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STATEMENT BY ANSEL F. LUXFORD, OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, AT THE FIRST PLENARY SESSION OF THE MONTREAUX CONGRESS OF THE INTERNATIONAL CHAMBER OF COMMERCE, JUNE 3, 1947

World Business and The United Nations - The Role of the Bretton Woods Institutions

We in the International Bank welcome this opportunity for exchanging views with the International Chamber of Commerce.

In a very real sense both the Bank and the International Chamber are performing unique but complementary functions in this world experiment in international organization and cooperation. Both represent bridges between the business and industrial community on the one hand and governments on the other. Whereas the International Chamber of Commerce is engaged in presenting inter-governmental organizations with the views of business and industry, the Bank is an inter-governmental organization whose success depends upon its ability to meet business and industry on common ground.

In fact of all the many inter-governmental organizations which have been created recently, or that are in the process of establishment, the Bank alone is called upon to have extensive direct dealings with the public in general, and with business and industry in particular. The work of the other organizations is almost, if not entirely, conducted with or through their member governments and they have little or no direct dealings with the public. But while the Bank must deal with Governments or Central Banks in making loans, still, in the long run, the Bank must raise most of the money it loans in the capital markets of the world. Thus, for the Bank to be of material assistance in the financing of world reconstruction and development, it necessarily must satisfy the private investor of the soundness and prudence of its lending policy and operations.

It is not difficult to understand, therefore, why we in the Bank are anxious to make clear to the leaders of business and industry our conception of the role of the Bretton Woods institutions in the perspective of world business and the United Nations.

We - like you - are acutely conscious of the essential inter-relationship that must exist between business, the United Nations, and the Bretton Woods institutions. We - like you - recognize the dangers inherent in any attempt to confuse the functions and responsibilities of any one of the three with those of the other two. Each can succeed in doing its full part in our joint search for world peace and world prosperity only providing the other two cooperate in doing their part. And we - like you - differentiate between cooperation and dictation.

I will not impose upon your time or patience by attempting to make a detailed exposition of the A.B.C's of the International Bank or of the International Monetary Fund. Having been fortunate enough to have participated from the beginning in the formulation and establishment of both the Bank and the Fund, I know only too well the significant and constructive part played by leaders of business and industry in the evolution and organization of both institutions.

Moreover, the documentation of the International Chamber of Commerce offers concrete evidence of the extent to which business and industry continue to follow the development of the Bank and the Fund.

Recognizing that the delegation to the Montreaux Congress understand the basic purposes and functions of the Bank and the Fund, I am certain that they will appreciate the full significance of what Mr. McCloy, President of the Bank, had in mind when he stated recently in connection with the Bank:

> "International investment starts where international relief leaves off, at the point where it is economically sound, both from the standpoint of the borrower and the lender, to utilize foreign capital for the restoration or development of productive facilities."

Perhaps from time to time some people have been impatient with the slowness with which they thought the Bank and the Fund were going about the performance of their respective functions. Undoubtedly it would have been reassuring to some if, for instance, the Bank had rushed out and commenced to make loans shortly after its organization a year ago.

But while spectacular actions of this character might have earned the applause of some, I question whether it would have been reassuring to business and industrial leaders who are in a position to appreciate the real problems involved. They would realize that while speed is essential in the fields of exchange problems and reconstruction and development, it would be a dear bargain to the world for either the Bank or the Fund to attempt to achieve speed at the expense of prudence. The world has too much at stake in the attainment by each institution of its goals to permit either to gamble its long range potentialities for momentary effects.

I believe that most people on reflection will gain reassurance from the fact that after one year of organization and preparation the Bank now has moved to the firing line of actual operations. They will, for instance, draw encouragement not only from the fact that the Bank recently has extended a $250,000,000 credit to France, but also from the fact that this credit was advanced only after the Bank had made a thorough study of the needs and prospects of the French economy, and only after being satisfied that such loan could be and would be used to restore and develop the productive facilities of France.

The near future promises to furnish further tangible evidence of the part which the International Bank expects to play in the field of reconstruction and development. While its actions may never have the glitter of the spectacular, time may prove that they bear the hallmark of authenticity.

