

MAY 29 1943

Dear Mr. Halasi:

Your memorandum commenting on the American-British tentative proposals for international monetary cooperation has been called to my attention. I am gratified by the interest of American labor in this important question.

The point you raise with regard to economic and social security is very significant, for this should be a fundamental objective of all forms of international economic cooperation. We believe that the development of a high standard of living in this country and elsewhere can be facilitated by international monetary cooperation that will help to maintain stable currencies and make possible the restoration and balanced growth of international trade. The real standard of living is closely related not only to full employment and improved production in domestic industries, but also to the greater development of multilateral international trade.

In the past, pressure on the balance of payments of member countries was met in some countries by policies resulting in a contraction of domestic employment and income with the objective of decreasing the demand for import goods. It is unfortunately true that early in the 1930's, some countries having an adverse balance of payments attempted to adjust their international economic position by reducing wage rates and by curtailing social security benefits and social services.

I think there can be no doubt that we must remove the seeming necessity of resorting to such measures to bring about a prompt adjustment in a country's balance of payments. Extreme measures are certain to impair the general international economic situation, whether they work predominately through domestic forces as in the reduction of wages or through international forces as in the imposition of exchange control, bilateral clearing, multiple currency devices, or other restrictive and discriminating practices.

One of the great advantages of an agency such as an International Stabilization Fund is that it would give member countries time to adopt the most appropriate measures for correcting international disequilibrium and to maintain exchange stability while

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these results are taking effect. In the absence of an agency such as the Fund many countries will certainly resort to the use of harsh measures whose sole merit is that they act quickly and afford temporary relief. The evil effects which such measures invariably bring about in restricting international trade are felt by all countries.

When a member country which is experiencing difficulty in maintaining its exchange rate comes to the Fund for aid, the Fund may recommend the adoption of measures for correcting the disequilibrium in its balance of payments which would not result in hardship on other countries or precipitate retaliatory action. In general the measures which the Fund would recommend would not be of a contractionist type. Their aim would be to maintain and expand the volume of world trade. There is no ready formula for restoring equilibrium in a country's balance of payments. The appropriate measures must in every instance be related to the particular situation in each country.

While it is the purpose of the International Stabilization Fund to facilitate the maintenance of stable exchanges, it is recognized that there may be occasions when a change in exchange rates is necessary. Such a policy, however, should not be undertaken lightly and never unilaterally. In the first place it will not always have the desired effect. In the second place it is likely to call forth retaliatory actions resulting in general depreciation of currencies from which nobody can benefit, least of all the workers whose standard of living may be impaired. An alteration of exchange rates should therefore be made only after careful consideration by all of the countries affected. The Fund proposal makes possible a change in exchange rates, when such a measure becomes necessary, through cooperative action that does not involve the danger of general competitive currency depreciation.

You suggest in your memorandum that quotas ought to be based on the needs of a country for imports, which needs would depend in part upon the destruction and exhaustion of resources resulting from the war. It should be made clear that the purpose of making available exchange facilities to member countries is to help them to maintain their normal imports and exports during periods of temporary disequilibrium. It is our thought, therefore, that the quota will be closely related to the needs of a country as measured by the magnitude of the fluctuations in its current balance of payments.

We fully recognize the need for international relief and loans for reconstruction for countries whose resources have been exhausted by the war. We believe, however, that owing to the highly technical nature of the Fund's operations, it should not be burdened with duties for which it is not especially designed. The functions of international relief and rehabilitation should be carried on by institutions specifically created for this purpose. It is expected, however, that the Fund will be able to cooperate in a significant way with other international institutions.

I am glad to have had your comments, and would appreciate your sending me any further suggestions you may have on the International Stabilization Fund proposal.

Sincerely yours,

*(Signed) E. D. White*

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