short, after the Fund runs out of money, if not before, the debtors may run for cover by turning to the unrestrained practice of exchange restrictions, which in turn will compel them to bilateral clearings and similar vicious trade policies.

National City Bank of New York: The monthly letter of the National City Bank of New York for May 1944 raised a number of questions regarding the operation of the proposed International Monetary Fund. Pointing out that any lending institution, be it a world bank or a "Main Street" bank, must stand or fall by the soundness of its terms of credit, the letter said that countries likely to be on the creditor side naturally wanted to know what safeguards there would be to protect the money they put into the Fund. The letter continued:

> Unfortunately, it is precisely upon this point that the plan, as published, is most obscure. Apart from its provisions relative to the percentage of its quota that a member country is presumed to be entitled to borrow, there appears to be little in the way of limitation upon the debtor country other than the general discretion of the Fund. While there are admittedly difficulties in laying down precise rules and regulations in the granting of credit, some further spelling out of the criteria for access to credit seems essential if the scheme is to command confidence.
>
> Long experience in the lending of money shows that proper limitations have to be placed around it, and that there needs to be a constant incentive for the borrower to restrain his borrowing and repay as promptly as possible, for the temptation the other way is always great. It would accord with this principle if advances made through the Fund—even those limited amounts which are made semi-automatically—should bear a suitable rate of interest. . . .
>
> In the light of these considerations, two further crucial questions arise—
>
> **1.** Whether there is as yet adequate distinction being made between the needs of the transition period when the most pressing call will be for relief and long-term loans for reconstruction and for the unfreezing of the huge volume of blocked international funds—mainly sterling—and the needs of the later period when more normal equilibrium will have been restored. While the plan states that the Fund is not intended to be employed for the former purposes, it is not clear that once the Fund is set up and borrowers are admitted to its facilities it will be possible to so identify exchange transactions as to prevent the Fund from becoming encumbered with non-liquid assets.
>
> **2.** Whether the whole set-up and theory of an $8,000,000,000 to $10,000,000,000 fund, with borrowing quotas for 30 or more countries, is not on altogether too elaborate a scale. . . .

> Whatever the amounts or the methods, it is realized that a currency stabilization plan could not operate successfully unless and until something like normal international relationships and sound internal economies have been established. Which prompts the average person to inquire why, once the transition problems have been dealt with, it will require so much money to meet the exchange exigencies of more ordinary times. There is apprehension that with a fund of such proportions operating on the quota system, debtor countries may be encouraged to think that they have a right to credit up to the amount of their quotas, thus discouraging the taking of adequate corrective measures at home and resulting in pressures upon the Fund that would either be hard to resist or, if resisted, would be productive of much misunderstanding and ill will.

J. H. Riddle: A comprehensive study of the White and Keynes plans was made by J. H. Riddle, economic adviser to the Bankers Trust Company of New York, and issued in December 1943 as part of the financial research program of the National Bureau of Economic Research, Inc., under special grants from the Association of Reserve City Bankers and private foundations. Mr. Riddle pointed out many possible weaknesses which in large part are applicable to the joint plan of the experts for an International Monetary Fund.

In connection with inflationary influences, Mr. Riddle said:

> In the immediate post-war period when the world will be combating the inflationary influences generated by the war, the Keynes plan might add more fuel to the fire. The creation of such a huge fund of available credits would no doubt greatly stimulate the dollar amount of foreign trade as long as credits are provided, but, if and when they are refused, readjustments could prove to be very painful. The consequences would be similar to those of other booms built on inflated credit.
>
> The effect on the United States might be particularly aggravating at a time when demands will be heavy and goods scarce. The stimulation of foreign buying in the immediate post-war period would greatly increase the difficulties of supplying the deferred demands of the public and of holding prices in check. If the trade boom should collapse about the time the rebuilding of inventories tapers off and the demands for durable goods slacken, it would accentuate the consequent business recession. The post-war inflationary impact of the White plan would be much less than that of the Keynes plan because of the smaller volume of credits that would be extended.
>
> It is to the interest of the United States, of course, to develop foreign markets for its products, and this development can be

aided by the granting of credits. The benefits of a "mushroom" growth stimulated to excessive proportions by short-term credits in the immediate post-war period, however, might not be lasting. In all likelihood, export trade developed more slowly and without undue pressure, aided by long-term credits for reconstruction and development purposes, will have more permanence and stability.

