Hold

SCARCE CURRENCIES AND THE INTERNATIONAL MONETARY FUND

The problem

Critics of the International Monetary Fund have argued that the Fund will not be able to carry on its operations in the manner intended because the U.S. dollar will be a scarce currency. By this they generally mean that there will be an acute shortage of dollars in the world after the war, and that this shortage will "cause a mad scramble for dollars". On this basis, they predict that no currency will be stable except the dollar and that the International Monetary Fund will collapse.

This shortage is supposed to arise because the United States generally exports more merchandise than it imports. Foreigners, therefore, are unable to obtain the dollars they need to pay for our goods. The demand for dollars exceeds the supply, and the dollar becomes a scarce currency~~, creating a tendency for the dollar to appreciate in value and other currencies to depreciate.~~

There are two questions to consider in ~~replying to~~ examining these criticisms: First, is an acute dollar scarcity likely to occur and second, if it does, what will happen to the Fund.

Will the Dollar be a scarce currency?

It should be stated at the outset that an acute shortage of dollars is unlikely. Although the United States, ever since the last war, has exported more than it imported, there has never been a chronic scarcity of dollars except for ~~war periods and~~ a few years in the ~~early thirties.~~ 1930's. Our excess of exports was paid for with gold and with the dollars which the United States loaned to foreign countries. The substantial loans and investments which we were making abroad provided foreigners with the necessary supply of dollar purchasing power.

The dollar became a searce currency for a few years during the 1930's because of certain unusual developments. As a result of the depression, U. S. imports declined drastically and foreigners were less able to pay for our exports with their own goods. During these years, the United States ~~also curtailed~~ stopped its foreign lending. The depression had caused many countries to default on their loans and American investors were reluctant to lend additional sums abroad.

The situation was further complicated by a flight of capital to this country. Because of the growing political and economic uncertainity in Europe, foreigners were unusually anxious to convert their capital into dollars. ~~and~~ The demand for dollars increased out of all proportion to the quantity of U.S. commodities being purchased. Most of these factors will not be operative in the post-war period, and a sufficient supply of dollars will probably be available to foreigners to pay for the American supplies they need.

The United States may reasonably be expected to increase its imports after the war. We have commited oursleves to maintain employment for 60 million workers and a high national income and when Americans are prosperous they consume large quantities of foreign goods. We will also enter the post-war period with a very large supply of savings in the hands of potential buyers of European goods. To the extent that our tariffs are reduced, imports by the United States will be further stimulated.

The supply of dollars obtained through exports to the United States will be supplemented by the substantial dollar and gold balances which the Latin American and neutral countries have built up in recent years and by the foreign loans which the United States may again be expected to make after the war. The large war-time profits of business will probably increase the volume of American capital available for investment abroad, and the International Bank for Reconstruction and Development and the contemplated expansion of the Export-Import Bank will further encourage us to expand our foreign loans. Furthermore, foreign governments will prevent a repetition of the flight of capital which increased the demand for dollars in the pre-war period. It is, therefore, reasonable to assume that there will be a sufficient volume of dollars available to foreigners to take care of their requirements.

<u>What will happen to the Fund if dollars become scarce?</u>

Let us assume, however, that the critics are correct and that a dollar scarcity arises. Such a development, althought not very likely, is possible. Will the Fund intensify the scarcity? How would the Fund operate under these conditions? How real is the danger of a collapse?

The Fund will never cause or contribute to a dollar scarcity, which can arise only because foreign nations wish to obtain more dollars than we can make available through imports or loans and because they are unable or unwilling to use gold to obtain additional dollars. Moreover, in the event a scarcity does arise, the operations of the Fund will help to alleviate the situation.

This, the Fund will do in several ways.

First, it will make available additional dollar and gold resources. The currency contribution of the United States will provide more than $2 billion for the world's foreign trade needs. The Fund may also buy additional dollars with its supply of gold, which will be equal to approximately $1.8 billion when the Fund begins to operate. Thus, using its own resources, the Fund will be able to supplement the supply of dollars by $3.8 billion. If this amount is insufficient, it may borrow additional dollars with the consent of the United States.

