

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM


Office Correspondence

Date October 30, 1936

To Chairman Eccles

Subject: _____

From Mr. Goldenweiser



Attached is a memorandum that I gave Mr. Morgenthau last
night at his request.

October 29, 1936

Memorandum for Secretary Morgenthau:

The alternative courses of action in connection with the Belgian negotiations are outlined in John Williams' memorandum, and the exact form of the announcement and of the changes in regulations that need to be made can be easily worked out after the general policy has been determined.

It has occurred to me that one thing that I may possibly add to the discussion is my general view on the question what kind of a monetary standard we would like to see in the world. While I realize that it is not up to us to dictate to other countries the way they should do business, it will nevertheless be easier to decide upon a course of action if we clarify in our own minds the character of monetary arrangements that we would consider desirable. If, for example, we consider it desirable to have the management of gold in the hands of treasuries in all countries, then it may be wise for us to throw obstacles in the way of an agreement with Belgium, which relies upon a central bank, because by doing so we would exert an influence in the direction of treasury control of monetary matters in foreign countries.

Before stating my own views on this matter, I should like to say that I am not in favor of a return of the world to an automatic gold standard. I feel strongly that the power to change the gold content of currencies should be in the hands of an executive body, so that legislation would not be required for making a change. The reason is that legislation is too protracted and clumsy a proceeding to use in an emergency. At the same time I think that it would be desirable to

have such economic conditions in the world that exchange stability could prevail and gold could move freely from one country to the other in settlement of temporarily unfavorable balances.

Since I am not looking forward to a return of the automatic gold standard, I am not interested in preserving Belgium as a nucleus of gold standard from which it could spread to other countries. I am inclined to look at this matter from a practical, realistic point of view. I ask myself the question, what would be to the advantage of this country and to the advantage of world trade in the immediate future? Beyond the immediate future it is difficult to look at the present time. It would seem to me that the desirable thing is for the three great trading countries to be on the basis which has now been established, namely, a basis of mutual cooperation between treasury-controlled stabilization funds used for the purpose of maintaining exchange stability so long as it is not inconsistent with national prosperity. I feel that at present there is a better chance of revival of world trade under this arrangement than under any other that can be visualized.

The immediate question is whether it would be to our advantage to have the smaller countries handle their affairs in the same way as the three great countries in the agreement. My feeling is that it would not be to our advantage and that it would be better for world trade and for our own recovery if the little countries had a fixed price for gold. These countries are not very important to the world from the point of view of trade, but the world is very important to them because they depend largely on foreign trade. While they cannot upset the general world

equilibrium materially, wide fluctuations in their exchanges add a hazard to the business of many individual firms and to many lines of trade. One could feel more secure about world trade if these little countries had firmly fixed currency values.

To come to the point under immediate consideration, since I believe that it is to our advantage to have Belgium continue on the gold standard, and since I am convinced, as I believe you are, that it is not desirable for us to exert pressure on her in any direction, I think that it would serve our purposes best to accept the agreement of the Belgian Government that Belgian monetary relations with this country will be conducted in accordance with the agreement of September 25 and to be willing to trade from day to day with the Bank of Belgium, which is designated by the Belgian Government for this purpose. I think that we have nothing to lose by this agreement and that we have something to gain.

The gain would arise partly from the fact stated above that it is advantageous to us to have Belgium have a currency with a fixed gold value. Another gain would be that such a procedure would help to maintain the prestige of monetary leadership which we have recently acquired. The tri-partite agreement concluded in September has raised American prestige abroad enormously, and I think that it would be helpful in maintaining this prestige to proceed further in the direction of extending the agreement to other countries. For these reasons it would be regrettable to become too technical or to adopt an attitude that could be interpreted as trying to take a hand in influencing foreign countries to adopt the pattern of our financial institutions.