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INTERNATIONAL FINANCIAL PROBLEMS

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# The Bretton Woods Proposals

FINANCE DEPARTMENT



Chamber of Commerce of the United States

Washington, D. C.

FEBRUARY • 1945

THIS PAMPHLET is issued in response to requests for a review of the proposals developed at the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire, July 1 to 22, 1944.

It is mainly a factual presentation of the plans for an International Monetary Fund and an International Bank for Reconstruction and Development, with excerpts from published statements of proponents and critics.

This is one of a series upon "International Financial Problems," prepared by Arthur W. Crawford of the Chamber staff. The pamphlets thus far released are:

1. International Monetary Developments Between the First and Second World Wars.
2. World Currency Stabilization Proposals.
3. Proposed United Nations Bank for Reconstruction and Development.
4. The Bretton Woods Proposals.

The first three pamphlets in the series were issued in June 1944.

A pertinent resolution on monetary policy, adopted by the constituent organizations of the Chamber in a referendum prior to the Bretton Woods Conference, is presented at the close of the pamphlet. In advance of action by the Congress, the Finance Department Committee, with the cooperation of other Chamber committees, is expected to offer specific recommendations.

FINANCE DEPARTMENT

JOHN J. O'CONNOR, *Manager*

## CONTENTS

	PAGE
I. The United Nations Monetary and Financial Conference	3
Scope and Limitations, 3; Organization and Personnel, 5; Foreign Reservations, 6.	
II. Purposes of the Fund and Bank	7
Six Purposes of Fund, 7; Five Purposes of Bank, 8; Statistical Functions, 8; Two Agencies or One?, 9; Fate of B. I. S., 9.	
III. Subscriptions to the Fund and Bank	11
Quotas for the Fund, 13; Quotas for the Bank, 14; Cost to the United States, 16.	
IV. Organization, Management and Control of the Fund and Bank	17
Organization of Fund and Bank, 17; Management of the Fund, 17; Control of the Fund, 18; Management of the Bank, 19; Control of the Bank, 20.	
V. Operations of the Fund	20
Exchange Rates, 20; Flexibility versus Rigidity, 22; Keynes on Gold, 23; American Viewpoints, 25; Exchange Restrictions, 26; Use of Resources of Fund, 27; Capital Movements, 28; Purchases of Foreign Exchange, 28; Repurchase of Currencies, 30; Possible Abuses of Purchase Privilege, 30; Scarce Currencies, 32; Probable Largest Users of Fund, 33.	
VI. Operations of the Bank	34
General Policies, 34; Loans and Guarantees, 35; Direct Loans, 36; Guarantees of Loans, 37; Nations Likely to Borrow from Bank, 37.	
VII. Relation of Fund and Bank to Other International Agencies and Policies	38
Dumbarton Oaks Program, 38; Resolution on Economic Problems, 39; Trade Barriers, 40.	

	PAGE
VIII. Official and Other Favorable Comments on Fund and Bank .....	42
President Roosevelt, 42; Secretary Morgenthau, 43; Harry D. White, 45; Department of Commerce Viewpoint, 46; Federal Reserve Viewpoint, 48; Edward E. Brown, 49; Mabel Newcomer, 50; Pennsylvania Bankers Association, 51; American Farm Bureau Federation, 51; Jacob Viner, 52; Alvin H. Hansen, 53; Irving Fisher, 53; Foreign Policy Association, 54.	
IX. Trend of Critical Opinion .....	54
Movement for Single Agency, 54; American Bankers Association, 55; A.B.A. 1945 Report, 57; New York State Bankers Association, 59; Investment Bankers Association, 60; National Foreign Trade Convention, 60; National Grange, 61; International Business Conference, 62; John H. Williams, 63; Leon Fraser, 66; Winthrop W. Aldrich, 66; B. H. Beckhart, 69; National City Bank of New York, 71; Guaranty Trust Company, 72; Irving Trust Company, 72; J. H. Riddle, 73; E. W. Kemmerer, 74; Henry Hazlitt, 75; Arthur K. Kuhn, 76; British Criticisms, 77.	
X. Recent Pertinent Monetary and Trade Developments ..	78
Foreign Gold Stocks and Dollar Balances, 79; American Foreign Trade, 80; Creditor-Debtor Relationships, 81; Blocked Sterling Balances, 83.	
XI. The Problem Confronting Congress .....	85
Related Questions, 85; Prerequisites, 86; The Monetary Fund, 87; The International Bank, 88; Decisions to be Made, 90.	
Monetary Resolution of Chamber of Commerce of the United States .....	91

