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Post-War International Currency Stabilization

Report of Conference of Federal Reserve Officials at Shoreland Hotel, Chicago, on August 26, 1943

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PLANS for post-war international monetary stabilization were presented by representatives of the United States Treasury, the British Treasury, and the Bank of Canada, at a conference in Chicago, at the Shoreland Hotel, on August 26. The meeting was sponsored by the five mid-western Federal Reserve Banks and was attended by the officers and directors of the Reserve Banks of Chicago, Cleveland, Kansas City, Minneapolis and St. Louis, and their branches.

The more formal presentation of three proposals was followed by critical appraisals of the plans by other monetary experts from the Federal Reserve System, the British Embassy, and Chicago and Yale Universities. The meeting was then turned into a round-table discussion and the directors and officers questioned the assembled experts on various features.

The conferees came away from the meeting with the impression that considerable progress has been made toward recognition of the need for post-war currency stabilization and the basic elements that must be incorporated in any plan to achieve this objective. It was brought out by the speakers that the three plans are essentially similar and differences which exist should be ironed out in the relatively near future. Discussions are now being held among the monetary experts of the United Nations with a view to developing a single plan to present to the various governments for consideration.

Three Plans Outlined

The principal differences between the American and British plans involve the mechanics of operation and the amount of credit that can be extended by the international body to the nations needing funds to restore trade in goods and services after the war. The British plan operates on the overdraft principle which is generally used in British and European banking. A line of credit determined by an agreed-upon quota formula is to be extended to each member country enabling it to draw upon the international body for foreign exchange to pay for imports. When a country goes to the Clearing Union for exchange to meet an adverse balance of payments on current account, it incurs a debit balance on the book of the Union and the country whose currency it buys is paid by a corresponding credit balance. Under the American plan, credits are extended to a member nation by allowing it to purchase with its own currency from the Stabilization Fund such foreign exchange as is needed to settle trade balances.

Another major difference between the American and British plans is the limits placed on the total amount of credit that can be extended to member nations by the central body. Under the American plan, the total credit extended might be as much as $10 billion, while under the British plan, it might reach a total of about $30 billion. Under the British plan, moreover, the demand for credit might concentrate upon a particular country, whereas under the American plan, the currency of a particular country can be provided only up to the amount of the country's orig-

inal contribution, unless the country itself agrees to furnish additional exchange. This means that under the American plan, the United States could not be called upon to extend more than $2 billion or $3 billion of credit, while under the British plan, it might be called upon to extend as much as $30 billion of credit (i.e. the aggregate amount of foreign quotas).

The Canadian representatives at the meeting indicated that the Canadian plan represents an effort to take the middle ground and resolve the differences between the American and British plans.

General Argument

In the discussion, Harry D. White, author of the United States Treasury plan, stressed the fact that the plan was drafted from the standpoint of American self-interest, broadly conceived. If world trade is to develop after the war along sound lines it is necessary to establish a mechanism for international determination and regulation of foreign exchange rates to provide multilateral clearance of international balances. In the immediate post-war period it probably will be necessary for the United States to extend credits to many nations of the world if we are to export to these nations. Such assistance could be granted without any mechanism for international currency stabilization; but this course would involve separate arrangements with many individual countries.

The speakers argued that an international body with broad powers and high prestige offers greater possi[illegible] for solving the many problems that will arise in restoring international trade and exchange stability; and that unless such machinery for international co-operation is developed, there may well be a return to the chaotic conditions of the 1930's when nations with small foreign exchange resources resorted to import restrictions, blocked exchanges, bilateral exchange clearance agreements, and depreciation of exchange rates in desperate efforts to balance their international positions. Such measures, it was stated, work inevitably toward strangling world trade with consequent adverse effects upon the domestic economies of all the nations of the world.

It was generally agreed that the United States cannot hope to maintain high domestic prosperity in a world in which international trade is disorganized and depressed. The discussions stressed that in our own interest as an important exporting and importing nation we must play a leading role in establishing an organization for international currency stabilization that will provide a basis for the restoration and balanced growth of international trade.

