Bretton Woods file

March 12, 1945

Chairman Eccles | Devaluation of gold

Mr. Goldenweiser

On several occasions you have made the remark that you do not like the feature of the Bretton Woods Agreements which deprives us of the right (without the Fund's concurrence) to reduce the price of gold or to refuse to buy it. This memorandum is for the purpose of persuading you that this point as a practical matter has little force.

First - about a unilateral reduction in the price of gold by the United States.

1. We are not likely to reduce the price of gold because (aside from the loss to the Treasury) our producers of goods for export (cotton and pork as well as machines and merchandise) would use their powerful influence to prevent such action, which in effect would amount to a heavy and indiscriminate duty on all our exports and would inevitably result in a decline in prices of export commodities.

2. In a period of prosperity the question would not come up - because at such times we would buy so much of foreign raw materials and luxuries and spend so much in foreign travel and remittances that our export balance would not be large, and might disappear altogether. It is in periods of depression, when our foreign purchases shrink faster than our foreign sales, that our export balances and our gold imports are likely to be largest. At such times we would not want to aggravate the situation by discouraging employment in export industries. You yourself have justified our gold purchases in the 1930's as amounting in effect to renting some of our idle plant capacity to foreigners for gold.

3. If, notwithstanding all this, we should at some time wish to reduce the price of gold, we would have little trouble in obtaining consent from the Fund, because our action would make it easier for foreign countries to compete with us in world markets. All the countries of the world will be anxious to build up export markets and if we requested authority to weaken our competitive situation, by reducing the price of gold and consequently increasing the cost of dollars to foreigners, the directors of the Fund would rub their eyes and approve quickly before we had a chance to change our minds.

The same line of reasoning applies to a refusal by us to purchase gold that is offered to us. Such a refusal would result in a rapid rise of the dollar on the exchanges (i.e. in a decline in the dollar price of gold) and would have the same consequences and encounter the same domestic opposition as a direct reduction in the price of gold. The action would be even more drastic and the repercussions more violent.

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In view of these considerations, as well as the fact that the Administration of which you are a part is sure to be greatly disturbed by such a statement by you, I urge upon you to review yourposition on this matter and not to express concern about the abandonment of a sovereign right which we would not wish to exercize in any circumstances that are likely to happen.

EAG dr