Alvin H. Hansen: In contrast with the various quoted criticisms are the views of Alvin H. Hansen, professor of economics at Harvard University and advocate of government spending and other theories with which the Roosevelt Administration has been identified. Mr. Hansen strongly favors creation of the proposed International Monetary Fund and also believes that at least three other international institutions should be set up, an International Investment Bank, an International Commodity Corporation, and an International Economic Board.

Excerpts from an article by Mr. Hansen in *PM*, May 7, 1944, follow:

As a proposal for international collaboration, the plan reveals, I think, a statesmanlike attitude toward world problems. That the plan is broadly international in character, makes a strong appeal, I believe, to the smaller countries. . . . What is really important is that the plan sets up an international institution—an institution at work on international collaboration; an institution continually on the job, dealing with current international monetary developments and balance of payment problems; an institution constantly providing means of adjustment through international action. . . .

The present proposal limits itself to the problems of international monetary stability. It is far more modest than the original Keynes plan. There is no grandiose provision for financing relief or reconstruction. That must be provided by other means. The contribution which each country will make to the Fund is definite and limited in amount. . . .

On the other side, the new proposal is superior to the original White plan in the respect that it is more flexible. Some critics said, not without reason, that the original White plan was almost as rigid as the old gold standard. . . . The serious defect in the old rigid gold standard was that it compelled a country to adjust its entire structure of prices, wages and income to the fixed exchange rate. On the face of it, it is no exaggeration to say that this was an absurd procedure. It amounted to demanding that the whole vast internal economic structure should continually be compelled to revolve around the pivot of the fixed exchange rate. . . .

How to square the theory of exchange adjustment to reasonable stability of exchange rate—that is the problem which confronts the modern world. The proposed international monetary plan is an answer to this problem. . . .

The new proposal represents a major improvement over the earlier Keynes and White plans in that it specifically provides for the continuation of exchange control during the post-war transition period. This insures that the resources of the Fund will not quickly be exhausted in a premature effort to remove restrictions.

VI. Editorial Comments

CRITICAL COMMENTS on the plan for an International Monetary Fund appeared in a considerable number of leading newspapers following publication of the joint statement of experts.

Excerpts from some of these editorials follow:

New York Times April 24, 1944: Nowhere will international cooperation be more imperative after the war than with regard to national monetary systems and stable exchanges. Unfortunately, the proposal now announced for an $8,000,000,000 international stabilization fund misconceives the real nature of the problem to be solved. The text of the joint statement begins with the assertion: "It is the consensus of opinion of the experts of the United and Associated Nations who have participated in these discussions that the most practical method of assuring international monetary cooperation is through the establishment of an international monetary fund." On the contrary, the most practical method of assuring international monetary cooperation is through sound economic, budgetary, credit and currency policies within each nation. If these exist, a huge international stabilization fund will be unnecessary. If these do not exist, an international monetary fund, no matter how large, will be worse than ineffective. It could not, in the end, support an unsound currency; but in attempting to do so it would drain part of the resources of the countries with sound currencies. To that extent it would make it more difficult for them to maintain their own soundness.

New York Herald-Tribune April 24, 1944: The thing that must be borne in mind about any such scheme as this is that it is strictly limited in its functions. Such a fund can promote international cooperation in the field of exchange dealings and correct temporary dislocations, but it cannot of itself cure the ills which lie at the bottom of chronically erratic currencies. The only remedy for such conditions is a balanced trade position and sound internal fiscal policies.