A loan by the Bank means something more than mere financial assistance to a country. It carrys with it a judgment by the Bank that the borrower can and will be able to put such resources into economically sound projects for productive purposes - projects economically sound not only for the borrower alone but also in terms of the economic needs and aims of the world at large. Thus, for the first time we have an international instrumentality with substantial financial resources viewing the problem of international investment, both in terms of national economics and in terms of the world economy as a whole.

The International Monetary Fund also has moved out of the preparatory and organizational stages to the firing line of actual operations. On March 1st of this year it opened its doors for exchange transactions. Before doing so it reached agreement with practically all of its members on their initial par values and these values were published prior to its announcement that it was prepared to commence operations.

Some people have expressed surprise that the Fund was willing to accept the then prevailing system of exchange rates which in several cases seemed distorted and out of line. In doing so, however, it is frequently overlooked that most of the members actually proposed and the Fund accepted rates which were entirely consistent with member's capacity to maintain - and, in fact, the members had been successfully maintaining such rates over a considerable period of time. There were, of course, a few cases in which the par value proposed by the countries concerned may have appeared to be out of line. These cases were confined, however, to those countries which were still in the process of recovering from the profound shock suffered by them as an outcome of the war. The main criteria in accepting them, the Fund has said, were whether such par values could sustain, for the time being, the exports of a given country or not. In doing so the Fund was fully aware of the difficulties such action might entail for the future. It realized that because the entire world is in need of goods some countries may maintain foreign exchange values for their currencies which are not at the present a great handicap to the sale of their exports but which may prove to be too high when production is revived all over the world and the immediate shortage of import goods is in a large part met. Such countries later may find difficulty in selling sufficient exports to pay for needed imports. When this occurs the Fund will be faced with new problems of adjustment and will have to recognize the unusual circumstances under which the initial par values were determined. But it is just at such time that the Fund can be most useful in seeing that necessary exchange adjustments are made in an orderly manner and that competitive exchange depreciation is avoided.

As to those countries whose economies were worst affected and their currency systems still largely ineffective, the Fund made no effort at this time to agree upon a par value. Instead it agreed with the country that the fixing of the par value of its currency should be delayed until such time as the situation had clarified and there were reasonable prospects that the member could support an exchange rate suitable for its economy and to its integration with the rest of the world.

All in all it would appear that the Fund took a reasonable but realistic approach to this most difficult problem. More important, it took a position which was calculated to win the confidence and respect of the member governments - thus laying the foundation for full and candid consultations on these questions in the future. The Fund thereby provides a center of order and stability towards which all countries can progress and from which they can secure help in reaching this goal.

The Fund also has pointed out that in ordinary times, the pattern of exchange rates has an historical continuity which gives it an element of strength and stability. A great war radically alters the established position of currencies. In some respects these problems at present are less extreme than after the last war. There has been a greater realization of the need to keep prices and costs in hand and to keep the balance of payments in order. But we must frankly face the fact that currency systems of some countries have completely broken down and that they must be rehabilitated before they can be stabilized. There are other currencies in which some change in the present foreign exchange values may be necessary.

While a start toward orderly exchange arrangements can be made by establishing initial par values for the many currencies that already have an element of stability, there will remain the great task of rehabilitating weak currencies and integrating them in the world structure of exchange rates. For such countries, the Fund can extend the period of consultation, and an agreement on the initial par values can be postponed until their economic and monetary situation becomes more stable. In the meantime, the fact that initial par values have been established for other currencies will enable these countries to see more clearly the problem of fitting their currencies into the world structure of exchange rates.

The Fund has enormous powers over the currency and exchange activities of its members. But it has given many significant indications that such powers will be exercised sparingly and with appropriate caution so long as it is possible for it and the members to work out their mutual problems around the conference table. This cannot but be reassuring to all informed persons acquainted with the magnitude and complexity of the problems involved.

Finally, I should add that while both the Fund and the Bank are fully conscious of the heavy responsibilities and the difficult problems with which they are confronted, they also realize that the attainment of their respective goals depends not only on how well they discharge their specific assignments, but also on the degree to which other groups and other agencies are successful in achieving their objectives in the international economic and political sphere.

The interest of both institutions in the proposed International Trade Charter is an appropriate case in point. Many of you may recall that Resolution VII adopted at the Bretton Woods Conference in July 1944 urged the participating governments to reach agreement as soon as possible on precisely the problems now under consideration in the Trade Charter discussions.