# The Bretton Woods Proposals

## I. The United Nations Monetary and Financial Conference

BRETTON WOODS, New Hampshire, picturesque White Mountain resort, has become a symbol of efforts to solve postwar world problems affecting currencies and credit.

Forty-four nations participated in the United Nations Monetary and Financial Conference at Bretton Woods, July 1 to 22, 1944.

Two new financial institutions were proposed, one an International Monetary Fund and the other an International Bank for Reconstruction and Development.

The Bretton Woods Conference helped to stimulate common thinking by delegates from countries with widely diverse interests. It served to advance the practice of consultation among the nations on matters relating to currency and credit. The discussions contributed to greater public realization of the need of effective participation in the functioning of the world economy.

Differences of opinion in the United States relate to methods rather than objectives. There is common agreement that any plans with respect to currency and credit should be linked with other measures intended to meet international problems and should be supported by stable domestic economies.

Articles of Agreement for each of the institutions were drafted at Bretton Woods. The delegates, who assembled at the invitation of President Roosevelt, had no authority to bind their governments. They agreed only to submit the proposals for action under procedures prevailing in the respective countries. In the United States, constitutional procedure requires approval by Congress.

The program will rise or fall with action by the United States, which would be the principal contributor to both institutions.

**Scope and Limitations:** Some of the circumstances in connection with the scope and limitations of the Conference give weight to the feeling of business and banking groups that possible alternatives to the proposals should be given consideration by the Congress. In view of the importance of participation by the United States, any modifications made by this country in the

Bretton Woods program would be certain to receive the careful consideration of other nations which, practically without exception, will defer action until the position of the United States is declared.

The Conference did not attempt to explore plans other than those prepared by government experts. A limitation of discussions to these plans was in keeping with instructions by President Roosevelt to the American delegation. The lack of representation on the American delegation of viewpoints of important groups offers another reason for consideration of alternative proposals.

President Roosevelt in a letter to Secretary of the Treasury Henry Morgenthau, Jr., chairman of the American delegation, said:<sup>1</sup>

In formulating a definite proposal for an International Monetary Fund, both you and the other delegates will be expected to adhere to the joint statement of principles of an International Monetary Fund, announced April 21, 1944. You, as head of the delegation, are authorized, however, after consultation with the other delegates to agree to modifications which, in your opinion, are essential to the effectuation of an agreement and provided that such modifications do not fundamentally alter the principles set forth in the joint statement.

You will apply the same principles in your discussions and negotiations with respect to the proposed Bank for Reconstruction and Development except that you will be governed by the principles agreed upon by the American Technical Committee.

The joint statement of principles of an International Monetary Fund, to which reference was made in the President's letter, represented a tentative agreement by unnamed technical experts of about 30 nations in informal conferences over a period of many months. It grew out of earlier proposals of American and British experts, known, respectively, as the White and Keynes plans. The original White and Keynes plans were announced in April 1943 and a revised White plan in August 1943. Guiding principles for a Bank, as developed by American technical experts, were made public in October 1943 and a preliminary draft outline of the proposal in November 1943. The Bank scheme had not reached the stage of a joint statement by experts of the nations at the time of the convening of the Bretton Woods Conference.<sup>2</sup>

<sup>1</sup> Treasury Department press release, June 23, 1944.

<sup>2</sup> Pamphlet No. 2 in this series contains details of developments with respect to the Fund prior to the Bretton Woods Conference. Pamphlet No. 3 similarly deals with early discussions on the Bank.

**Organization and Personnel:** Secretary of the Treasury Morgenthau was chairman of the Conference as well as of the American delegation.

The Conference was divided into three commissions. Commission I had to do with the International Monetary Fund, Commission II with the International Bank for Reconstruction and Development, and Commission III with "Other Means of International Financial Cooperation."