Wall Street Journal April 24, 1944: Secretary of the Treasury Morgenthau has made public a proposal for an international stabilization fund, which on its face is a considerable retreat from the Keynes and White plans offered some months ago. Both of these plans, one of British sponsorship and the other offered by American Treasury experts, went far beyond the announced purpose of currency stabilization. They were in fact blueprints of world economic dictatorship. It is to be hoped that the sponsors of these plans have indeed seen the impossible folly of their original ideas. However, it is not yet clear that there is justification for placing too much dependence on that hope.

Washington Post April 23, 1944: One thing is certain: the United States as the world's chief creditor nation has most to lose from the failure of an international stabilization plan. Whatever we may decide to do, therefore, it is essential for us to protect ourselves against the possibility of a breakdown of the plan that would leave us "holding the bag" stuffed with worthless IOU's of debtor participants. . . . Another factor to keep in mind in appraising the worth of any international stabilization proposal is its possible effect upon domestic credit policies. All the proposals that have been under examination would inflate the money supply of a creditor country, such as the United States, unless restrictive credit-control policies were instituted to counteract their effect.

VII. Economic Policy Commission Report of American Bankers Association

THE AMERICAN BANKERS ASSOCIATION at the time of its annual meeting in September 1943 took a position in keeping with the "key-countries" approach to currency stabilization. The association adopted a brief resolution which included advocacy of the fixing of values of currencies in terms of gold. Its Economic Policy Commission in a report on the *Place of the United States in the Post-War Economy* pointed out defects in the White and Keynes plans. In large part the Commission's observations are pertinent to the program for an International Monetary Fund.

The resolution was as follows:

> This Association supports the view that our own progress and well-being, and that of the world, require our active participation with other countries in dealing with post-war problems. Such participation may require generous aid in stricken areas to relieve distress. In addition there will undoubtedly be need of cooperation in measures to restore stability of currencies, broaden the flow of commerce between nations, and encourage international capital investment for rehabilitation and development. But any plan in which this nation may agree to assist in the stabilization or reestablishment of foreign currencies should incorporate the principle that the value of currencies be fixed in terms of gold. Financial and commercial relations with other countries should accord with sound business principles. While recognizing that enlightened self-interest calls for our participation in efforts to build a better world, yet we fully realize that achievement of the goal depends primarily upon the efforts everywhere to help themselves.

The Economic Policy Commission was headed by W. Randolph Burgess, vice chairman of the Board of the National City Bank of New York, now vice president of the American Bankers Association. Its other members were Leonard P. Ayres, Winthrop W. Aldrich, F. M. Farris, A. P. Giannini, A. George Gilman, Richard S. Hawes, Rudolf S. Hecht, Harold H. Helm, William A. Mitchell, E. S. Woosley, John C. Wright, and Paul F. Cadman, secretary.

Excerpts from the report of the Economic Policy Commission follow:

> The necessity for currency stability is again being widely recognized, but it will be hard to achieve. Many countries will be impoverished and in disorder, with seriously disturbed balances of foreign payments. Many already are far along the road of internal inflation. Old trade channels will be disrupted. Many countries will lack adequate reserves of gold and foreign exchange. For practically all, the problem of finding rates of exchange that truly reflect the internal purchasing power of different currencies will be a perplexing one. Wrong rates would invite serious difficulties as proved true after World War I.
>
> The rate question cannot be settled alone. It goes along with all the other problems of peace and war and trade barriers. No country can assuredly maintain a stable currency unless its internal economy is in order—its budget under control, its price level reasonably stable, and its external payments and receipts well balanced. A stable currency is a logical result of a sound economy and cannot exist long in its absence.
>
> The basic requirements for stabilization are twofold in character. The first concerns the general political and economic background. The second is the more technical question of international monetary arrangements. It is in the second area that recent proposals have been made for the establishment of an international institution. . . .
>
> There are certain principles which have been clarified by the discussion up to this point. These are, first, that some international institution is desirable: to help nations in stabilizing their

