Stabilization Plan

W. Eccles —

Washington, D. C.
June 9, 1944

Dr. Harry D. White
Assistant to the Secretary
Treasury Department
Washington, D. C.

Dear Dr. White:

The group representative of the American Bankers Association which met with you yesterday has appreciated the opportunity to review proposals to be considered by the Monetary Conference in July. We are in full sympathy with the purposes of the conference. International discussion of plans for currency stabilization is desirable, and we believe provision should be made promptly for continuing consultation. As suggested, we offer the following critical comments.

While appreciating the additional provisions you suggested for safeguarding its use, we still have question as to the size, nature, and provisions for use of the suggested fund. The amount proposed in the expert's draft plan seems to us far larger than is necessary or desirable if it is really limited to use as a stabilization fund.

A too large fund may be as dangerous as an inadequate fund. Many parts of the world face serious prospect of post-war inflation such as occurred just after World War I. Many countries already have large supplies of dollars and gold, partly as a consequence of this country's war spending. Many are already in the grip of serious inflation.

The very size of the fund is an invitation to over-expansion. We also still believe that the provisions for the use of the fund are so drawn as to create the impression that countries have a right to borrow within the limits of their quotas, without much question as to the use of the funds and capacity for repayment.

The interpretation of the fund as a means for expansion rather than for stabilization is encouraged by Lord Keynes' address before the House of Lords. It sounds like the philosophy of deficit spending over again, - the use of credit as a cure-all.

One reason for the large size of the fund in the expert's draft plan is that a large amount of it is in domestic currency not convertible into gold and therefore not available to meet most borrowing needs. A smaller fund consisting of gold and gold currencies would be just as effective. In that way the United States would not be asked to furnish so disproportionate a share of the likely to be put to use part of the fund, - perhaps 60 to 65 per cent in the expert's draft.

But our principal fear is of inflationary use of the fund or its possible use to postpone essential economic adjustments, which often become more difficult and disturbing when postponed. The huge size of the fund and the provisions for its use increase this danger and Lord Keynes' address suggests that this is the British view of the purpose of the fund. We fear it might be the view of the majority of the directors of the fund, especially since so large a part of the gold and gold-convertible funds would come from this country.

Our opinions as to the broad constructive program for currency stabilization were set forth in the report of the Economic Policy Commission of the Association entitled "Place of the United States in the Post-War Economy." We believe this may still be accepted as a statement of the position of the American Bankers Association.

In behalf of our group, I am

Sincerely yours,

(s) W. Randolph Burgess