Harry D. White, at that time Director of Monetary Research of the Treasury Department and later appointed Assistant Secretary of the Treasury, was chairman of Commission I. Lord Keynes, chairman of the British delegation, was chairman of Commission II. Eduardo Suarez, chairman of the Mexican delegation, was chairman of Commission III. The commissions were divided into committees and subcommittees.

The Articles of Agreement for the two institutions and miscellaneous resolutions from Commission III were accepted by the full Conference in plenary sessions and embodied in a "Final Act."

The American delegation was composed of 12 members appointed by the President, of whom six were from the executive branch of the government, four from the legislative branch, and two from outside the government.

The representatives of the executive branch included Secretary Morgenthau and Mr. White from the Treasury Department; Dean Acheson, Assistant Secretary of State; Fred M. Vinson, Director of the Office of Economic Stabilization, who was vice chairman of the delegation; Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System; and Leo T. Crowley, Administrator of the Foreign Economic Administration.

The representatives of the legislative branch were Senator Robert F. Wagner of New York, Chairman, and Senator Charles W. Tobey of New Hampshire, ranking minority member, of the Senate Committee on Banking and Currency, and Representative Brent Spence of Kentucky, Chairman, and Representative Jesse P. Wolcott of Michigan, ranking minority member, of the House Committee on Banking and Currency.

The two delegates from outside the government were Edward E. Brown, chairman of the First National Bank of Chicago and president of the Federal Advisory Council of the Federal Reserve

System, and Miss Mabel Newcomer, chairman of the Department of Economics and Sociology of Vassar College.

**Foreign Reservations:** The nations represented at Bretton Woods made blanket reservations as a means of retaining the privilege of dissenting from all or any part of the proposals. Reservations on specific points also were recorded.

The reservation procedure was suggested by Lord Keynes at an executive plenary session on July 20, when Commission I reported the completed Articles of Agreement for the Fund. Lord Keynes, according to an official transcript of his remarks, said:

So far as the United Kingdom delegation is concerned we, in common with all other delegations, reserve the opinion of our government on the document as a whole and on every part of it. The whole of our proceedings is ad referendum to our governments who are at the present stage in no way committed to anything. We have been gathered here to put our heads together to produce the most generally acceptable document we could frame. We do not even recommend our governments to adopt the result. We merely submit it for what it is worth to the attention of the governments and legislators concerned. . . .

Is it not better that all of us make clear the entire absence of commitment on the part of our governments and that the particular points of reservation be merged in the general reservation and be not particularly recorded? Only in this way can misapprehension be avoided. Otherwise the position of those of us who are making no particular reservations may not be understood.

As a result of Lord Keynes' plea, fewer reservations were offered by the various nations than had been contemplated.

The United Kingdom dissented in a formal reservation from the action of the Conference in selecting the United States as the location of principal offices of the two institutions. France, whose quotas gave it a ranking below that of China, made reservations on eight points. It protested against the size of the French quota in the Fund and European quotas in general and the omission of certain proposed clauses giving preference to enemy-occupied countries. Australia contended in reservations that too little emphasis had been given in the stated purposes for the Fund upon the promotion and maintenance of high levels of employment and that its quota and borrowing privileges were too small. Russia sought additional preferences in the Fund for enemy-occupied countries and changes in some of the provisions for

the Bank, including favorable interest rates and commissions on reconstruction loans in war areas. India and Iran objected to the size of their quotas in the Fund.

By certain of the reservations and in the course of the Conference, debtor nations sought understandings which would improve their position, even though in general the advantages would appear to outweigh any disadvantages or cost to them. In these as well as other countries, however, the proposals are being criticized on various grounds.

## II. Purposes of the Fund and Bank

THE TWO INSTITUTIONS would supplement each other. Their stated purposes have much in common. Both would be credit agencies concerned with world trade.

The Fund would be expected to provide stability in values of currencies, thus facilitating commerce among nations. Indirectly, it would provide credit for trade by making foreign exchange available to central banks or other governmental agencies. The Fund would have to do with the balancing of international transactions rather than with direct assistance to exporters or importers.