currencies; to provide a meeting place for the discussion of monetary questions; to collect information which is a necessary basis for sound decisions; and to make some arrangements for stabilization credits in cases where they are justified, or for temporary seasonal or emergency credits with provisions for early liquidation. The experience with the Bank for International Settlements showed to those who studied its operations the value of such an institution. On a more modest scale the tripartite agreement was another encouraging example of the possibility and value of consultation. Whether the needs of the situation would be met best by modifications in the structure of the Bank for International Settlements or by the establishment of a new institution is a question which should be fully explored. Speaking generally, there is much to be said for building upon machinery which already exists.

The second essential point is that institutions of this sort are no substitute for the hard, patient labor of reestablishing the economic soundness of participating countries, of the balancing of budgets, and readjustments to post-war conditions. Especially important is the economic condition of the key countries, the United States and England. To extend this sort of credit before sound economic programs are established would invite failure and loss. . . .

A third point relates to the general scale and scope of the operations of such an institution. President Dodds of Princeton has recently suggested that any international organization "must not attempt to frame a super-government so new and unfamiliar that men will not be prepared to participate in it." . . .

The success of such an institution will depend not on the extent of its legal powers, but on the support given it by key countries. It was not so much lack of power that crippled the League of Nations, but lack of support. The British Commonwealth of Nations has no constitution and no legal powers. It is tied together by enlightened loyalty. Implications of compulsion and broad controls, regardless of how carefully veiled they may be, are not suitably unifying factors in international monetary matters. Free collaboration based on mutual advantages and built up by persuasion and friendly relationships offers the most promising approach.

Fourth. Credit granted by such an agency should be extended in accordance with proven standards, based on the merits of the individual case, and conditioned on adequate commitments by the debtor. They should be temporary in nature and made at a fair rate of interest. A system of quotas or shares in a pool which give debtor countries the impression that they have a right to credits up to some amount is unsound in principle, and raises hopes that cannot be realized. Such a system would encourage the impression that credits received may not have to be liquidated, and would invite abuses of the facilities. Any formula which

attempts to determine in advance the credit needs and credit worthiness of each country is impracticable. . . .

In concluding this section it seems wise to emphasize again the fact that no institution no matter how well designed can work miracles—an illusion too often cherished. Basically stable money is possible only with stable national economies. Towards this goal the United States must lead the way. The first requisite for any genuine progress toward stabilization is a stable dollar free of all exchange restrictions, a dollar in which the world has full confidence. Regardless of the standards adopted, or the organization set up, some strong currency must in fact be the main steadying influence. So far as can now be foreseen the foundation currency must be the dollar.

The second step should be to establish definite rates between the dollar and the pound sterling—the two currencies in which the major part of world trade has been conducted for the past century. This step involves the whole problem of the reestablishment of the British monetary and trade position on a sound basis. We must assist in the solution of this problem if currency stability is to be achieved promptly. It is probably wiser to grapple frankly and directly with this question rather than merging and partly concealing it in a general international plan.

Once the values of the dollar and the pound are determined others will follow, for certain currencies are now stable in relation to the dollar or the pound, and other countries could gradually make the necessary adjustments. Where financial aid is needed it should be granted only after due consideration of the merits in each individual case. Each country must of necessity work out its monetary salvation largely by its own efforts. It cannot shift responsibility. In this process the presence of an institution as a mechanism to encourage consultation would be useful, but its function as a lender of money can only properly begin when a sound economic program has been put into effect.

Furthermore, it should again be emphasized that the United States cannot successfully promote international monetary stability without making determined efforts to put its own affairs in order by balancing its budget and checking inflationary influences. If our fiscal policies in time of peace continue to rest on the principle of deficit financing, all efforts to maintain international monetary stability will inevitably fail. Confidence in the dollar would be further enhanced by a clear cut policy making the dollar redeemable in gold, in foreign trade, with no deviation from the present value.

