July 2, 1943

Mr. White

Mr. Mikesell

Subject: Mr. Aldrich's Address on "The Problem of Post-War Monetary Stabilization"

Mr. Aldrich, in his address before the International Chamber of Commerce, discussed both the British and American proposals for international monetary cooperation. Mr. Aldrich criticizes international currency stabilization plans in general on two grounds. (1) Such proposals are likely to involve in practice a greater degree of exchange control and interference with free exchange markets than would exist without international cooperation. (2) International monetary stabilization is largely a matter of checking inflation and balancing budgets from the internal point of view, and the resumption of gold payments and the elimination of exchange controls from the external point of view. Hence, there is no need for an elaborate international institution to secure these objectives.

Mr. Aldrich expresses the view that international monetary stabilization cannot be expected for a decade or so after the war and that we can do nothing toward facilitating exchange stability through international cooperation until all countries have adopted appropriate measures of fiscal, credit and monetary reform. Mr. Aldrich recommends as an alternative to an international stabilization fund a policy of checking inflationary forces, the resumption of gold payments and the removal of all foreign exchange controls.

Comments

1. Mr. Aldrich's statement that the adoption of the Treasury's draft proposal would not limit exchange control on current trade transactions but would tend to perpetuate it reveals a complete misunderstanding of the purposes of the International Stabilization Fund proposal. Furthermore, it appears to make the unwarranted assumption that in the absence of international cooperation all restrictions on exchange transactions would be removed.

The fact is that in the absence of international cooperation for facilitating exchange stability no major country, with the exception of the United States and perhaps one other, would be willing to restore free exchanges. By providing, under adequate safeguards, resources that may be used to maintain stability of the exchanges while measures are taken to restore equilibrium in the balance of payments, the Fund would make it possible for member countries to remove exchange restrictions on current transactions. In the absence of the Fund, it would definitely be more difficult if not impossible to abolish exchange restrictions on current transactions in nearly all countries.

2. It is a complete misunderstanding of the purposes of the Fund proposal to say that the provision requiring a member country to offer for sale to the Fund its accumulations of gold and foreign exchange in excess of its holdings at the time of joining the Fund would necessitate strict exchange control. The sole purpose of this provision is to safeguard the Fund against the excessive use of its resources by member countries who are at the same time accumulating gold or foreign exchange. There is no reason whatever why this provision should result in the imposition of strict exchange control in a country that is prepared to maintain freedom in its exchange markets. A country could meet its obligation to the Fund under this provision by arranging to purchase in the market (through its Central Bank or other agent) excessive accumulations of exchange. The interference with exchanges need be no greater than that occasioned by the ordinary operations of central banks or national stabilization funds in the past.

3. It is absurd to speak of international monetary cooperation as involving a substitution of the decisions of an international board for the free competitive forces of the market place. This is not the real choice at all. We have a choice between doing nothing with monetary instability and restrictive and discriminatory exchange practices on the one hand, and international monetary cooperation with relative stability in exchanges and the abolition of restrictive and discriminatory exchange practices on the other hand. Without international monetary cooperation there will be no free exchange markets or other free international market forces, except in one or two countries; with international monetary cooperation we can expect the removal of restrictive and discriminatory exchange practices and the establishment of a greater degree of freedom in the exchange markets and in current international transactions in all of the major countries including the United States. That is the true alternative.

4. Mr. Aldrich's analysis of the problem of post-war international currency stabilization completely ignores the history of international financial relationships during the last three decades.

In the first place, he overlooks the fact that many nations, even if they undertook the most rigorous deflationary policies and balanced their govermental budgets, would still be unable to resume gold payments or remove exchange controls and other severe restrictions on international transactions without the cooperation or assistance of other countries during the post-war period. The international economic position of all countries has been profoundly altered by the war. If we are to avoid a period of complete instability in the exchanges, these countries must be given access to exchange resources under adequate safeguards while working out the necessary adjustment in their international balance of payments. Of course, such resources should not be used to maintain or unduly prolong an unbalanced position in the international accounts of a country.

In the second place, Mr. Aldrich overlooks the fact that no country can act alone in assuring the conditions necessary for the stabilization of exchanges. The exchange value of each currency is necessarily linked to all other currencies. The exchange policies of other countries will inevitably affect the exchange value of the dollar and the status of our export and import trade. The one way we can prevent the deterioration of currencies through competitive exchange depreciation is by recognizing frankly the fact that international cooperation is necessary to assure the stability of exchange rates and that no country can safely alter exchange rates by unilateral action.

If, as Mr. Aldrich suggests, we delay setting up machinery for international monetary cooperation for a decade or so after the war we shall be resigning ourselves to a decade of general currency instability, competitive currency depreciation and monetary chaos in the international markets. The time to act is before rather than after these misfortunes have befallen us. We cannot afford to wait a decade in the hope that each country will ultimately take measures to maintain exchange stability. The maintenance of exchange stability is preeminently an international responsibility. More important, unless we are prepared to deal with this problem through international cooperation we must accept the inevitable consequence of international monetary disorder and international monetary chaos.

5. Mr. Aldrich's alternative program recommends the checking of domestic inflationary forces, the resumption of gold payments and the removal of all foreign exchange controls, as a solution for the problem of international monetary stability. Such a program avoids the problem without solving it. Of course, we need the fullest possible measures for inflation control. In fact, international cooperation can be an important factor in inducing countries to take adequate measures to prevent a post-war inflation. With regard to the resumption of gold payments and the removal of foreign exchange controls, we have maintained for more than nine years the free movement of gold for the settlement of international balances and complete freedom in our exchange markets. There has been no restriction of either gold transfers or exchange transactions except to the extent needed for purposes of economic warfare.

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It is difficult to see what can be hoped for from a program which does not even touch upon the international monetary problems of the post-war period. International monetary isolation, which is what Mr. Aldrich offers, is even less feasible than international political isolation. We live in a world economy in which the monetary stability and economic well-being of each country is deeply affected by the monetary and economic policies of other countries. No doubt we can get along somehow in economic isolation. But it would be futile to disregard the unfortunate consequences to our well-being of instability in the world's currencies and the general imposition of restrictive and discriminatory exchange practices.

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