The Bank, on the other hand, would be concerned with long-term credit for reconstruction of war-stricken countries and the development of resources of those in which industrialization has lagged. These credits would be reflected in immediate transactions in capital goods. They also would be expected to lay the foundation for a permanent expansion of world trade among nations which as a result of this assistance would be better able to produce and to consume.

In supplementing each other, the operations of the Fund would be expected to reduce exchange risks involved in international investment and those of the Bank to assist in developing the economies of nations in such a way as to make excessive fluctuations in exchange rates less likely.

Neither institution, by itself, would provide assurance of the establishment of sound domestic policies in the various nations or international commercial policies favorable to the flow of trade.

**Six Purposes of Fund:** The first of six purposes listed in the Articles of Agreement for the Fund is to promote international

monetary cooperation through a permanent institution providing the machinery for consultation. The second purpose is to facilitate the expansion and balanced growth of international trade, thereby contributing to high levels of employment. The third is to further exchange stability, maintain orderly exchange arrangements among members and avoid competitive exchange depreciation. The fourth is to promote a multilateral system of payments among nations and eliminate foreign exchange restrictions. The fifth is to provide resources for correction of maladjustments in balances of payments. The sixth is to shorten the duration and lessen the degree of disequilibrium in balances of payments among nations.

**Five Purposes of Bank:** The first of five purposes set forth in the Articles of Agreement for the Bank relates to the investment of capital for productive purposes, including restoration of the economies of war areas, reconversion of productive facilities to peacetime needs, and development of resources in other regions. The second purpose is to promote private foreign investment by guarantees or participations in loans and also to make loans directly for productive purposes. The third is to promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments. The fourth is to arrange its loans and guarantees in relation to those through other channels in such a way as to assure precedence for the more useful and urgent projects. The fifth is to guide international investment with a view to promoting a smooth transition from a wartime to a peacetime economy.

**Statistical Functions:** The Fund would be assigned the task of obtaining and disseminating better statistical and other information of international significance, than has been available in the past.

The Fund would be authorized to require members to furnish it with such information as it deemed necessary for its operations. The national data listed as constituting the minimum necessary for the effective discharge of the Fund's duties include official holdings of gold and foreign exchange, production of gold, exports and imports of gold by countries of origin and destination, exports and imports of merchandise and other trade and capital items entering into the international balance of payments, for-

eign investments, national income, price indices, buying and selling rates for foreign currencies, exchange controls, and clearing arrangements.

One important addition to available financial information of world importance would be data on gold stocks and production of Russia, which heretofore has maintained secrecy on such matters. Even at Bretton Woods, Russia withheld some of this information.

**Two Agencies or One?** Whether two separate institutions are desirable or whether one would be sufficient is a major point at issue. Both the Fund and the Bank would be concerned with international credits. Both would deal in gold and currencies. While some distinctions would apply as to credit operations, the functions of the two institutions would be parallel or overlap at so many points as to raise a question as to possible conflict between them or duplication.

A better coordination of activities, some authorities believe, would be secured through separate departments of a single agency than with governing bodies entirely independent of each other. A single agency, according to this view, would be a means of promoting efficiency and economy and a simplification of procedures affecting member nations.

The possibility of conflict or overlapping of the two institutions is enhanced by the circumstances surrounding the proceedings at Bretton Woods. The respective Articles of Agreement were perfected simultaneously by different sets of experts who worked long hours under great pressure.

The mechanism for the Fund is highly flexible, is attended by relatively few restrictions, and represents a radical innovation in methods. The Bank, on the other hand, follows traditional practice and its operations are subject to numerous safeguards.

As an example of different practices which might lead to difficulties, borrowers would be unable to acquire currencies from the Bank in order to sell them in the exchange markets for other currencies. There appears to be no prohibition against such use of currencies obtained from the Fund.

**Fate of B. I. S.:** The program of the Bretton Woods Conference contemplates the abolishment of the Bank for International Settlements. A resolution for its liquidation "at the earliest possible moment" was adopted by the Conference on the motion of Com-

mission III. This resolution was a substitute for one offered by the Norwegian delegation and supported by the Dutch delegation, which proposed not only the liquidation of the Bank but also the appointment of a committee to investigate its management and transactions during the present war. The Conference did not authorize an investigation.

