The New York Times.
JUN 1 1944

FOR STABLE EXCHANGES

The United Nations Monetary and Financial Conference called by the President will meet a month from today. Its purpose is the highly desirable one of securing stable exchange rates in the post-war world. But the recent proposal for an $8,000,000,000 International Stabilization Fund misconceives the nature of the problem and approaches it from the wrong end. Essentially it seeks to fix the value of each nation's currency unit in relation to the others by arranging to have the fund buy the weak currencies and to sell the strong currencies at the parities fixed. It is obvious that a weak currency will drop to its true market value as soon as such purchases cease. As long, however, as the purchases continue, the nations with strong currencies will be subsidizing the nations with weak currencies (or at least the private holders of those currencies), and thereby subsidizing also the internal economic policies, whatever they may happen to be, of the nations with weak currencies. The United States, as the chief contributor to the fund, would be the chief loser; but the money that it poured out in this way might not only fail to help world recovery but, by prolonging unsound policies within the nations whose currencies could only be held up by such purchases, might actually do harm.

The true solution of this problem would begin at the other end. It would seek to make currencies sound within each country. If each nation can maintain the integrity of its own currency, if each nation keeps its own monetary unit at par, then the problem of maintaining a stable relationship between different currencies will solve itself. The true object of the forthcoming monetary conference, therefore, should be to lay down the principles and explore the methods by which this can be done.

These broad principles should not be difficult to formulate. One requirement for a stable currency is that it be redeemable in something that is itself fixed and definite: for all practical purposes this means a return to the historic gold standard. Another requirement for a stable currency is a balanced budget. A third requirement is that Governments refrain from currency and credit inflation. A fourth is a removal of, or at least a great reduction in, the pre-war barriers to international trade—tariffs, quotas, exchange restrictions and all the rest.

These requirements form a unit. If one of them is violated it will be difficult, if not impossible, to fulfill the others. Thus if a nation's budget is chronically unbalanced it is practically compelled to resort to borrowing through currency or credit inflation to make up the difference. When it does this it undermines faith in its currency unit and cannot maintain gold payments. Officials of the Government then say that the gold standard "has broken down," when they really mean that their own policies have broken it.

There will be grave problems after the war for almost every nation in fixing a new currency parity at a level where it can be held. But the belief that only a rich nation can afford a gold standard is a fallacy. As Viscount Goschen, one of England's ablest Chancellors of the Exchequer, once said: "Our powers of obtaining gold would only be exhausted when the country had nothing left to sell."

The greatest single contribution the United States could make to world currency stability after the war is to announce its determination to stabilize its own currency. It will incidentally help us, of course, if other nations as well return to the gold standard. They will do it, however, only to the extent that they recognize that they are doing it not primarily as a favor to us but to themselves.