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THE KEY-COUNTRY APPROACH

Another suggestion for dealing with the stabilization problem is the key-country approach,[16] similar in principle to the Tripartite Agreement of 1936 between France, Great Britain, and the United States. If the dollar-sterling rate could be stabilized, for example, with whatever credit commitments and agreements may be necessary, it would form a strong nucleus around which general stabilization efforts could center. Many currencies will already be stable in relation to the dollar or the pound, and other currencies could gradually make the necessary adjustments and ally themselves with these two important currencies.

Since each country's problems are different, some can adjust themselves much more quickly than others. The key-country approach would allow them time to work out their problems one by one until general stabilization is attained. The emphasis would be placed upon remedying the basic causes of disequilibrium in each country rather than undertaking general stabilization before the causes of instability are attacked. Thus each country would have to assume primary responsibility for working out its own monetary and exchange problems and would have to show genuine progress in both its internal and external policies before it could make responsible monetary commitments to its own citizens or to other countries. Some form of relief and long-term loans would no doubt be necessary to expedite this process.

Some elasticity or leeway in the adjustment of rates will be necessary. Initial rates, including the rate for the pound, may need adjustment as basic economic conditions become more stable and a greater degree of equilibrium is achieved. Such adjustments ought to be possible through mutual agreement and understanding. Under the Tripartite Agreement, for example, the lower limit originally fixed for the French franc was later changed with the consent of Great Britain and the United States.

Many countries will not be able to adhere to rigid exchange relationships in the immediate postwar years and will not be able to remove exchange restrictions immediately. Weak currencies would have to continue under exchange controls while the necessary basic adjustments in internal and external affairs are being made, but their currencies should gradually increase in value in terms of the stronger currencies until definitive stabilization is reached. Even in our own domestic economy we cannot restore peacetime conditions overnight and remove immediately all wartime controls.

In considering stabilization measures, each individual currency would be examined rigidly from various angles, including: internal political conditions; progress of reconstruction; availability of lend-lease and stabilization

[16] John H. Williams of Harvard University suggested the key-country approach in his article, *op. cit.*, pp. 654-58.

loans; extent of fiscal and monetary reforms; extent of repairs in agricultural and industrial production facilities; progress of plans for reorganization of international trade; availability of foreign markets for domestic products; and the probability of changes in trade restrictions, tariffs, quotas, license systems, etc.

As a part of stabilization efforts the leading currencies might have a fixed value in relation to gold, and all restrictions on the importation and exportation of gold could be removed gradually. The widespread confidence in gold throughout the world has remained unshaken by the war, and the use of gold in the settlement of international balances may be quickly restored with the return of peace. In spite of war conditions many countries have substantial gold reserves and nearly all countries have some gold. It is estimated that about $13 billion of gold is owned outside the United States. Our own gold holdings amount to over $22 billion, but because of the great expansion of bank credit during the war these holdings are no longer as large in relation to the credit base as they once were.

INTERNATIONAL BANK FOR STABILIZATION

The central banks of the world could take the necessary steps to facilitate exchange stabilization under the key-country approach. An international bank, however, could provide for maximum cooperation between central banks and facilitate the settlement of international balances. Such an institution could work for the restoration of exchange stability and act as a focal point of influence for the monetary authorities of member countries.

An international bank having a simple structure and limited powers, and acting largely as an instrumentality of the central banks could greatly expedite stabilization efforts. Countries could grant mutual aid through its facilities. While it would not need to have power to determine the monetary policies of the various countries, it could handle international clearings, take the lead in collecting international statistics and other information, and furnish a place where central bankers of the world could meet and discuss their problems. Perhaps more could be accomplished in this manner than if the bank were endowed with broad powers and controls.

In working out an international institution to meet the above requirements, some use could be made of past experience and of existing agencies. It may not be necessary to establish new and untried machinery. The experiences of the Financial Committee of the League of Nations, of the Tripartite Agreement, and of the Bank for International Settlements are suggestive. Possibly the latter could be utilized.

