



WEIMAN & LESTER

DOLLAR- POUND . . .

Leon Fraser, former head of the Bank for International Settlements and now president of the First National Bank of New York, in an informal pose. Mr. Fraser has offered a post-war currency stabilization plan which is outlined on this page

Here are two approaches to the inevitable post-war problem of currency stabilization. On this page the case for the so-called "key nation" plan—a dollar sterling standard based on gold—is outlined in the words of LEON FRASER. MR. FRASER'S remarks are taken from an address.

On the opposite page is an outline of the "Keynes Plan" for an International Clearing Union based on an international bank-money, bancor.

LATELY two plans for a global international institution to stabilize currencies have been offered. I am skeptical of both in their present form and under immediate post-war conditions because they are over-grandiose and over-simple at the same time. An international bank we should have, but it should develop out of the facts of present world finance and trade rather than out of an abstract blueprint. It must not cloak the truth that in the sphere of international trade and money the two predominant nations now are the United States and Great Britain. They are the key commercial nations, whose policies will make or break any currency stability.

Several national currencies are also connected by tradition and trade with the pound or the dollar. The first effective step toward an international money lies in an Anglo-Saxon financial understanding and not in some universal approach, which glosses over the fact that the prerequisite to international stability is internal stability. Unless sterling and the dollar reflect sound conditions at home, including therein the amount of the external debits or credits, they cannot be sound abroad; nor can there be any other trustworthy international money because so much depends upon a strong dollar and a strong pound.

Certain conditions exist in Great Britain today that militate against the pound. I refer to the large volume of external financial obligations created by our ally in this joint war. After the conflict Great Britain will constitute the world's financial problem No. 1. In our own interest, as the principal creditor, we should help restore Great Britain to a position of balance in her international accounts.

Today the dollar, reanchored to gold, is the strongest currency on earth. It can serve as the regulator of international money. But the sun never sets upon the economic influence and the far-flung use of sterling. As

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the international money of tomorrow I propose a dollar-sterling standard to which the nations shall be invited to repair. In the first instance, Russia and China should be asked to join. The basis behind such a dollar-sterling standard would continue to be gold. The exchange rates between the two moneys would be mutually fixed by the respective governments and then protected against temporary derangements during the post-armistice transition period by the exchange of controls and by the use of our ample gold stock until Great Britain is more nearly in equilibrium. . . .

WITH a view to reconstructing international money we should enter into a stabilization agreement with Great Britain, open to the adherence of other countries, which would include:

(a) A credit to Great Britain in the form of a call on gold in the amount of, say, \$5 billion, on the understanding that neither nation would engage in competitive exchange depreciation and that the dollar-sterling exchange rate would be fixed by mutual agreement. . . . surplus gold.

(b) Formal cancellation of the remaining unpaid balance of the British war debts of World War I.

(c) Provision for a moratorium for a period of five years of any post-war lend-lease repayments involving transfers out of Great Britain, any repayments thereafter to be limited to the return to the creditor of the same commodity as was shipped.

(d) An understanding that both countries would eschew economic domination and would pursue international economic policies designed to promote stability of currencies in other nations. This means that we must act like a creditor nation, encouraging imports of goods and exports of capital.

(e) An agreement to reorganize the Bank for International Settlements on a wider basis in a different situs, and to use it as a center of international monetary consultation and planning, as a common agency for the joint action of treasuries and central banks in simplifying international clearings, and for dealing with the various monetary problems of the nations as they arise, including the granting, against proper commitments, of temporary stabilization credits to smaller nations. We should build on the experienced machinery that we have instead of creating elaborate new machinery. But it is necessary to dispel the illusion that any international instrument can work miracles or bring about stable currencies in an economically archaic world.

This proposed Anglo-Saxon agreement would be but the nucleus of a wider pact which many associated nations would join forthwith and others as rapidly as may be. It is a fertile beginning and not the ultimate goal. This program may seem modest, yet, coupled with the other necessary measures of relief and rehabilitation in the war-torn countries, and for reopening the channels of international investment and commerce, this realistic approach represents the best entry on the road toward the reconstruction of a real international money.

