OFFICE CORRESPONDENCE July 13, 1943

To Federal Reserve Board Subject: Statistical comparison of the
From Walter R. Gardner monetary stabilization plans

The attached table is designed to bring out some of the essential facts with regard to the monetary stabilization proposals.

The first section on the U.S. commitment shows how much farther the Federal Reserve proposal went in bringing foreign gold into the Fund than did the May Treasury draft. Since then, however, the Treasury has put in provisions that will increase the foreign gold contribution. While only contributed gold is brought under the discipline of the Fund, the United States is committed under the plans to buy all gold offered it irrespective of whether that gold is held outside the Fund or has been contributed to the Fund by foreign countries or by the United States itself. The figures given in the table for the total U.S. commitment should be increased by the amount of new gold production for whatever number of years we are looking ahead. Since gold production amounts to more than 1 billion dollars a year some 10 billion dollars should be added to the figures if we are considering the next decade.

The second section, which indicates the ability of the Fund to meet the potential demand for dollars, shows that the Federal Reserve proposal, while it involved no larger U.S. contribution than the May draft of the Treasury, was able to distribute four times as much Fund assistance. It could do this partly because the foreign gold contribution was so much larger that the Fund could command nearly three times as many dollars, and partly because we felt that it was reasonable to assume that the Fund would not permit all potential foreign demands to converge upon the United States and that, therefore, dollar resources equivalent to nearly 60 per cent of these potential foreign demands would prove sufficient. The latest Treasury draft has adopted a somewhat similar procedure. It calls for a larger U.S. contribution than does the Federal Reserve proposal, and although the foreign contribution is not so large, nevertheless it is sufficiently in excess of what the Treasury originally contemplated to make the combined dollar resources of the Fund twice as large as those provided in the May draft. By introducing a suitable gap between these dollar resources and the potential dollar demands the Treasury is able to provide aggregate foreign quotas three times as large as those of the May draft. These quotas, amounting to 9 billion dollars, are smaller than the 12 billion proposed by the Federal Reserve, and unfortunately they are so distributed that they go more to the stronger than to the weaker countries. The weaker countries, therefore, get very much less assistance than under the Federal Reserve proposal. Nevertheless, the influence of our proposal is clearly apparent in the latest Treasury draft.

The third section shows the total resources of the Fund. The entire U.S. contribution is assumed to be in the form of gold, which is convertible into any currency. Dollars would be equally convertible. The currencies of countries without adequate gold (or dollar) reserves, however, will be useful to the Fund only as a direct demand for these specific currencies develops. If the demands for foreign exchange are diversified, if they do not all concentrate on a single currency such as the dollar, the Fund is virtually assured of ample resources to meet them without borrowing.

In contrast to the American plans the Keynes plan calls for no contribution of foreign gold, and yet, within the limits of the quotas, it can meet any demand for foreign exchange, concentrated or diversified. It is a beautiful mechanism if only it did not involve a commitment of 38 billion dollars on the part of the United States — a commitment that might easily be doubled if international trade continued to grow or the Clearing Union was used, as Keynes proposes, to finance other international agencies.

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AMOUNTS INVOLVED IN VARIOUS MONETARY STABILIZATION PROPOSALS
IF MEMBERSHIP INCLUDES ALL COUNTRIES OTHER THAN GERMANY, ITALY, AND JAPAN
(In billions of dollars)

	Treasury 1/ (May draft)	Federal Reserve 1/	Keynes	Treasury 1/ (Latest draft)
1. United States commitment: it must buy if requested				
Foreign gold outside Fund 2/	10.5	6	11	9
Foreign gold in Fund	.5	5	0	2
United States contribution to Fund	2.0	2	27 3/	3
Total United States commitment 4/	13.0	13	38	14
2. Ability of Fund to meet demand for dollars				
Dollars foreign countries may demand 5/	3.0	12	27	9
Dollar resources of Fund	2.5	7	27 3/	5
Dollars Fund may have to borrow from United States	.5	5	-	4
3. Total resources of Fund				
Gold (convertible into any currency)	2.5	7	-	5
Specific currencies	2.5	7	*	5
Total 6/	5.0	14	*	10

1/ Based on estimated gold and official dollar balances as of end of 1942. Owing to nature of Treasury formula, figures for foreign countries in Treasury columns are subject to considerable margin of error.

