

JUN 14 1943

My dear Senator:

This is in reply to your letter of June 2, 1943, enclosing a communication from your constituent, Mr. Albert Hadland, regarding the feasibility of adopting an international currency based on gold.

The preliminary proposal for an International Stabilization Fund prepared by the technical experts of the Treasury provides for the establishment of an international currency unit which would have a value fixed in terms of gold. This international currency unit would serve as a convenient unit of account and could be used by nations for settling international balances in place of gold. Since it would be backed by 100 percent gold and would be convertible into gold and interchangeable with gold it would in no sense supplant the use of gold as an international medium of payments.

In drafting the Treasury's proposal for an International Stabilization Fund we have simply recognized and accepted the fact that gold is the existing international monetary standard and medium of international payments. With or without the Fund, gold will continue to be held and to be used throughout the world in the settlement of international balances. It is not therefore a question of establishing gold as an international means of payment, nor are we substituting a new international monetary standard for the one which already exists.

It would be difficult, if not impossible, to obtain universal acceptance of a new international monetary standard such as bimetallic or a multiple commodity standard, even if it were desirable to institute a change. No important country in the world is currently on a silver or bimetallic standard. China, for example, abandoned the silver standard in 1935 and at present has substantial reserves of gold and dollar assets convertible into gold. Acceptance of a multiple commodity standard would be even more difficult to obtain since its use would raise a number of very complicated problems.

Ref. to Rm 205

The proposed International Stabilization Fund is designed to make it possible for nations which lack gold or foreign exchange resources to acquire, under certain conditions, foreign exchange needed to meet their payments on current account. By providing that all countries pool some of their foreign exchange resources plus supplies of their own local currencies in an international fund, the usefulness of gold would be increased.

Mr. Halland's letter is returned herewith.

Sincerely,

(Signed) H. Morgenthau, Jr.

Secretary of the Treasury

Honorable Henrik Shipstead,
United States Senate,
Washington, D. C.

Enclosures