Form. F. R. 511

TO Miss Egbert

FROM meb

REMARKS: 8/20/43

The Chairman asked that I check with Mr. Gardner this morning to make sure that copies of the attached had been sent to the list which the Chairman gave Mr. Gardner, and they have been sent as requested.

CHAIRMAN'S OFFICE

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Mr. Eccles

STRICTLY CONFIDENTIAL

August 18, 1943

CURRENCY STABILIZATION

Stabilization of currencies and the provision of a mechanism for international short-term lending cannot by itself achieve international monetary stability, but it can provide a working basis for the reestablishment of world trade, facilitate the adoption of other more fundamental programs, and contribute to the maintenance of continuous international monetary stability.

TREASURY PLAN--NONTECHNICAL SUMMARY

The plan provides for: (1) An international agreement to determine and stabilize the rates of exchange between national currencies. (2) A definite relationship of these currencies to a gold unit. (3) The establishment of an international loan fund out of which countries which are not selling enough abroad to pay for their imports can temporarily obtain international means of payments. Such loans are intended to provide a breathing spell during which the countries can take steps to adjust their international position. (4) The exercise of influence for the adoption of measures to bring about equilibrium in the international balance of payments of countries that are borrowing from the Fund and to a less extent of other countries with unbalanced accounts.

Under the headings below are set out the principal features of the Treasury proposal.

1. Contributions to the Fund

Each country agrees to contribute a stated amount, the contributions being partly in gold and partly in local currencies and securities. The proportion to be contributed in gold is graduated in accordance with each country's gold holdings. The total contributions of individual countries are determined by a formula which takes account of such factors as gold holdings, national income, and the magnitude and fluctuations of the foreign trade of the individual countries. Total contributions shall amount to at least $5 billion, possibly $10 billion. The United States will contribute between $2 and $3 billion.

2. Voting Power

A country's share in the voting power and management of the Fund is determined as follows: each country has 100 votes plus 1 vote for every million dollars contributed to the Fund. No country

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is entitled to more than one-fifth of the total voting power. The United States will have about one-fifth of the vote, England about one-tenth, and the British Empire as a whole - one-fifth.

3. Lending Obligations of Member Countries

Each country is in effect committed to lend through the Fund up to the amount of its own contribution and no more. If, for example, foreign countries obtain from the Fund dollars contributed by the United States, what this amounts to is that they are borrowing from the United States through the Fund dollars with which to purchase goods in the United States. The only way the Fund can obtain dollars in excess of the United States contribution is by selling foreign gold to the United States or borrowing here. The Fund cannot borrow here without our consent.

4. Borrowing Rights of Member Countries

Each member country has the right to borrow foreign currencies from the Fund up to the amount of its contribution. This right to borrow, however, is limited to borrowing for the purpose of meeting deficits in international balances of payments arising from the purchase of goods and services. A country is thus able temporarily to maintain its purchases abroad without being forced to lose gold, adopt deflationary policies, control foreign exchange transactions, or allow its currency to depreciate. The amount it can borrow is limited, however, and the borrowing country is, therefore, under pressure to bring its purchases abroad into balance with its sales.

5. Possible demand for dollars

On the basis of a 10 billion dollar Fund the total demand for dollars without a special vote could reach a theoretical maximum of 9 billions. To meet that demand for 9 billion dollars the Fund would have 5 billion dollars of gold (3 billions contributed by the United States and 2 billions by others) which it could exchange for dollars. The difference between the 5 billions and the 9 billions could be raised by borrowing in the American market or from the Federal Reserve Banks, provided the United States was willing to authorize such borrowing. If it was not willing to authorize it, the amount of dollars available would fall short of the demand, and dollars in the Fund would have to be rationed. It should be remembered, however, that these are only possibilities, and that it is not at all likely that all of the demands of all of the countries would concentrate on any one country.

6. Influence of Fund on Policies of Member Countries

The Fund, as a condition of extending further loans to a country, may require it to take steps to adjust its position. The more gold and free foreign exchange there is contributed to the Fund,

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the sooner members will find it necessary to resort to the Fund to meet an adverse balance of international trade, thus subjecting themselves to such conditions as the Fund may wish to impose. While most of the world's gold and foreign exchange holdings will remain outside the Fund, it may make recommendations to countries which are not borrowing from it, but which are in part responsible for international disequilibria.

7. Exchange Rates

Initial exchange rates are to be established in accordance with the relative values of the member currencies on July 1, 1943, unless either the member country or the Fund considers that rate inappropriate. In such case the rate will be determined by consultation between the member country and the Fund. All member countries agree to maintain the exchange rates established. During the first three years, however, a member country may alter its rate by 10 per cent after consultation with the Fund in order to maintain a balanced position for that country. Further changes in the first three years require the approval of a majority vote of the Fund. After the first three years changes in rates can be made only when necessary for the correction of a fundamental disequilibrium and with the approval of a 3/4 vote of the Fund.

Although the Fund contemplates relative stability of exchange rates it does not contemplate absolute rigidity. The Fund may recommend changes in exchange rates as a means of restoring balance in an individual country's foreign exchange transactions.

8. International Capital Movements

Large movements of short-term funds from one country to another for speculative reasons or because of a loss of confidence in the monetary system of a particular country have been a disturbing element in international monetary relations. In the plan any country is allowed to control capital movements into or out of the country and all countries agree to cooperate with other countries which have imposed controls on the export of capital with the approval of the Fund. Furthermore, a country borrowing from the Fund may be required to control an outflow of capital as a condition of obtaining further aid from the Fund, and the Fund may recommend the imposition of capital controls to any country, whether it is borrowing from the Fund or not, which appears to be disturbing the equilibrium.

9. Exchange Controls

Another disturbing element has been the rapid growth of restrictions of all sorts on foreign exchange transactions. In the plan member countries agree to abandon all restrictions on foreign exchange transactions as soon as they feel that they are in a position to do so, except for the restrictions which are imposed as a means of

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controlling capital movements. All countries agree not to impose any new restrictions without the approval of the Fund except those required to control capital movements. More specifically member countries agree not to enter into any new bilateral clearing arrangements nor to have various exchange rates for different purposes if, in the judgment of the Fund, these arrangements retard the growth of world trade or the international flow of productive capital.

10. Possible Effect on Gold Flow to the United States

As far as the United States is concerned the plan adds 2 or 3 billions (depending on what contribution is determined) to the theoretical maximum of gold that may come to this country. This theoretical maximum, counting the 11 billions of gold held abroad plus 3 billions contributed to the Fund by the United States, aggregates 14 billion dollars to which should be added a billion dollars of newly mined gold every year. The proposal, however, creates a stabilizing mechanism which, if it is successful, may result in reducing the concentration of the demand for goods and services on this country and the consequent flow of gold to the United States. It may be said that the degree of the plan's success could be measured by the extent to which it will make unnecessary and, therefore, will avoid further concentration of gold in the United States.

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