2/ In addition to their gold holdings outside the Fund, foreign countries had 2 billion dollars of official balances in this country at the end of 1942, of which .8 billion dollars was in the form of deposits with the Federal Reserve Banks. Use of these deposits would have the same effect on member bank reserves as gold and use of the official balances in any form would enable foreign countries to get United States goods without giving us goods in return.

3/ Contributions (and assets) in the Keynes Plan come into being only as the need arises.

4/ Plus 1 billion dollars of new gold production a year. This, however, might be gradually eliminated under the Federal Reserve plan.

5/ Subject to corrective action of Fund. On other hand Fund may exceed these limits at own discretion if special majority votes to do so.

6/ The more diversified the demand for foreign exchange, the greater the assurance that the Fund can meet the maximum potential demand out of its holdings of specific currencies and gold without borrowing.

* Specific currencies must be made available under the Keynes Plan to whatever extent member countries draw upon their quotas to obtain them.

(W.R.G. July 13,1943

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ESSENTIAL POINTS IN A COMPROMISE STABILIZATION PLAN

1. A Stabilization Fund of 15 billion dollars.

2. Contribution by United States - 5 billion dollars; rest of the world - 10 billion dollars, according to a formula based on percentage of world trade.

3. Each country to make its contribution in gold in so far as current gold holdings permit; in so far as a country is devoid or short of gold holdings, the contribution to be made in local currency with the proviso that only a quarter need be paid up, the remaining subject to call.

4. All member countries engage to buy gold at established exchange rates to an unlimited degree, but only when offered by the Fund; all member countries agree to sell gold only to the Fund. The Fund is obligated to buy all gold offered to it by member countries. The Fund may assign limits to the amount of new gold (from current production) which it will buy.

5. Each member country has the right to demand foreign exchange in amount equal to its initial contribution plus additional subsequent sale of gold to the Fund.

6. Voting power to be distributed as follows:

United States	25 per cent
British Empire	25 " "
Russia	10 " "
Far East	10 " "
Latin America	10 " "
Rest of Europe	20 " "

7. A debit balance country may unilaterally depreciate its currency 5% in the event that its current account shows a deficit equivalent to a quarter of its quota; and a further 5% in the event that its current account balance shows a deficit equivalent to a half of its quota. A credit balance country may, if its current credit balance equals a quarter of its quota,

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unilaterally appreciate its currency 5%; and in the event that its credit balance equals a half of its quota on current account, it may further appreciate its currency unilaterally 5%.

8. The machinery of the Fund would at once be put into operation. In an interval of 2 to 4 years covering the difficult adjustment period, there would be experimentation with a view to finding the correct exchange rate. In this interim, the use of exchange control would be regarded as a legitimate method of maintaining exchange rates in addition to reasonable drafts on international reserves. The Governing Board should advise and assist countries to take positive measures which would eliminate the necessity of continued exchange control on current account.

9. All members countries agree to control capital movements in accordance with general recommendations of the Governing Board.

10. The Governing Board shall have power to enforce or recommend, by majority vote, certain adjustments upon debit balance countries as follows:

(a) Enforcement powers as follows:

(1) Adjustment of exchange rate; effective after the country has used up half of its quota.

(2) Control of capital movements.

(b) Recommendation powers as follows:

(1) Control of excessive internal expansionary program.

(2) Technological and management adjustments leading to cost reduction.

(3) Control of wage increases tending to produce income inflation.

(4) Institution of exchange control on current account.

11. With respect to a credit balance country, the Governing Board shall have power to recommend, by majority vote, equilibrating policies as

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follows:

(a) Internal expansion in the credit balance country;

(b) Once internal expansion has reached the point of full employment, with tendencies toward inflation developing, the Governing Board shall urge the appreciation of its currency with the view on the one side to check internal inflationary developments, and on the other side with the view toward reaching an improved balance on international account;

(c) Internal lending;

(d) Tariff reduction;

(e) Increase in wage rates.

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