The Bank for International Settlements, with headquarters at Basle, Switzerland, was established in 1929 to facilitate the payment of reparations by Germany under the Young Plan. The Bank was intended to have three major functions. The first, to act as a trustee and reparation agent, was practically nullified with the collapse of reparations payments. The second, to further central bank cooperation, remained as the most important role of the Bank up to the time of the present war. The third, to serve as an international clearing house for the transfer of credit, was never developed very far. Before the war restricted its activities, the influence of the Bank was steadily increasing.

Neither the United States Government nor the Federal Reserve System has had membership in the Bank but American banks with a full understanding and support of government agencies and Federal Reserve authorities participated in its organization and paid membership subscriptions. During much of its life, an American has been the president.

Whether or not the Axis countries have been able to make any use of the Bank during the war has been a matter of controversy. It was charged early in 1944 that Axis and then Axis-dominated countries owned more than 70 per cent of the stock.

Leon Fraser, president of the First National Bank of New York, who is a former president of the Bank for International Settlements, proposed in 1943 its reorganization on a wider basis in a different location and its use as a center of international monetary consultation and planning and as a common agency for the joint action of Treasuries and central banks.<sup>3</sup>

B. H. Beckhart, professor of banking at Columbia University and director of research for the Chase National Bank of New York, recently asserted that "there is nothing in the record of the Bank for International Settlements to justify its liquidation,"<sup>4</sup> but that "if prejudice against the institution is too strong to be overcome, then a similar institution might be organized."

Mr. Beckhart would have such an institution extend seasonal stabilization credits and serve as a statistical agency and as a meeting place for central bankers.

### III. Subscriptions to the Fund and Bank

THE SUBSCRIPTIONS of the different nations to the Fund and the Bank are specified in quotas incorporated in the respective Articles of Agreement. These quotas were determined by negotiation at Bretton Woods and vary greatly from the formulas which were worked out in advance by the technical experts. No formula for quotas is included in the Articles of Agreement for either institution. The amount of subscriptions by nations other than the original members would be determined, respectively, by the Fund and Bank.

The formula suggested for the Fund by the technical experts took account of the ability of a country to subscribe, its need for use of the Fund's resources, and its economic importance. It was proposed that the quota of each country should be the sum of 2 per cent of its national income in 1939, 5 per cent of its holdings of gold and gold-convertible exchange as of January 1, 1944, 10 per cent of its average annual imports from 1934 to 1938, inclusive, and 10 per cent of the maximum variation in annual exports during those years. The total so determined would be increased by the percentage ratio of its average annual exports from 1934 to 1938 to its national income. Foreign trade totals alone had been proposed as the basis for quotas in the Clearing Union of the Keynes plan, its formula giving the British the largest borrowing power.

The formula suggested by the technical experts for the Bank took account of the ability of a country to provide capital and the benefits it might expect to secure. It was proposed that the subscription of each country should be the sum of 4 per cent of its estimated national income in 1940 and 6 per cent of its average annual foreign trade from 1934 to 1938, with adjustments up or down by as much as 20 per cent to meet special circumstances.

The determination of quotas occasioned considerable controversy among the nations. In general there was a disposition to obtain as large a quota as possible in the Fund, because of the relation of borrowing power to the size of the subscription, and as small a quota as possible in the Bank, because of the relation

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<sup>3</sup> See Pamphlet No. 2 in this series, p. 18.  
<sup>4</sup> *Political Science Quarterly*, December 1944, p. 527. Mr. Beckhart's views on the Bretton Woods program are given later in this pamphlet, p. 69.

of responsibility for losses to the amount of capital contributed. Instead of attempting to adhere to the proposed separate formulas for the two institutions, members of the American delegation, following agreement by the Conference on quotas for the Fund, exerted their influence toward maintaining the Fund quotas as the minimum for subscriptions to the Bank. Their efforts were not entirely successful.

By reason of political and military factors, Russia was able to obtain quotas almost as great as those of the United Kingdom. China received quotas greater than those of France and of other countries whose foreign trade has been much more important.

