



# Post-War Financing for World Proposed by French Economists

## International Controls of Trade and Foreign Exchange Considered—Prompt Adoption and Later Expansion Advocated

The "French plan" for the managing of international finances after the war, occupying a position about midway between proposals of the British "Keynes plan" and the United States Treasury's "White plan," has been prepared by a group of French financial experts. It is expected that its recommendations will be followed by the delegate chosen to represent France at the monetary conference to be held in this country in August.

The authors of the French plan, which was written prior to the release of the British and American plans, belong to the group of administrative officials which habitually remains in office, regardless of changes in political regimes. Among those who can be named at this time are André Istel, former financial adviser to the Reynaud Ministry and one of the negotiators of the Franco-

British financial agreement of 1939, and Hervé Alphan, former French financial attaché in Washington and former head of trade agreements at the French Ministry of Commerce. M. Alphan is representing France at the International Food Conference, having been appointed by Generals Giraud and de Gaulle.

In commenting yesterday on the plan, M. Istel urged that preparations for the post-war period begin at once and held that a practical international monetary system should be attained.

"If the international monetary system contemplated is so ambitious that it cannot become of general use until political and economic conditions are peacefully settled in the whole world, it may have to wait a long while," he said. "In order to be of practical value the system should not be conceived for a distant future; it should even be able to start before peace is re-established and to be extended gradually to other countries as and when they are liberated."

Appraising the principal considerations of all three plans, M. Istel asserted that the French plan does not attempt to establish at the present stage a basis for the amount of credits to be opened to each country. Its distinctive feature is that it does not consider the constitution of an international clearing union as essential for the operation of post-war finances. Likewise, he added, it does not provide for large capital contributions as in the case of the American plan.

"In view of the strong opposition which a central world organization might raise in several quarters, in Russia for instance, or even in the United States, the authors of the French memorandum have attempted to devise a method which might be immediately acceptable to all the United Nations," he said. "Later, if general conditions permit, the smooth working of international monetary cooperation might be greatly enhanced by setting up either a permanent committee or a central board."

### Delayed Action Foreseen

The authors of the plan point out that the need first to feed the population of liberated Europe, to provide other necessary supplies and to reconstruct European economies will make it impossible to achieve a general system of multilateral international trade for some time after the end of hostilities.

Under such conditions, they believe, controls of foreign exchange and foreign trade would have to be maintained for a time. In any event, they feel, Russia will maintain such controls for an unpredictable period. Further, ex-enemy countries, for a time, probably will be subjected to strict foreign-trade and foreign-exchange control under the United Nations' supervision.

The "practical system" for international financial stability proposed by the French experts embraces the following considerations:

It must be applicable as soon as hostilities end, and even earlier wherever possible.

It must be applicable to all participating countries, whether or not they practice foreign-trade control and foreign-exchange control.

It must be adaptable to the evolution of internal systems of exchange control and foreign-trade control.

Far from paralyzing evolution toward a better system of international economic relations, it should constitute in itself a step toward such a system.

### Fundamental Conditions

Discussing fundamental conditions of satisfactory monetary relations, the plan asserts that no international monetary system can work satisfactorily unless certain fundamental conditions obtain, among which are the following:

"a. Commercial treaties should be concluded, permitting a rational distribution of productive activities among nations.

"b. Certain regulatory measures of an international character should be adopted, designed to stabilize business conditions and to reduce as far as possible the amplitude of the swing of business cycles.

"These measures should operate not only on the volume of instruments of payment and credit but also directly on the volume of raw materials and finished goods.

"c. International long-term credits should be favored which might consist not only in traditional loans but in direct participation to industry, agriculture, real estate, etc., through the establishment of national or international, public or private investment trusts, or other forms of financing.

"d. Methods should be devised to remedy persistent disequilibria of balances of payments, through fundamental economic adjustments.

"During the period immediately after the war it will be necessary to take care of permanent deficits in the balance of payments arising from reconstruction of devastated countries and development of backward countries. This is a problem of long-term financing outside of the scope of the present memorandum."

### Explanation of Proposals

Explaining the French proposals for a post-war monetary system, the plan says:

"Let us assume that the principal nations, as in the case of the tripartite agreement of 1936, might conclude a monetary accord to which the other United Nations might be invited to adhere, under certain conditions.

"(a) This agreement would, in the first place, fix the official parities of the currencies of the participating countries; these official rates would not be changed without preliminary consultation (or preferably agreement) of the interested countries. A suitable mechanism of consultation (or preferably agreement) should be set up.

"(b) The stability of exchange rates thus determined would be assured by the undertaking, on the part of the monetary authorities (either exchange equalization fund or central bank), to acquire at the specified rate and to conserve, at their own risks, but with the limitations and guarantees hereafter specified, the exchange of other participating countries offered through authorized channels. (The word 'authorized' applies to countries with foreign exchange control.)