Some changes in the charter and organization of the Bank for International Settlements would be necessary, however, before it could undertake new stabilization functions, but that would be less difficult than the establishment of a new organization. The Bank would have to be given adequate capital and relieved of any obligations with reference to reparation payments. It would also need powers to deal with governments as well as with central banks and to deal in non-gold currencies.

One important function of the international bank would be to make detailed studies of the exchange problems of the various countries and to advise them regarding these problems. It could aid in the negotiation of stabilization credits and in the servicing of loans. In time, such a bank might extend its influence and prestige and become a central stabilization agency with broader powers, if such a development seemed desirable.

To what extent stabilization credits might be extended by the international bank itself, and to what extent by the various central banks and governments through the international bank, is a question of importance. It would depend on the specific stabilization problems that arise. The international bank might be authorized to grant temporary stabilization credit to smaller nations according to the merits of the individual case and against proper commitments. Other stabilization problems might be worked out cooperatively by the international bank and the central banks of the countries represented on its directorate.

So far as long-term rehabilitation and reconstruction loans are concerned, an international committee, working in close collaboration with other international organizations, might investigate and make loan recommendations, but the actual granting of loans might be made by an enlarged Export-Import bank, or similar institution. An international lending agency controlled by creditor countries might operate effectively. The establishment before the end of the war of facilities for making rehabilitation loans might provide support where necessary and save temporary situations from becoming chaotic. Doubtless many Continental European countries will need food, clothing, machinery, lumber, and other materials for the reconstruction of homes and factories.

England will have two major problems to deal with in stabilizing the pound and removing exchange restrictions. One will be the blocked sterling balances aggregating several billion dollars; the other, a heavy adverse balance of payments for a few years after the war. Import needs will be heavy and time will be required to reestablish export markets. England's income from foreign securities has probably been cut in half since the beginning of the war. Likewise, income from shipping, banking, and insurance has been substantially reduced. Competition in shipping will presumably be much greater than before the war and there is some question as to how rapidly her income from this source will rise.

England will need substantial aid in dealing with these two problems, perhaps five or six billion dollars, but the need is for long-term loans rather than short-term stabilization credits. It will take England several years to establish a new equilibrium in her external transactions, and many more years to build up net receipts sufficient to repay loans made now.[17]

SAFEGUARDS AGAINST MONETARY CHAOS

The question may be raised as to how the key-country approach could provide safeguards against the kind of monetary chaos that prevailed between the two wars. The answer is that if we pursue the same policies that we did in the former period, no system can safeguard us against similar results. Some of the principal sources of international financial strains during the 1920's and 1930's may be recalled: reparations and allied debts; French fiscal complications during the early 1920's; overvaluation of the pound in 1925 and failure to remedy the error; undervaluation of the franc in 1926 which accentuated the overvaluation of the pound and drained London of gold; United States tariffs; United States devaluation of 1933; failure of the United States to cooperate in international monetary affairs in the early 1920's as well as during the 1930's; the political turmoil in Europe after Hitler came into power; and the bilateral trade and exchange arrangements initiated by Germany.

Thus, the policies of the large powers themselves, the key nations, were among the leading factors in producing international financial instability during the interwar period. Had the large powers been able to keep their affairs in order, to cooperate fully in international economic matters, and to preserve peace and political stability, the world's exchange problems might have been quite different.

It remains to be seen how much the world has learned from the experiences of those years and what use it will make of the lessons drawn. No doubt the problems of general exchange stability will continue to depend very largely on the conditions and activities of the key countries. If they stabilize their own currencies, and cooperate in world affairs by extending aid where it is needed, the problems of general stabilization should not prove insuper-

[17] Leon Fraser, president of the First National Bank of New York and a former president of the Bank for International Settlements at Basle, in a speech delivered before the Herald Tribune Forum on November 16, 1943, said that: "The first effective step toward an international money lies in an Anglo-Saxon financial understanding." He proposed a dollar-sterling standard, based on gold, to which other nations would be invited to repair. A stabilization agreement between the United States and Great Britain, he said, should include: a five-billion-dollar gold credit to Great Britain, cancellation of British war debts of World War I, five-year moratorium on lend-lease repayments by Great Britain, agreement that both countries would refrain from economic domination, and reorganization of the Bank for International Settlements on a wider basis in a different situs. New York *Herald Tribune,* November 21, 1943.

able. But the basic essential is international political stability; without that, it seems impossible to achieve and maintain economic stability.

