L. C.

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(suggested alternative)

RECENT DEVELOPMENTS IN INTERNATIONAL MONETARY RELATIONS

On September 25, 1936, the Governments of the United States, Great Britain, and France announced, in connection with the proposed readjustment of the French currency, that they would seek to avoid as far as possible, while taking into full account the requirements of internal prosperity, any disturbance of the basis of international exchange resulting from the readjustment.

Following this announcement the French Parliament authorized the Government to fix the gold content of the franc at between 65.6 and 74.8 percent of its former content. On October 20, 1936, and in comparison with averages for July 1936, the franc had depreciated 29.7 percent in terms of the dollar and 27.8 percent in terms of the pound. The pound, in turn, had depreciated 2.6 percent in terms of the dollar.

In order to appreciate the significance of these developments it is necessary to examine the interests of the various countries and the possible alternatives.

The deflationary pressure on France, arising from the appreciation of the franc since 1931 in terms of virtually all other currencies, was severe. Both her foreign and domestic trade was suffering and she felt impelled to take various measures restricting the volume of imports. Political crises and the expectation of eventual devaluation led to very heavy outflows of gold, which in turn exerted further deflationary pressure on the domestic economy. It became evident that it was no longer to France's interests to maintain the existing gold value of the franc. Before taking any steps to lower the gold content of the franc, however, it was to France's interests that she should gain some assurance that the dollar and the pound would not depreciate correspondingly and hence nullify any benefits she might derive from her action.

It was believed that the interests of the United States would not be adversely affected by a reasonable realignment of the franc. We do not desire a competitive advantage. What we do desire is the avoidance of a competitive disadvantage. A reasonable depreciation of the franc might be expected to lead not only to an increase of our purchases from France but also, in so far as it led to an increase in business activity in France, to an increase in our sales. This would be particularly true if the depreciation was accompanied by some relaxation of quotas and exchange controls. In any case, our trade with France is small in comparison with our total world trade and we do not compete to any extent in third markets. In addition to these considerations, the continued inflow of gold from France was proving embarrassing to us and was raising serious problems of future control in connection with excess reserves of member banks.

While, however, we had probably more to gain than to lose by a reasonable readjustment of the franc, our interests were more closely affected by the possible reaction to this step of sterling and of the currencies that are either linked to sterling or follow sterling. The American attitude is that the range in which the dollar and the pound have fluctuated in the past year is equitable, in the present circumstances, for both countries. Any substantial depreciation of sterling would, therefore, be regarded as prejudicial to our interests.

The general feeling in Great Britain was that the franc was overvalued and that a reasonable devaluation would not be prejudicial to British interests, particularly if it was accompanied by some relaxation of quotas. At the same time there is a widely-held feeling in England that the pound has for some considerable time been too high in relation to the dollar.

The significance of the tripartite announcement may be judged in the light of these considerations. France was able to devalue without having its action nullified by a corresponding fall in the pound and the dollar. The United States gained through having the substantial fall in exchanges confined to those countries whose currencies were, in its opinion, previously overvalued. This obviated the necessity of its adopting vigorous action to prevent the depreciation of currencies which it feels are not overvalued in relation to the dollar.

It may be argued, therefore, that developments to date have been eminently satisfactory from our point of view. A major crisis, which had overhung the exchange markets for two years and which might easily have been the occasion for an outbreak of competitive depreciation between the leading currencies of the world, has been safely weathered.

As for the future, the situation remains substantially unchanged, as far as Great Britain and the United States are concerned, from that which prevailed before the French devaluation. Both countries, while reaffirming their purpose to continue a policy one object of which is to maintain the greatest possible equilibrium in the system of international exchange and to avoid the creation of any disturbance of that system, do so with the reservation that their policy with regard to international monetary relations must take into full account the requirements of internal prosperity. The announcement contains no commitments as regards definite exchange ratios and the various countries preserve their freedom of action.

The agreement of October 13, 1936, according to which the three governments undertake to sell gold to each other, is expected to facilitate the operation of the various exchange funds in smoothing out fluctuations in the exchange market, but it has not in any way established fixed and unalterable ratios between the currencies, since the prices at which gold will be sold are subject to change within twenty-four hours. How frequently, and by how much, exchange rates will vary under this arrangement will only be determined by experience. This arrangement, however, makes possible temporary stability without entailing any commitments for the future.

In conclusion, it may be said that perhaps the greatest significance of recent developments is the precedent they offer for future cooperation between countries in the sphere of international monetary relations.