"(c) The foreign exchange thus acquired by the monetary authorities of the participating countries could be utilized for payments to be made in such currencies (purchase of goods, payments for services, payments of interests or dividends, purchase of securities, of real estate, etc.). It might also, under certain conditions, be sold to the monetary authorities of other participating countries.

"(d) A limit would be fixed, for each participating country, of the amount of exchange of each other participating country which its monetary authorities would agree to acquire, if offered, at the specified rate, and to conserve if required.

"While the limits should correspond to a reasonable amount of international trade, the authors of this memorandum have not attempted, at the present stage, to establish the basis of the determination of these limits.

#### Guarantees Against Loss

"(e) As a guarantee against loss arising from depreciation of its own exchange, each participating country would not only undertake to protect each other participating country against such loss, but would also agree to deposit, on demand, collateral (gold, foreign bills, approved securities, raw materials, etc.) up to a specified percentage (10 to 30 per cent, for instance) of the amount of its own currency held by the monetary authorities of another participating country.

"This collateral should be deposited with the monetary authorities (or warehouses, in the case of raw materials) of the country holding the currency, or of a third approved country. Should the currency of the debtor country depreciate, additional collateral might be demanded, as in the case of commercial loans.

"(f) The proposed monetary system, which amounts to the opening of mutual credits, undoubtedly entails inflationary risks. A method must therefore be devised to counteract, whenever considered advisable, the inflationary effects of the mutual purchases of exchange. The method suggested is a method of sterilization, which would work as follows:

"In a normal period, the monetary authorities of a country holding the currency of another country would use this currency so as to favor the flow of credit; for instance, in the form of current accounts in commercial banks, of

Treasury obligations, of discounted bills, etc. In periods of inflation this currency would be kept in the form of an account with the central bank of the debtor country, which would refrain from basing credits on them. Thus the debtor country would be enabled to maintain the foreign exchange value of its currency without losing the control of its internal circulation.

"To assure the smooth working of the system it would be necessary that the monetary authorities of the participating countries should be constantly in close contact, either by means of periodical meetings or by setting up a permanent committee. It would probably be still preferable to establish a central board which might be called the International Clearing Office.

"This Clearing Office would keep account of all exchange transactions effected by the monetary authorities of the participating countries. It would not only facilitate clearings, but could also receive and scrutinize collateral. Furthermore, it would be in a position to know the balance of payments of each of the participating countries, and thus to furnish valuable information concerning disequilibria of an accidental or permanent character, which should be corrected by financial or economic measures. The International Clearing Office could thus serve both as a barometer of economic conditions and as a counselor on economic affairs.

"It should be noted, nevertheless, that the establishment of an International Clearing Office is not an essential condition for the operation of the proposed system."

#### Monetary Parities

The French plan proposes that monetary parities be fixed by mutual agreement and that mutual credits be opened without movements of gold, except when gold is used as collateral. It adds, however, that "the suggested system may be considered as a first step toward a general return to an international gold standard." It continues:

"Indeed, the establishment of fixed monetary parities, even if tentative and even if affected by exchange control, is tantamount to the adoption of a common monetary unit. Thus the link to gold of the United States dollar would become a link for all other currencies.

"The role of gold could be enhanced by stipulating that any nation which so desired would be au-

thorized to redeem in gold the credits received. Gradually the various monetary units, as experience would show that parities are well established, could be defined anew in gold ounces.

"However, the place of gold, whose world stock is, in dollars, about four times as high as in 1914, will remain considerably altered. While gold should resume its role as an international currency for settlement of international balances, its function as an economic regulator should not be revived. The latter function should be exercised through the concerted action of the competent authorities on the volume of credits and of goods. (It should be noted that the action of competent authorities on credits was already an inherent part of the traditional gold standard which, widely held opinion to the contrary, did not work automatically, but was managed through discount rates.)

"It may be pointed out that the proposed system is intermediate between two systems which were in use in the period 1920-1940. Before Great Britain devalued in 1931, central banks customarily held currencies of other countries, without limit or protection. Under this system, usually designated as the 'gold exchange standard,' the Bank of France and the Netherlands Central Bank had accumulated large sterling balances. After the heavy losses thus incurred, monetary authorities adhered to the practice of requesting immediate conversion into gold of the foreign exchange balances which they acquired. This system, usually called the 'gold bullion standard,' was utilized in the tripartite monetary agreement of 1936.

"Both these systems are unsatisfactory. It is unreasonable, under the 'gold exchange standard,' to expect a country to hold, without some limit and guarantee, another country's currency. It is also unreasonable, under the 'gold bullion standard,' to consider the currency of a friendly country as potentially worthless. The proposed system does not, like the gold exchange standard, imply 100 per cent confidence in another country's currency, nor, like the gold bullion standard, imply 100 per cent lack of confidence.

"There seems to be no reason why the proposed system, or a similar one, could not be started immediately between the United Nations without waiting for the end of hostilities. The only real problem is to find a proper basis for fixing the limits of the amounts of exchange to be purchased. But should important difficulties arise in this connection, the system could be started nevertheless in an experimental way by fixing at the outset very low limits which could be gradually increased later."