

4/8/36
(3/31/36)
NY

IMMEDIATE POLICY OF THE UNITED STATES
IF FRANCE - IN EFFECT - LEAVES GOLD STANDARD

1. Renewal of serious weakness in French exchange revives possibility of early abandonment of franc's present gold parity.

2. Not clear what steps could or might be taken by French authorities without action by Chamber of Deputies, not now in session. Chamber must authorize devaluation or embargo on gold exports, but it is believed Minister of Commerce could place prohibitive tax on export of gold, or Bank of France might raise minimum amount (now fr. 215,000) of francs which it will redeem in gold to prohibitive figure. (This latter procedure rests on a convention between Minister of Finance, representing government, and Governor of Bank of France, representing bank.) In any event, it is believed that if French want to prevent further loss of gold they will find a way to do it, and this will result in lowering external value of franc.

3. Our immediate policy, in the event of such action by France, should be to take whatever steps we can to minimize disturbances to the foreign exchange market, which probably would follow such action, leaving basic longer range questions of policy for subsequent consideration.

4. Suggested policy of United States, in immediate situation, if France - in effect - leaves gold standard:

- A. Liberalization of restrictions on acquisition of gold for export or earmarking in order to assure effective maintenance of the existing gold value of the dollar as an exchange market influence. The Treasury should declare its willingness to permit the sale of gold, for earmarking or export, to any foreign central bank or monetary authority willing and able to pay the established price in dollars. The fact that the Treasury is

willing to buy imported gold at a fixed price places a limit upon upward movements of the external value of the dollar in terms of gold. If there were no one to whom the Treasury would sell gold at a fixed price, which would be the situation if France and the other remaining gold standard countries were to "go off gold", there would be no check upon downward movements of the external value of the dollar in terms of gold.

B. Removal of obstacles to operations in dollars by British Equalization Account. The task of preventing undue disturbance in the foreign exchange market, if the French franc is turned adrift (which would probably result in serious unsettlement in other gold bloc currencies) will fall upon the United States and Great Britain. It is assumed that the British authorities would no longer be able to control the external value of the pound through operations in francs, and it is not believed that the pound could be successfully stabilized solely through operations in the London gold market, nor through operations in belgas or any other currency which might remain on gold. There would remain the possibility of operations in dollars, with our blessing. The British Equalization Account recently has been unwilling to operate in dollars, partly because, in so far as its direct operations are concerned, the dollar and gold are not interchangeable, and partly because the British are keenly aware of the disfavor with which its operations in dollars, during 1932 and early 1933, were regarded in some quarters in this country.

The first of these obstacles to official British operations in dollars would be partially removed by the liberalization of our policy with respect to the sale of gold suggested in (A) above. This would not meet the immediate situation, however, if the pound were weak and the British wished to sell dollars and buy sterling - they haven't dollars to sell. To overcome this difficulty, arrangements should be made whereby the British authorities could receive dollars promptly, either by sale or pledge of gold which they might earmark for us in England, or by sale of gold which they would ship to the United States - loans on gold in transit. (One step already has been taken in this direction, by the renewal of the Treasury's offer to buy gold in London, to be earmarked in its name at Bank of England. If such purchases are made from British Equalization Account, the British immediately will be provided with dollars available for support of sterling.)

The second obstacle to official British operations in dollars - the dislike of some of our people for "foreign meddling with our currency" and their belief that the British play us for suckers - has already been removed to some extent by the developments of the past three years, during which there has been an opportunity to observe British currency management in action. It should now be possible, if we are working upon the basis of an understanding with the British, to remove this second obstacle, although there would have to be sharp watchfulness as well as good faith on both sides.

C. Operations in sterling by American Stabilization Fund. This probably would not be a question of immediate policy so long as the British have an ample supply of gold, by the sale of which they could obtain dollars, and, in any case, should only be done in cooperation with the British, unless we want to engage in a currency war. The job of moderating or preventing fluctuations of sterling in terms of gold and gold currencies has been and should continue to be the responsibility of the British authorities. They are now equipped to operate in either direction. They can sell sterling when it is strong; they can sell gold for foreign currencies, and buy sterling, when it is weak. If, in the future, because of inadequate gold holdings, the British are not able to support the pound and if, in consultation with the British, our temporary intervention in the sterling market appears to be necessary to prevent wide movements of dollar-sterling rates, this should be done.

The question naturally arises here as to why we should do everything we can to make it convenient for the British authorities to operate in the dollar market, even to the extent of altering our gold policy so that the British can obtain gold for dollars (this does not, however, remove all exchange risk from their operations - they still have a position in sterling) when we must be so careful about operations in sterling and must run the hazards of holding a paper currency if we do so operate. The answer, it seems to me, is that we profess to be on the international gold standard and the British profess to be on a managed currency basis.

Under these circumstances, the British should assume the task of management of their currency - including operations in dollars - and we should act the way a country on the international gold standard is supposed to act, especially as we can afford to do it, and should be the gainer thereby. The end to be sought in both countries, in this particular sphere, is international monetary stability. Each country, working along its own lines, can move toward that end if the two countries know they are working together and are persuaded that their domestic interests, no less than the more abstract interests of the world at large, will thereby be served.

Federal Reserve Bank
of New York,
April 8, 1936.

March 31, 1936.