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SPRAGUE ANALYZES PEACE TRADE PLANS

Finds Same Aims in Drafts by Keynes and Treasury Here to Balance Currencies

BRITISH SYSTEM SIMPLER

American Proposal Seen Calling for Huge International Banking Institution

By Prof. O. M. W. SPRAGUE
Harvard's expert on international finance; former economic adviser to the Bank of England; former financial expert for the United States Treasury Department
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BOSTON, April 10—It is rather hopeful for the future that both the American Treasury plan for an international fund to stabilize currency and the British plan of Lord Keynes for an international clearing union—both brought out this past week—have similar objectives.

The general objective is, so far as this is possible for monetary means, to establish conditions under which payments between countries arising out of trade and other transactions shall balance. It is accepted in both plans that competitive changes in the relative values of currencies are undesirable. Each proposal is designed to lessen this danger, both by facilitating payments and by inducing member nations to adopt policies calculated to lessen departures from equilibrium.

The evidence of departure from equilibrium manifests itself in a persistently favorable or unfavorable balance of trade.

Since both plans are designed to stabilize international currency values, the differences are only in detail, although those differences are very considerable.

Similarities in Plans

Each plan presupposes that agreements will be reached about the relative values of different currencies before either plan goes into operation. So far as one can judge, the relative values might very well be the same, whichever plan might be adopted.

In both cases it would evidently be desirable to establish values for currencies which might be expected to result in a close approach to equilibrium. Obviously, this will be a difficult matter to determine.

But the determination of relative values of currencies would not be affected in the slightest degree by the adoption of one plan rather than the other. If, for instance, the appropriate rate between sterling and gold should be $4 to the pound, that would be appropriate under either plan.

Both plans involve a definite relationship between currencies and gold.

At this point the differences begin. The English plan of Lord Keynes is far simpler than the American proposal in that it is exclusively a clearing arrangement, whereas the American plan, though it includes clearing operations, also provides for a wide variety of international banking operations which are not found in the British plan.

Because it is simpler, it seems appropriate to examine the British scheme first. It requires no contribution of gold or other assets. It would create a new medium of payment, for use only in making settlements between member States. The value of this new medium, to be known as "bancor," would rest entirely upon the combined credit of the member States, and its utility would be solely for the purpose of making settlements between them.

The clearing union, proposed by the British, would be almost entirely a passive agency, starting with holdings of "bancor" of varying amounts belonging to the different member States, determined, it is suggested, by the relative value of their foreign trade in recent pre-war years.

Any country experiencing an unfavorable balance of trade would lose "bancor," while those countries with a favorable balance would find their holdings of "bancor" increasing.

In the event of a persistent unfavorable balance of payments, the British plan provides for a limited depreciation of the currency of that country. Countries enjoying a persistently favorable balance of trade may, under the plan, at least be advised of the desirability of appreciating the value of their currencies or taking other measures, such as, for example, a reduction of tariff rates, designed to restore equilibrium.

American Proposals

Turning now to the American plan, it involves the creation of a huge new international banking institution, with assets of at least $5,000,000,000. These assets would consist partly in gold, partly in local currencies of the member States, partly in the government securities of those States.

In addition to clearing operations, the institution would "buy, sell and hold gold currencies, bills of exchange and government securities of member countries, accept deposits and earmark gold, issue its own obligations and discount or offer them for sale in member countries."

This institution then would be operating all over the world with as many different local currencies as there were member States.

Obviously management would be a far more important matter under the American than under the British plan. The United States, being presumably the only country in a position to provide very much gold, would doubtless expect to have a controlling voice in management.

And just because the activities of the proposed institution are so extensive it may well be doubted whether other countries, will be prepared to accept the American proposal.

Fortunately for reaching the objectives of a maximum degree of currency stability throughout the world it does not seem to be necessary to establish a new banking institution of this type.

Equilibrium may indeed require readjustment of the initial exchange rates established after the return of peace.

Equilibrium may also require contraction of credit in some countries and its expansion in other countries. The need for such courses would be indicated clearly enough by the changing balances under such a clearing arrangement as is proposed by the British.

The acquisition of gold, local currencies and government securities by an international bank and its lending operations, as proposed by the American plan, would certainly complicate and confuse the situation.

There is, however, one feature of the American plan which receives, and desirably, more definite consideration than under the British proposal. I refer to the handling of abnormal war balances.

The American plan suggests a funding of 40 per cent of these balances with their gradual liquidation over a period of twenty years.