In defense of the large quota given Russia for the Fund, it was contended that this was not too great a concession to obtain the participation of that country and that its future development would provide ample justification. It was recognized, however, that a country with a completely controlled economy probably would not need credits for strictly stabilization purposes and that actually they would be used for the purchase of capital goods. Assuming Russia's ability to repay credits and to develop an extensive export as well as import trade, such a use of the resources of the Fund would raise a question as to the need of two institutions. Credits obtained through the Fund would escape the close scrutiny to which those granted by the Bank would be subjected.

China also was held to be a special case justifying a larger Fund quota than warranted by its economic status. The recognition of China as one of the four great powers was viewed as providing encouragement in its struggle for survival and development. The Chinese delegation was reported to have given assurance that the Fund would not be drawn upon except as justified by the attainment of domestic stability and until the nation was in a position to develop its foreign trade. It would be incumbent upon the Board of Governors to prevent improper use of resources of the Fund. The Articles of Agreement, however, contain no explicit rules which would prevent China from drawing upon the Fund under unfavorable conditions.

The apportionment of quotas on a basis other than one taking full account of economic factors might tend to limit the usefulness of the Fund and threaten its solvency. Some countries, for example, might obtain too large a share of the dollars held by the Fund for purchases from the United States in relation to their exports to this country, from which the supply of dollars might be

replenished. Also, other countries might be handicapped in developing exports to the United States by inability through the smallness of their quotas to obtain sufficient dollars from the Fund to facilitate purchases of raw materials and machinery.

**Quotas for the Fund:** The Fund quotas of the nations represented at Bretton Woods aggregate \$8.8 billion. The "Big Five" are the United States with \$2,750 million, the United Kingdom with \$1,300 million, Russia with \$1,200 million, China with \$550 million, and France with \$450 million.

Other quotas, in millions of dollars, are: Australia, 200; Belgium, 225; Bolivia, 10; Brazil, 150; Canada, 300; Chile, 50; Colombia, 50; Costa Rica, 5; Cuba, 50; Czechoslovakia, 125; Dominican Republic, 5; Ecuador, 5; Egypt, 45; El Salvador, 2.5; Ethiopia, 6; Greece, 40; Guatemala, 5; Haiti, 5; Honduras, 2.5; Iceland, 1; India, 400; Iran, 25; Iraq, 8; Liberia, 0.5; Luxembourg, 10; Mexico, 90; Netherlands, 275; New Zealand, 50; Nicaragua, 2; Norway, 50; Panama, 0.5; Paraguay, 2; Peru, 25; Philippine Commonwealth, 15; Poland, 125; Union of South Africa, 100; Uruguay, 15; Venezuela, 15; and Yugoslavia, 60.

Subscriptions would be paid in full in gold and national currencies at the time of organization. The gold portion would be a minimum of 25 per cent of a member's quota or 10 per cent of its net official holdings of gold and United States dollars, whichever was the smaller. The United States would pay in gold a minimum of 25 per cent of its quota of \$2,750 million, or \$687.5 million. It is roughly estimated in official quarters that the gold subscriptions of other nations, based on their gross official gold and dollar holdings at the end of March 1944, would total \$955.6 million.<sup>5</sup> This would mean \$1,643 million in gold for all nations out of \$8.8 billion of total quotas.

On the basis of these calculations, the total United States subscription in gold and dollars, together with gold contributed by other nations, would constitute 42 per cent of the aggregate of \$8.8 billion. On the same basis, the United States total subscription would be 74 per cent of all gold and dollars. Currencies of most other nations might lack international validity as money, in the sense of having a fixed value in terms of gold.

Both gold and national currencies possessed by the Fund would be held in the central banks or other designated depositories of the

<sup>5</sup> Federal Reserve Bulletin, September 1944, p. 855.

subscribing members, except that at the outset one-half of the gold would be entrusted to the Federal Reserve System and 40 per cent to the central banks of the United Kingdom, Russia, China and France.

The terms of subscription are such that little if any difficulty would be experienced by the nations in providing their quotas. The terms are so easy, in fact, as to constitute an element of danger. If a country had but little gold and dollars, it would need to contribute to the Fund only 10 per cent of that small amount. The remainder of its subscription would be in its own currency, which might be created without any limitation. Each nation would be free to follow its own practices under the exercise of its sovereign power to issue currency. Obviously, the value of the various currencies, for purposes other than those of the Fund, would depend upon the soundness of domestic policies of the nations.