Since their organization a year ago both the Fund and the Bank have taken an active part in the work of the Preparatory Committee on Trade and Employment in drafting the proposed International Trade Charter. Both institutions were represented at the first session of the Preparatory Committee last fall in London. Both sat in with the Drafting Committee at Lake Success last winter. Both have delegations at the Geneva Conference presently working on the Charter provisions.

Like the International Chamber of Commerce, the Bank and the Fund believe that the establishment of a soundly conceived and effectively administered International Trade Organization is a vital factor in achieving an enduring peace. We too agree that such action will contribute to placing the world economy on firm foundations and in binding the nations together in a common endeavor to improve living conditions in every country.

More concretely, both the Fund and the Bank recognize that the success of each will depend in no small part on the degree to which the world is able to achieve high levels of world trade on a multilateral basis. The International Monetary Fund fully recognizes the close interrelationship between its efforts on the monetary and exchange side and those of the ITO on the trade side of the same fundamental problem. The Bank, in turn, knows that the capacity of its borrowers to utilize fully the capital loaned and to meet their obligations for its repayment is closely identified with the levels at which world trade can be maintained. We both can appreciate what Mr. Heilperin of the International Chamber of Commerce had in mind when, in speaking of the Fund and the Bank, he stated that "the proposed International Trade Organization is, or ought to become .... the keystone of the edifice."

Neither do I believe it is indiscreet nor unreasonable to state that, like the International Chamber of Commerce, the Fund and the Bank are anxious that the commercial policy provisions of the ITO Charter in general, and those relating to the use of quantitative restrictions in particular, should be closely coordinated and integrated with the concepts underlying and inherent in the Bretton Woods Agreements. Failure to achieve such essential coordination and integration can invite only confusion - if not disaster.

But these are not merely conclusions shared by the International Chamber of Commerce and the Bank and Fund. It is our definite impression, after having dealt extensively and intimately with the various delegations working on the Charter, that all of the participating countries are searching for this same goal. The problem is one of finding a practical formula which has the broad base of common acceptance.

Neither should it be overlooked that frequently there is a disposition in this field to confuse causes and symptoms. At the Geneva Conference the Norwegian Delegation has submitted a memorandum that contains a useful reference to this point. In discussing the intervention of national governments in the affairs of world trade during the depression of the thirties, the memorandum states:

> "The fact that this element of regulation and restriction occurred simultaneously with the great contraction in world trade, together with the fact that it must, of course, be apparent to each individual exporter or importer that his particular business could be carried on more speedily and more easily if regulations did not exist, are responsible, it seems, for the development of a widespread belief, that these various forms of regulation in themselves are, more or less, the cause of the contraction in world trade, and that therefore the abolishment of these regulations is the crucial factor on which maintenance of world trade on a high level, will depend.
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> "Undoubtedly there are certain types of restrictions which are undesirable from the viewpoint of increased world trade, and some advantages may be gained through negotiations with a view to abolishing them. But such negotiations do not go to the bottom of the problem, and there is a real danger of losing the essence of the problem of world trade out of sight if too much energy and effort are concentrated on the abolishment-of-regulation aspect of the problem."

While perhaps it would be difficult to obtain any general agreement on the degree and extent of essential validity to be found in such statement, it does seem clear that the point made cannot be overlooked if we are to cope with balance of payments problems in realistic terms. I suspect too that it is this same question which is lurking in the back of the minds of several of the delegations at Geneva concerned with this problem.

It is sometimes difficult to make a rule which appears neat and attractive on paper fit the actual facts to which it was intended to apply. For unfortunately in real life we are compelled to fit our rules around the facts rather than the facts around our rule.

In the field of quantitative restrictions the negotiators at Geneva have the problem of preparing not a rule that will fit the facts of only one or two countries which are not in balance of payments difficulty -- the rule also must fit the facts of a large number of countries struggling mightily to remain on their political and economic feet even though they hate the crutches upon which they are compelled to lean.

At Bretton Woods, confronted with the same fundamental problem as applied to exchange controls, the authors of the Fund Agreement decided that it was not feasible to attempt to write a formula which would automatically determine when a member was entitled to impose exchange restrictions on transactions for current account. Instead it was agreed that the problem could be dealt with intelligently only by entrusting the decision to the judgment of competent men who could pass on cases only as they arose and only in terms of all the facts applicable in each specific case. While the Fund Agreement sets forth some excellent general principles to guide these men in making their decision, every effort was made to leave them free to make an independent economic judgment in the light of these principles.