Stability

THE so-called Keynes Plan proposes to establish a currency union, called International Clearing Union, based on international bank-money called *bancor*, fixed in terms, (but not unalterably), in terms of gold and accepted as gold's equivalent by the British Commonwealth, the United States and other Union members for settling international balances. The central banks of all member states (and also of non-members) would keep accounts with the Union through which they could settle their exchange balances with each other at par value in terms of *bancor*.

"The idea underlying such a Union is simple," says the Keynes report, "namely, to generalize the essential principle of banking as it is exhibited within any closed system. This principle is the necessary equality of credits and debits."

THE provisions of the plan are:

1. All the United Nations will be invited to become charter members of the Union; other states may be invited later.

2. The Union's Governing Board shall be appointed by the member state governments.

3. The member states will agree on the initial values of their own currencies in terms of the international bank-money, *bancor*. Values cannot be changed without the Board's permission.

4. *Bancor's* value in terms of gold shall be fixed by the Board. Members shall not acquire gold at higher prices, but no other restrictions would be placed on their gold transactions.

5. Each member state shall have a quota determining "the measure of its responsibility in the management of the Union and of its right to enjoy the credit facilities provided by the Union." Initial quotas might be based on the nation's foreign trade volume.

6. International balances will be settled in full by *bancor* transfers on the Union's books.

7. Small charges may be made by the Union for carrying *bancor* balances, whether they are debit or credit.

8. A member state may not increase its debit balance by more than a quarter of its quota within a year without the Board's permission. If its debit balance has exceeded a quarter of its quota on the average of at least two years, it shall be entitled to reduce the value of its currency in terms of *bancor* provided that the reduction shall not exceed 5 per cent without consent of the Board. The Board may require deposit of suitable collateral against a debit balance that reaches half a member state's quota. Certain measures may be applied by the Board as a condition of allowing a state to increase its debit balance to more than half its quota. These measures are: a stated reduction of the value of the member's currency; control of "outward capital transactions if not already in force"; and surrender of a suitable part of its gold or other liquid reserve to reduce the debit of the member.

9. A member whose credit balance has exceeded half

BANCOR . . .

John Maynard Keynes, British economist, photographed during a visit to this country. Lord Keynes' name is generally given to the plan that is based on *bancor*



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of its quota on the average of at least a year shall discuss with the Board (retaining the ultimate decision in its own hands) "what measures would be appropriate to restore the equilibrium of its international balances," including: Measures for expanding domestic credit and demand; appreciation of the state's local currency in terms of *bancor*, or, alternatively, "the encouragement of an increase in money rates of earnings"; "the reduction of tariffs and other discouragements against imports," and "international development loans."

10. A state shall be entitled to get a credit balance in terms of *bancor* by paying in gold to the Union, but cannot demand gold against a *bancor* balance.

11. Monetary reserves of a member state shall not be held in another country except with the approval of that country's monetary authorities.

12. The Governing Board shall be named by the member state governments. Those with large quotas will appoint a member individually, and those with smaller quotas appointing in convenient political or geographical groups. The vote shall be proportionate to the quotas.

13. The Board can reduce quotas of members proportionately, and can restore them toward the original level in the interest of correcting a potential deficiency of world purchasing power.

14. The Board shall be entitled to request and receive statistical or other information from each member state of the Union.

15. The Board's executive offices shall be in New York and London. The Board will meet alternately in London and Washington.

16. Members may withdraw from the Union on a year's notice, subject to their making satisfactory arrangements to discharge any debit balance. Withdrawal of a member can also be required.

17. Central banks of non-member states would be allowed to keep credit clearing accounts with the organization.

18. The Governing Board shall make an annual report and convene an annual meeting of the Clearing Union.

The British Government has stated that it was not committed to the principles or details of the plan, which was offered as a basis for discussion and criticism.