Monetary Meeting

The international monetary conference which President Roosevelt has called to meet in New Hampshire this summer will be the second step in an effort to stabilize foreign exchanges after the war. The first step was taken in April in Washington when financial experts of thirty-four nations agreed upon a tentative plan to be presented to an international conference empowered to take action in the matter.

This does not mean that the experts of all these nations each accepted for himself all the principles that are incorporated in the tentative plan. It merely indicates that, after thorough discussion, a plan was finally drafted which all agreed to indorse as a project for further debate in the conference that has just been called by Mr. Roosevelt.

This preliminary draft is, in part, a compromise of conflicting proposals offered last year by John M. Keynes, famous British economist and exponent of the managed currency concept, and by Harry D. White of our Treasury Department. Some of the ideas advanced by both men were wholly rejected, notably that of Mr. Keynes' for an international currency unit to be called "bancor" and that of Mr. White for a similar, though differently based, unit called "unitas."

To anyone who has closely studied both plans, however, and further has analyzed the preliminary draft of the 34 nations, the rejection may be less real than it seems. For in any event the proposed stabilization fund must use some currency unit, presumably the dollar. Unless provision is made for fixing the value of the dollar unalterably in gold—a step which the preliminary draft deftly avoids in respect to all currencies, including the American—the abandonment of "bancor" and "unitas" is not so important as it appears on the surface.

The fundamental purpose of an exchange stabilization agreement which the international conference has been called to formulate is to encourage and facilitate foreign trade. This explains the proposed creation of an eight-billion-dollar fund — it may later be raised to ten billions if the Axis nations come in — which the member governments would subscribe, partly in gold and partly in foreign exchange.

A member nation, short of dollars but wishing to buy goods in the United States, could obtain dollars from the fund against its own stake in the fund. No member nation could change the value of its currency without permission. If any member's currency in the fund should become scarce as a result of heavy demand, it would either be rationed by the fund until supply improved or the fund itself would borrow from the country whose currency was in short supply.

No sensible person will question the merit of the purpose to stabilize foreign exchanges by international agreement. But since the United States is expected to contribute nearly a third of the proposed stabilization fund, some aspects of the American interest should be pointed out. This service, of course, hardly will be performed by the Treasury Department from which the White plan came. So far as official sources are concerned, we must rely on Congress for a critical report when and if a formal plan is eventually presented for ratification.

It is important to note, for example, that the tentative draft of the experts provides that "an agreed uniform change may be made in the gold value of member currencies, provided every member country having ten per cent. or more of the aggregate quotas approves." There is nothing in the draft to prevent the President of the United States, through his representative in the international fund, to approve a change in the value of the dollar. Hence the power which Congress took from the President last year would be automatically restored.

Further, it should be clearly understood that this country—New York specifically—would be barred from developing a free market in foreign exchange after the war, which otherwise logically could be expected. That could be a very serious matter for American exporters who had sold in heavy volume to foreign buyers and suddenly discovered that their debtors could not obtain dollar exchange either from the international fund or elsewhere.

There are other serious flaws that need to be revealed. Suffice it to say, however, that it is probably such points as these mentioned that explain the very cool reception that has been accorded the draft by American bankers. Mr. Leon Fraser, New York bank president and former president of the Bank for International Settlements, whose views are shared by many of his banker colleagues, is strongly opposed. Instead of a central stabilization fund, many bankers prefer agreement upon a fixed dollar-pound ratio to which other nations would subscribe and to which the whole world might eventually adjust itself.

Perhaps the greatest flaw in the proposed draft is the fact that it has the financial cart before the horse. The chances of achieving any permanent stabilization of foreign exchanges would seem to be mighty slim unless nations first balance their budgets and stabilize the value of their currencies.