VIII. Declaration by National Foreign Trade Convention

THE NATIONAL FOREIGN TRADE CONVENTION, held at New York in October 1943, adopted comprehensive resolutions, which included a section on monetary policy and exchange stabilization. The convention declared for immediate consideration of our relationship to the problems of the British monetary and trade position and that of other countries which are now prepared to discuss their post-war situations. It also favored eventual restoration of the convertibility of the dollar into gold, free of all exchange restrictions.

The text of the monetary resolution follows:

> Looking toward the resumption of freer foreign trade and international credit transactions in the post-war period, one of the most important objectives of international cooperation is the achievement of sound relationships between the principal currencies of the world and reasonable stability in the rates of exchange thereafter.
>
> Many general political and economic conditions after the war may require considerable time for adjustment and settlement before world-wide stability in the exchanges is possible. A stable currency is the logical result of a sound economy and cannot exist long in its absence. Tentative plans for the establishment of international agencies, with large powers and resources, have been proposed by the British, Canadian and our own Treasuries. As wisely desired by these governments, these proposals have provoked wide discussion and an awareness of the difficulties involved. As yet no plan has received the approval of any Parliament or the American Congress.
>
> We recommend particular and immediate consideration of our relationship to the problems of the British monetary and trade position, and of that of other countries which are now prepared to discuss their situations and possible post-war arrangements with our government. We recognize that it may be advantageous for this country to extend credit in one form or another to assist other nations which are taking sound steps to rehabilitate their economies and monetary systems. We would thereby further stimulate and enlarge the opportunities for world trade. . . .
>
> We recommend the repeal of such laws as may require the further purchase of silver for monetary purposes.
>
> The United States can make an important contribution toward international monetary stability by making determined efforts to put its own affairs in order by balancing its budget and by adopting policies with respect to tariffs and other trade restrictions which will permit debtor nations to meet their engagements through the delivery of goods and services.
>
> While our present monetary policy must be influenced by the exigencies of financing the war, every effort should be made to control inflationary tendencies, in order to minimize the inevitable difficulties of post-war economic reconstruction.

> The convention affirms its appreciation of the responsibility which will rest upon our Nation to cooperate with other leading countries, and all nations, toward the establishment of conditions and arrangements which will eventually result in stable rates of exchange and freedom for trading in them in the markets of the world. We recommend the eventual restoration of the convertibility of the dollar into gold, free of all exchange restrictions.

IX. The International Gold Standard

THE DISCUSSIONS of proposals for world currency stabilization have made it clear that gold will continue to play a conspicuous part in international monetary matters. As to the extent that gold will or should be used in a manner comparable to its regulatory function prior to the First World War, there is a wide difference of opinion. The plan for an International Monetary Fund does not go far toward the restoration of the old gold standard. Nevertheless, gold forms the foundation of the proposed exchange mechanism and its value as the principal monetary metal seems assured. The fears expressed rather generally a few years ago that the huge stock of gold held by the United States would be worthless appear to have had no basis.

An increasing sentiment has developed in the United States for reliance upon gold to a degree consistent with modern monetary management. The future gold standard necessarily will be less rigid than under former conditions.

E. W. Kemmerer: Among leading advocates of a return to an international gold standard is E. W. Kemmerer, emeritus professor of international finance at Princeton University. Mr. Kemmerer had a part in the reorganization of the monetary systems of thirteen nations during the decade after the First World War.

In testimony before the House Committee on Foreign Affairs on April 26, 1944, Mr. Kemmerer said in part:

> No other kind of currency system in a distracted post-war world will so quickly restore the confidence of the public as a true gold standard. No other kind can be made so simple, so easily understood. . . .
>
> The subject is an international one, and its satisfactory solution demands a high degree of international cooperation, which should begin at once and continue indefinitely. . . . The monetary unit should be established in each country, after conference

with other countries, but without any compulsion from them whatever. The determination of the size of a nation's monetary unit is affected with such a great public interest and is so highly prized as a prerogative of sovereignty that it is impracticable to subject it to outside interference.