Two Major Points Emphasized

The bankers present were particularly interested in two major points connected with the plans for international currency stabilization. First, they wanted more precise information as to how the plans would extend credit and the safeguards for insuring that such credits would be liquidated. As an example, a member nation, say Greece, might wish to buy more American goods than it was selling to us. To purchase these American goods Greece would need dollars.

Under the American plan, Greece would originally subscribe a certain agreed-upon quota to the fund, paying half of it in gold, provided she had sufficient gold and free foreign exchange, and the balance in drachma, her local currency (or Government securities). She could obtain dollars from the fund as she needs them at the rate of exchange fixed by the fund up to the amount of her "permissible" quota (i.e. her subscribed quota plus her gold contribution). She could also buy additional dollars from the Fund if the Fund approved by a special vote which is described later. To the extent that she gives the Fund local currency in exchange for dollars held by the Fund, this transaction would amount to an extension of credit by the Fund to Greece.

Under the British plan, no initial subscription is required. Greece could buy goods from the United States and pay for them by means of a credit established in favor of the United States and a debit against Greece on the books of the Clearing Union. These credits and debits would be in terms of "bancor," the international currency unit under the British plan.

The speakers pointed out that both plans contain somewhat similar provisions designed to assure that borrowing countries will not abuse the privilege.

Borrowings would register immediately in the accounts of the Fund and the Fund's management would be able to spot persistent adverse developments

in a country's international balance of payments. This would give the Fund sufficient notice to enable it to inquire into the causes of such adverse developments and anticipate the need for suggesting specific corrective measures. If, in the judgment of the Fund, a country is purchasing foreign exchange in an amount above its gold contribution more rapidly than is warranted, the Fund may place such conditions upon further sales of foreign exchange to that country as are deemed to be in the interest of the Fund. Thus danger signals register in the Fund and the Fund's management may take measures to counteract adverse developments at an early stage.

When a country has borrowed its "permissible" quota, further loans in the form of sales of foreign exchange can be made only by a special vote of the Fund's Board of Directors in which the creditor countries will have their votes increased in proportion to their advances and the debtor countries will have theirs decreased in proportion to their borrowings. The Fund must also be satisfied that the future balance of payments of the country will be such that the excess currency holdings of the Fund can be disposed of within a reasonable time or that adequate measures are being taken by the country to bring its balance of payments into equilibrium. In addition, the Fund may require the member country to deposit additional collateral in gold, foreign or domestic currency, or Government bonds, against such advances.

There are also measures designed to prevent undue concentration of borrowings upon any one country. When the Fund's holdings of a currency which is in demand become low, the Fund may ration this currency to other member countries and take steps to increase the supply of the currency. Also, sales of a currency that has become scarce require the approval of the representatives of the country.

A second question raised by the bankers was how foreign exchange dealings would be affected by the international currency stabilization plan. The answer given was that there would be no change in the method by which a bank purchases foreign exchange for one of its customers. The machinery through which foreign exchange dealings have been handled by private institutions in the large international money markets should continue to function as in the past. The existence of an international currency body would mean that a country that has exhausted its free gold and foreign assets would be able to settle a presumably temporary adverse balance of payments on current account by borrowings from the resources of the international body.

A Note of Caution

The conference recognized that many of the problems in the field of international trade will be present whether we have an international currency stabilization scheme or not; and that, in essence, the proposals merely establish a framework for international co-operation in monetary affairs. In the working out of specific problems, considerable discretion must be left to the administration. The leading nations of the world will unquestionably play the leading roles in the international body and guide its major policies. It seems likely that the United States and the United Kingdom will have approximately equal voice in the management of any plan that is adopted.

One of the delegates, in discussing the conference, expressed the following note of caution: "It cannot be emphasized too strongly that a plan for international monetary stabilization is only one part, though an integral part, of a broad program for international co-operation in the post-war world. If, however, the United Nations cannot agree on a scheme for international monetary stabilization, the prospects for agreement upon the other and more controversial aspects of international co-operation would not appear very promising. Other programs for which international co-operation will be required are relief and rehabilitation of the war-torn nations, provisions for long-term capital needs, and stabilization of international prices of basic raw materials. Also, fundamental to the continued success of any currency stabilization program will be the maintenance of a relatively high level of economic activity in the principal nations of the world."