But even at Bretton Woods the member countries had extreme difficulty in reaching agreement on this formula. While most of those present were prepared to accept a Fund decision on this vital matter once normal conditions were re-established in their country, they emphatically insisted that no approach of this character was possible in the turbulent economic period marking the transition between war and peace economics. Accordingly the compromise was reached that while the Fund should be the arbiter whenever conditions returned to normal, the member governments must retain the initiative during the transition period, with the Fund exercising only braking effect on their action during such period. The compromise thus contemplated that during the transition the braking effect exercised by the Fund would be a blend of its powers of persuasion coupled with the prudent use of its substantial resources -- to the end that member governments would move toward the objective of stable monetary systems in a balanced but expanding world economy.

In retrospect, and in the light of the difficulties the ITO has experienced in attempting to formulate more precise standards, the Fund formula does appear both attractive and reasonable. It is understandable in this perspective why the International Chamber of Commerce has recommended that the ITO Charter provisions on quantitative restrictions be brought more closely into harmony with those of the Monetary Fund relating to exchange controls.

Obviously, as I have indicated earlier, the Bank and the Fund also wish to see the substantive treatment of quantitative restrictions in the Trade Charter closely coordinated and integrated with the Fund's treatment of exchange controls. It is, in fact, imperative that either this approach be explicitly spelled out in the Charter or, if this proves impossible, that the policies of the Trade Organization when established must be so coordinated and integrated through the technique of working agreements with the Fund.

The London text of the Charter would seem to contemplate the use of both techniques. While it gives the member the freedom to impose quantitative restrictions whenever that member determines that the escape formula set out in the Charter applies to its balance of payments situation, it does envisage that the member will work in the closest manner possible with the ITO on such problems and, in turn, that the ITO and the Fund will deal jointly with all such cases. Moreover, it is possible for sanctions to be invoked by the ITO in case any member abuses its rights under the formula prescribed.

Clearly, this approach is not just as effective as the Fund formula. Otherwise delegations at London who refused to accept the Fund formula would not have acquiesced to the Charter formula. And make no mistake about the fact that this question was the subject of long and intensive discussion and negotiation at London. The realities of the situation were, however, that insistence upon the Fund formula at London probably would have produced no basis for agreement.

Whereas three years earlier at Bretton Woods when the postwar economic problems were still to be faced, delegations were prepared to accept the Fund formula, those same countries after two years of actual experience in dealing with the postwar balance of payments problems could not find their war clear to so commit themselves on the parallel question of quantitative restrictions. They were, they explained, prepared to commit themselves to adhering to the same general rules and principles, but the problem was too dynamic -- too vital to their very political and economic existence -- to permit them to surrender their freedom of initiative. Instead, they indicated that they were prepared to consult as freely and as fully as possible before they acted and to hold themselves accountable before an international tribunal after they acted. This, they maintained, was ample evidence of their good faith and their adherence to the principles at stake.

It is, of course, too early to know to what extent the various delegations at Geneva may have reconsidered their respective positions at London. The next few weeks will, no doubt, cast some light on this matter. Perhaps some more satisfactory formula will be discovered, perhaps, on the other hand, it will only be possible to make certain improvements in the existing formula and the ultimate evaluation of its efficiency will have to come later when it is tested in actual application.

But it is important for all of us to keep firmly in mind in the heat of such controversies that men of good will from many nations are prepared to sit down and do their level best to resolve their differences amicably. This is perhaps the most encouraging sign of all in these critical times. Sometimes they may be unable to agree. Sometimes they may agree but even then their conclusions may be wrong. Nevertheless, the world's faith and hope for permanent peace and prosperity depend upon their efforts. And if they fail sometimes, we can have confidence and be reassured that those who must try again at least will have had the benefit of their mistakes and their experience.

The most reassuring message, however, for the people of the world from these conferences springs from the implicit fact that all the negotiators have accepted the principle that the economic well-being of each country depends in a large measure on the well-being of all -- or as the late Wendell Wilkie put it: "Well-being is a multiplying and not a dividing process."

So long as this philosophy prevails we cannot ultimately fail.

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