> Wartime inflationary policies should be discontinued at the earliest possible date after the armistice, and everything possible should be done by the government to inspire confidence in the currency. Measures should be taken early providing for the ultimate discontinuance of all artificial price and exchange controls, but the process of discontinuing them should be put into effect by cautiously measured steps.
>
> After prices have settled down to what, for want of a better name, may be called their "natural level" there should be a "try-out" *de facto* stabilization of the monetary unit at this level. The *de facto* stabilization in due time should be followed by a *de jure* stabilization, but the latter should not be adopted until the government is in strong enough position financially to be confident that it can make it stick.
>
> There are three important types of the gold standard, namely, the gold-coin standard, the gold-bullion standard and the gold-exchange standard. . . . Each nation should choose the type best adapted to its own needs.
>
> While there should be some management of the gold standard, both international and national, this management should be kept as small as possible and should be superimposed upon a system that is fundamentally automatic in its operation. . . . There should be no restrictions on the holding by the public of gold coin or gold bullion within the country, nor, under the gold-coin standard, on the free coinage of bullion at the mint or the melting down of gold coin. The exportation and importation of gold should be free from all trade restrictions and tariff. Under such conditions gold will enjoy a very high degree of fluidity in its movements, both national and international, and the value of the gold monetary unit in such gold-standard country will be held very close to that of its gold equivalent in every other gold-standard country and to the value of gold bullion in the free markets of the world.

While not in favor of the proposed International Monetary Fund, Mr. Kemmerer would create an international bank with purely monetary and banking functions as a central institution for gold-standard countries. Such a bank would serve as a clearing house for the member central banks, hold part of their reserves, collect information, and provide a medium for conferences of member bank officials.

Walter E. Spahr: Another advocate of a return to an international gold standard is Walter E. Spahr, professor of economics at New York University and secretary of the Economists' National Committee on Monetary Policy. In a paper published in January 1944 by the Monetary Standards Inquiry, Mr. Spahr said:

> The long history of the world's experiences with media of exchange and standards of value seems to teach unmistakably that gold is superior to any other commodity or instrumentality yet devised by man as a standard of value and ultimate liquidator of claims in exchange. . . .
>
> Regardless of whether the nations of the world attempt to facilitate and simplify international exchanges by the establishment of a simple international clearing house or an international bank—if the latter can be instituted and made to succeed in the face of the very complex problems which it raises—apparently no important step forward can be taken successfully unless an international gold standard is employed.

Guaranty Survey: *The Guaranty Survey*, published by the Guaranty Trust Company of New York, has strongly urged adoption of an international gold standard. In its issue of September 28, 1943, the *Survey* said:

> It is our belief that no method of stabilization yet devised or suggested is so sound or so easily operated as the international gold standard—with free coinage of gold, free markets and private ownership of gold, and currencies freely convertible into gold, both for domestic use and for shipment abroad.
>
> If the abnormal conditions that exist at the close of the war make an immediate return to the free gold standard by some nations impossible, it may be necessary for such nations to resort temporarily to the gold exchange standard, whereby countries with inadequate gold reserves "tie" their currencies to those based on gold by using their bank balances in gold-standard countries as reserves in lieu of actual gold holdings. Restoration of the free gold standard, however, should be the universal objective.

John B. Condliffe: As against the views of those urging a return to the gold standard, other authorities are doubtful or in outright disagreement. John B. Condliffe, associate director of the division of economics and history of the Carnegie Endowment for International Peace, research professor at Yale, and for a number of years a member of the League of Nations secretariat and author of its annual *World Economic Survey*, believes that the gold standard is outmoded. In a paper published in February 1944 by the Monetary Standards Inquiry, he said:

> The symmetry and intricate balancing of the gold standard system still fascinate economists; but in fact the conditions essential

> for its working have disappeared. There is no longer the flexibility of prices (including rates of interest and wages) that enabled adjustments to changing conditions of trade to be spread over the whole economy of all the participating countries. . . . One of the first essentials of realistic discussion in regard to monetary and economic policy after the war is to recognize that "the times are out of joint." After a second world war, it is idle dreaming to think of returning to the international gold standard.