The Fund's resources constitute a revolving fund which, through the repurchase provisions, will be continually replenished by gold and dollars. The repurchase provisions will also make certain that countries use their dollar assets outside the Fund to the same extent that they used the Fund's resources, and that countries which have used the Fund in the past make a portion of any increase in ~~this~~ their gold or dollar holdings available to the Fund.

It is also important to realize that the Fund will be in a position to minimize the damage which would otherwise be caused by the scarcity of dollars. When countries are not able to obtain all the dollars they require, they must husband their resources to meet their most urgent needs. For this purpose they will use exchange restrictions designed to limit the demand for dollars by their importers. The Fund recognizes that with a scarcity such restrictions are unavoidable and permits countries to ration a currency which it has declared scarce. The Fund will make certain, however, that the controls imposed will be no greater than is absolutely required by economic conditions and that they will be continued only so long as the emergency exists. This will be in marked contrast to developments in the pre-war decade. When, during the 1930's, countries were forced to adopt exchange restrictions, the world was not in a position to impose any brakes, and the situation deteriorated very rapidly. Each restriction led to retaliatory measures and world trade was seriously hampered and curtailed. During this period the United States' share of world trade fell more than that of any other nation.

If the dollar should become scarce, the Fund will protect the United States as much as possible. The Fund Agreement requires that exchange limitations shall be no more restrictive than is necessary and that they shall be relaxed and removed as rapidly as conditions permit. The Fund, furthermore, is given the right to set a definite termination date, and all such controls must expire whenever the Fund declares that the dollar is no longer a scarce currency. The Fund Agreement will also safeguard the interests of the United States, or any other country whose currency which might be declared scarce, by giving it the right to inform any member whose administration of the restrictions is needlessly severe.

The measures we have been discussing thus far are those which permit the best possible adjustment to a developing scarcity. The Fund, however, will also take positive measures to correct the situation. It will be the duty of the Fund to make a report suggesting remedial measures. The report will consider not only whether the supply of dollars should be increased and how this can be effected, but also will study the situation in the countries creating the demand for dollars. The Fund is in a unique position to know the facts and to urge on members the necessary remedies. What those remedies will be specifically will depend on the nature of the economic situation. In the case of the dollar scarcity, a representative of the United States Government would participate in the preparation of the report.

It is important to realize that if restrictions are imposed because of a dollar scarcity, it merely means that nations will use their dollar resources more carefully than they would have otherwise. It means that their needs for imports from the United States are very great, and that their purchases must be confined to those which are most urgent. They would still be using as much of their dollar resources as possible for purchases in this country.

The effects of such restrictions on our total volume of trade will probably not be very great. It is reasonable to suppose that a dollar scarcity might reduce our total exports from a level of $10 billion to perhaps $9 billion, or if our trade were normally somewhat less, a comparable reduction might be expected. Such a decline, although an important loss to the United States, would not certainly be sufficient to create any crisis. A scarcity of dollars must reduce our exports below what they otherwise would have been, but the operations of the Fund will keep this reduction to a minimum.

There is also no reasonable basis for assuming that the Fund would collapse if a dollar scarcity develops. On the contrary, the Fund would operate exactly as it did before except that its dollar operations would be decreased in volume and its supply of dollars would be made available to countries according to need. The Fund would never cease all operations in dollars for the repurchase provisions will always provide some dollars which it can make available to member countries.

The Fund, furthermore, will be carrying on exchange operations in 43 other ~~countries~~ currencies just as it did in the past. It would continue to supervise exchange operations, to take measures to facilitate the maintenance of exchange parities, to work with countries for the removal of unnecessary exchange restrictions, and to carry on its other operations. The only change in its procedure would be a moderate limitation on its dollar transactions.

It is very important, of course, for ~~the~~ world prosperity and stability that the world avoid a scarcity of dollars. If the United States maintains a high national income and takes the other measures necessary to increase our imports, and if productive foreign investment is expanded, the problem will not arise. However, if a scarcity should ~~unfortunately~~ develop, it is especially important that such an agency as the Fund be in existence. The Fund will provide an orderly method for dealing with the problem and ~~will minimize the damaging effects. It~~ will ~~also~~ protect us against a wholesale extension of restrictions imposed in an irresponsible fashion by any nation wishing to restrict its dollar operations. International cooperation and supervision through t he Fund will be an indispensible element in the rapid alleviation and correction of the economic problems creating the scarcity.