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Currency Stabilization Plan

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Offsetting potential monetary troubles, outlined by Mr. Sam Green, there are certain factors which may be expected to reduce currency in circulation after the war. Increased currency volume has been due largely to needs of business and government in meeting enormously enlarged pay rolls. However, black market and hoarding operations also have absorbed anywhere from $3 billion to $4 billion.

With a return to normal pay rolls and with the possible elimination of much of the hoarding and all of the black marketing, currency may drop from $4 to $8 billion. And that, of course, means dollar for dollar increase in the deposits of the member banks at their Reserve banks, and hence in their legal reserves. Such an increase would return to them the former excess reserves.

However, Mr. Green overdoes his alarms about loss of former excess reserves. They are not a virtue. During the past decade excess reserves upset the theory of credit control implicit in the Federal Reserve Act and at all times offer a base for potential credit inflation. We are in a sounder condition with only moderate excess reserves. Any deficiency in reserves is quickly corrected by member bank borrowing from the Federal.

While the writer is not in favor of the complex and inflationary world bank as proposed, he does not believe that Mr. Green's assumptions with respect to "giving away" gold are pertinent to this subject. No one has proposed giving away anything. In the first place, whatever gold this country may put up as its share of the capital of such a world bank will not take one dollar of the monetary reserves now in the system. They will put to practical use some of the $1.8 billions of gold in the stabilization fund never yet more than 10% needed. Since this gold was originally intended for use in currency stabilization, such use would merely be carrying out the original intention.

Again, since this country is not likely to reverse its creditor position, the danger is not that we will "lose" gold over the long run, through a world bank or otherwise, but that whatever gold we or any other nation puts up for such stabilization, will eventually either come back to us or be credited to us by the international bank.

DELMER HUBBELL.

New York City