While taking this view, Mr. Condliffe nevertheless recognizes that gold will continue to play a part of considerable importance in the new international monetary system.

Treasury View: What is presumably the Treasury's viewpoint on the gold standard was stated by Edward M. Bernstein, assistant director of the Division of Monetary Research of the Treasury Department, in a round table discussion at the Foreign Trade Convention, New York City, October 25, 1943. Mr. Bernstein said:

> I think we ought to have the gold standard, but let us have it in those aspects which we think are essential. Let us have the gold standard in every aspect which contributes to the stability and revival of international trade.
>
> To me that means that currencies will be defined in terms of gold, that proceeds of international trade can be converted into gold, that proceeds of international trade can be converted into the exporter's currency, and that exchange rates will be reasonably stable and orderly. That is all anybody ought to ask of the gold standard. If you ask for much more you are hoping for the impossible. I venture to say that the proposals for international currency stabilization do give us all of the gold standard we can hope for.
>
> They give us a currency defined in gold. They make certain that every member's currency, when it is derived by a trader from his exports or by an investor from his profits on his business, will be convertible into his own currency. And they give us assurance, through provision for consultation and approval, that exchange rates will not behave as they did in the thirties when currencies were not related to gold. All that we expect from the gold standard we can get from the proposals before us. The rest of the gold standard feathers are not significant, and that applies to circulation of gold coins. Certainly we ought not to impose them upon other countries desperately in need of their gold and foreign exchange for the real purposes for which gold and foreign exchange can be used, for making sure that their trade continues and that their currencies are stable.

X. Future Action on Currency Stabilization

CONGRESS will have the final word on the creation of an International Monetary Fund. Cooperation with other nations along the lines of the tripartite agreement of 1936 would be possible without new legislation, beyond an extension of the statute authorizing the present Exchange Stabilization Fund, which in 1943 was continued by Congress to June 30, 1945. This Fund has sufficient resources for extensive operations in the purchase and sale of foreign exchange and gold as part of a program for stabilization of currencies. If the proposed International Monetary Fund is to be financed from the assets of the Exchange Stabilization Fund, new legislation will be necessary.

In extending the life of the domestic fund, Congress in 1943 added a clause which stipulates that "such fund shall not be used in any manner whereby direct control and custody thereof pass from the President and the Secretary of the Treasury." The House Committee on Coinage, Weights and Measures, in its report on the bill, explained the purpose of the amendment as follows:

> The portion of the committee amendment which adds a new sentence to subsection (b) of section 10 of the Gold Reserve Act of 1934 will carry out the view expressed by the Secretary of the Treasury that the stabilization fund should not be included in any international fund without the approval of the Congress.

The hearings before the House committee on April 19, 1943, had developed the fact that legal advisers of the Secretary of the Treasury believed the power under existing laws sufficient for participation by the United States in an international agency for currency stabilization. Secretary Morgenthau, however, assured the committee that he "would not think of entering into any world agreement on stabilization of the currency without formally consulting Congress." He asserted that "I would not want to assume the authority unless Congress gave it to me . . . and if they so desired delegating me as an individual to carry it out." Mr. Morgenthau said that the assets of the present fund might be used in an international fund "unless Congress wanted us to use some other funds." He said he would want "a very clear-cut directive from Congress of the funds they wanted us to use." In subsequent appearances before Congressional committees in connection with the proposals for monetary stabilization and a world bank, Mr. Morgenthau reiterated his purpose to seek statutory authority for whatever plans finally might be recommended.