ROLE OF THE UNITED STATES

It will no doubt devolve upon the United States to supply most of the necessary long-term loans, as well as short-term credits, needed in the transition period, but if these loans and credits are carefully extended and wisely controlled they will expedite world recovery, increase our foreign trade, and add to general economic stability. To achieve these results, the American people must clearly understand this role. At the same time, our contributions to stabilization and reconstruction efforts will be more effective if safeguarded against wasteful or unsound use.

Imports of foreign goods into the United States furnish other countries with their principal means of payment for American goods. We cannot expect to be very helpful in the restoration of world trade equilibrium if we impose too heavy restrictions on the goods of other countries and at the same time encourage our own exports and try to collect debts.

Such conflicting policies would create an impossible situation, as we learned from the rather costly experience following the first World War. Aside from the continued extension of war credits for a few months immediately following the Armistice, the United States held aloof from efforts to solve international economic and political problems and did little, prior to 1924, to help restore stability and equilibrium. When we did begin to cooperate, international conditions improved, but we still tried to collect debts and expand exports while imposing tariffs to minimize imports. Furthermore, our loans and credits were not always made from the viewpoint of ultimate exchange stability. In some cases, especially of short-term credits, later exchange difficulties were increased. After the worldwide depression which began in 1929 the cooperation between world powers necessary to bring about monetary stability was again lacking, as indicated by the complete failure of the World Economic Conference of 1933.

The maintenance of a high level of business activity in this country would be a strong supporting factor in any plan for stabilization. If this country is prosperous, the consequent stimulation of imports, tourist expenditures, and foreign investments would greatly strengthen the currencies of other countries. Depression in this country, however, would have the opposite effect and might make it difficult for any stabilization plan to succeed.

If the United States puts its own fiscal affairs in order and checks inflationary influences, it will greatly promote international stability. If, however, we follow the kind of fiscal policy after the war that means continuous heavy deficits, the chances are that efforts to maintain international stability will ultimately run into difficulties. A stable dollar, free of all exchange restrictions, is a prerequisite to worldwide confidence in the dollar and to the success of general stabilization efforts. Regardless of the standard adopted or the organization set up, the existence of a strong currency will be the main stabilizing influence. That role was played by the pound-sterling for a hundred years prior to 1914. During that period: "The real international money was the pound sterling, linked to gold but managed by the Bank of England."[18]

[18] Leon Fraser, *op. cit.*

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1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the Bureau is carried on in strict conformity with this object.

2. To this end the Board of Directors shall appoint one or more Directors of Research.

3. The Director or Directors of Research shall submit to the members of the Board, or to its Executive Committee, for their formal adoption, all specific proposals concerning researches to be instituted.

4. No report shall be published until the Director or Directors of Research shall have submitted to the Board a summary drawing attention to the character of the data and their utilization in the report, the nature and treatment of the problems involved, the main conclusions and such other information as in their opinion would serve to determine the suitability of the report for publication in accordance with the principles of the Bureau.

5. A copy of any manuscript proposed for publication shall also be submitted to each member of the Board. For each manuscript to be so submitted a special committee shall be appointed by the President, or at his designation by the Executive Director, consisting of three Directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when the summary and report described in paragraph (4) are sent him. It shall be the duty of each member of the committee to read the manuscript. If each member of the special committee signifies his approval within thirty days, the manuscript may be published. If each member of the special committee has not signified his approval within thirty days of the transmittal of the report and manuscript, the Director of Research shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty additional days shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board and a two-thirds majority of those members of the Board who shall have voted on the proposal within the time fixed for the receipt of votes on the publication proposed shall have approved.

6. No manuscript may be published, though approved by each member of the special committee, until forty-five days have elapsed from the transmittal of the summary and report. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general, or of the special committee, have passed upon its validity in every detail.

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*(Resolution adopted October 25, 1926,
and revised February 6, 1933, and February 24, 1941)*

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