ESSAYS IN INTERNATIONAL FINANCE

No. 1, July 1943

Second Printing December 1943

INTERNATIONAL MONETARY MECHANISMS

THE KEYNES AND WHITE PROPOSALS

BY FRIEDRICH A. LUTZ

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS AND SOCIAL INSTITUTIONS
PRINCETON UNIVERSITY
Princeton, New Jersey

The present is the first of a series of essays in international finance to be published, from time to time, by the International Finance Section of the Department of Economics and Social Institutions in Princeton University. While the Section will sponsor such essays it takes no further responsibility for the opinions therein expressed. The writers of the essays are free to develop their topics as they will and their ideas may or may not be shared by the executive committee of the Section or the members of the Department.

In April of this year the British government published proposals by British experts for an "International Clearing Union." At the same time the United States Treasury circulated a "Preliminary Draft of a Proposal for a United and Associated Nations Stabilization Fund." The British plan is generally considered to be, predominantly, the work of Lord Keynes, and the American plan the work of Dr. Harry D. White. This paper discusses these proposals which will be referred to, respectively, as the Keynes and the White plans. The section numbers of the White plan (e.g., V, 1), to which reference is made in this essay, are taken from the text of the plan as published in The New York Times *of April 7, 1943. The Keynes plan was published in this country by British Information Services, New York, as of April 8, 1943, under the title* International Clearing Union.

THE KEYNES AND WHITE PROPOSALS

BY FRIEDRICH A. LUTZ
Princeton University

I. INTRODUCTION

THE international monetary problems which will confront the world after the war are of two types, temporary problems, which will arise only in the period of transition to "normal" conditions, and problems of a more permanent character.

During the period of reconstruction some countries will tend to have a strongly passive balance of payments. As an example we may take Great Britain. There is no doubt that the long withheld demand for raw materials and agricultural products will lead to an increase in British imports. The Dominions, moreover, hold considerable short term balances in London, frozen for the time being, but likely to be withdrawn as soon as foreign exchange control is dropped. In the absence of any international cooperation, Great Britain would have the choice of retaining foreign exchange control, along with bilateral agreements, for a considerable period after the war, or of letting sterling find its own level. Neither of the alternatives is very attractive. There is an understandable desire to get rid of all the impediments to international trade and, of these, foreign exchange control is one of the most severe. To let the foreign exchange rate fluctuate freely immediately after the war is, on the other hand, far from advisable. Quite apart from the disturbing influence which speculation in the currency may have on its general level, it is safe to say that, under the impact of the sudden demand for foreign exchange from the two sources mentioned above, sterling would depreciate much more than would, in the long run, be required. Other countries would then complain about "unfair" competition, based on an undervalued pound sterling, with the result that we might again find ourselves in a period of competitive exchange depreciation and currency wars.

Of the problems of a more permanent nature three deserve particular mention.

1) Under the gold standard the total volume of international currency was dependent on the accidents of gold production. As the quantities of national currencies were based on the monetary gold stocks of the countries concerned, the world was thrust into periods of alternate deflation and inflation. A better method of regulating the volume of international currency must be sought.