The balance sheet of the Exchange Stabilization Fund for December 31, 1943, shows total assets of $2,038,685,539.45. Only $200,000,000 of the original $2,000,000,000 of gold from the profit in devaluation of the dollar ever was used in the operations of the Stabilization Fund. The $200,000,000 is intact, together with a sizable profit. The balance sheet shows that assets include the unused $1,800,000,000 in gold, additional gold to the amount of $42,907,236.13, and cash totaling $182,688,344.18. Other assets include $10,448,723.13 in United States Government securities, $2,627,666.16 due from foreign banks, and small miscellaneous items totaling $13,569.85. The liabilities include the capital account of $2,000,000,000, earnings less administrative expenses of $31,684,790.70, a reserve for expenses and contingencies of $6,983,005.77, and $17,742.98 in accounts payable.

If the subscription of the United States to an International Monetary Fund amounted to from $2,500,000,000 to $2,750,000,000, as estimated, it would be a total somewhat greater than the assets of the Exchange Stabilization Fund. The minimum gold subscription of 25 per cent of the quota, however, would take only about one-third of the gold held by the Fund.

Congress in making provision for the financing of an International Monetary Fund also would take into consideration possible participation in the proposed United Nations Bank for Reconstruction and Development. The subscription of the United States to the Bank would be upwards of $3,500,000,000, of which, however, only $700,000,000 would be paid in at the start, about $140,000,000 of it in gold.

If the procedure follows the precedent established when Congress approved participation in the United Nations Relief and Rehabilitation Administration, ratification of an executive agreement for an International Monetary Fund would be by a law passed by majority vote in each House, rather than by a treaty requiring a two-thirds vote in the Senate alone.

Calling of the United Nations Monetary and Financial Conference, in the midst of difficult war conditions, is evidence of the very great importance attached to post-war currency stabilization. Decisions of the conference must be weighed in the light of the interests of the United States as well as of the world.

The doubts expressed by individuals and organizations with respect to the plan as outlined in the joint statement of experts of the nations provide reason for the most careful examination of all its aspects.

The analysis and viewpoints presented in this pamphlet and in others in the series on *International Financial Problems* are intended to promote a better understanding of the issues.

Resolution on Monetary Policy

AT THE TIME of publication of this pamphlet, member organizations of the Chamber of Commerce of the United States were in process of voting in referendum upon a resolution on monetary policy. The text of this resolution, submitted by the Resolutions Committee on May 29, 1944, follows:

> The Chamber reiterates its belief that restoration of a satisfactory international monetary standard and faith in the integrity of currencies are vital needs which must be met.
>
> Stability in currencies is necessary for an adequate revival of private international trade, with its postwar benefits to the people of the United States and of other countries.
>
> The gold standard is the only international monetary standard which has commanded any general acceptance. World trade moves on values based upon gold. The restoration and maintenance of a satisfactory standard are dependent upon the development of confidence, the balancing of public budgets, and the ultimate removal of restraints upon foreign exchange.
>
> The United States should provide the necessary steadying influence internationally by assurance of stability of the dollar, free of exchange restrictions. Stability of the dollar will require abandonment of policies which are designed to encourage deficit financing, repeal of the authority to issue greenbacks, and prohibition upon exercise of executive power which would weaken the currency standard established by Congress.
>
> Endeavors should be encouraged to establish definite rates between the dollar and pound sterling, which are so greatly used in world trade, with subsequent relation thereto of the currencies of other countries as they make necessary adjustments. Stability of those currencies demands resolute determination by the respective governments to establish sound domestic policies, with reliance upon their own efforts to the utmost extent possible and the avoidance of inflationary processes or attempts to obtain mercantile advantage through monetary manipulations.
>
> Plans have been proposed for currency stabilization which contemplate the setting up of an international agency. Some international institution may prove to be desirable, perhaps utilizing existing machinery. It is of the highest importance, however, to insist upon proper limitations of power, sufficient national freedom of action in monetary policy, and adequate safeguards in credit extensions.

2232