If there should be no immediate demand on the part of the Fund for a particular currency, a nation might substitute non-interest bearing obligations. Under this provision it might be possible for some nations to postpone indefinitely any actual payment of currency. The privilege of substituting an I. O. U. without interest applies not only to the amount originally subscribed but also to other payments by a country to the Fund, such as for the purchase of foreign exchange.

The quotas would be subject to review at intervals of five years. A four-fifths majority of total voting power would be necessary for changes and no quota could be changed without the consent of the member concerned.

**Quotas for the Bank:** The authorized capital stock of the Bank is \$10 billion, of which the countries represented at Bretton Woods would subscribe \$9.1 billion, or \$300 million more than the aggregate of quotas for the Fund. Membership in the Fund is a prerequisite for membership in the Bank.

The subscription of the United States would be \$3,175 million, \$425 million more than its quota in the Fund. The United Kingdom, Russia and France would have the same quotas as for the Fund, \$1,300 million, \$1,200 million and \$450 million, respectively. China would contribute \$600 million, \$50 million more than to the Fund. Russia, after having objected to a quota for the Bank greater than \$900 million, accepted \$1,200 million on the final day of the Conference.

Canada would subscribe \$25 million more than to the Fund. Latin American countries, which were lukewarm with respect to the Bank, would subscribe \$154 million less and six other countries an aggregate of \$46 million less than to the Fund. Some of the Latin American countries might have remained out of the Bank, except for provisions which assured as much consideration for their needs for "development" purposes as those of European countries for "reconstruction."

Quotas for the Bank, in millions of dollars, other than those of the "Big Five" are: Australia, 200; Belgium, 225; Bolivia, 7; Brazil, 105; Canada, 325; Chile, 35; Colombia, 35; Costa Rica, 2; Cuba, 35; Czechoslovakia, 125; Dominican Republic, 2; Ecuador, 3.2; Egypt, 40; El Salvador, 1; Ethiopia, 3; Greece, 25; Guatemala, 2; Haiti, 2; Honduras, 1; Iceland, 1; India, 400; Iran, 24; Iraq, 6; Liberia, 0.5; Luxembourg, 10; Mexico, 65; Netherlands, 275; New Zealand, 50; Nicaragua, 0.8; Norway, 50; Panama, 0.2; Paraguay, 0.8; Peru, 17.5; Philippine Commonwealth, 15; Union of South Africa, 100; Uruguay, 10.5; Venezuela, 10.5; and Yugoslavia, 40.

Twenty per cent of subscriptions to the Bank would be paid or subject to call as needed for loans. Of this amount 10 per cent would be in gold or United States dollars and the remainder in the member's currency. The other 80 per cent of total subscriptions would be subject to call by the Bank only when needed to meet losses from borrowed funds or guaranteed loans. Payments for this portion of the subscriptions might be at the option of the member either in gold, United States dollars or the currency required to discharge the obligation of the Bank. Calls for funds to meet losses would be in proportion to the amount of a member's holdings of capital stock.

The amount of the subscriptions which might be used for the Bank's own loan fund, if subscriptions total \$9.1 billion, is \$1,820 million while the amount subject to call only to meet the Bank's obligations is \$7,280 million.

Members of the Bank would have the same privilege with respect to the substitution of non-interest bearing obligations for currencies which are not immediately needed, as in the case of the Fund. Similarly, the terms of payment of either gold or currencies are not such as to be very burdensome for weaker nations. As is true under the plan for the Fund, some of the currencies held by the Bank might be of questionable value, except as given standing by these institutions.

Gold and currencies of the Bank would be held in the various central banks according to the plan which applies to resources of the Fund.

**Cost to the United States:** Membership in the Fund and the Bank would involve a total commitment for the United States of \$5,925 million, including \$2,750 million for the Fund and \$3,175 million for the Bank.

The minimum required to be paid in gold would be \$751 million, including \$687.5 million, as 25 per cent of the quota for the Fund, and \$63.5 million, as 10 per cent of the 20 per cent of the subscription to the Bank paid in or subject to call for loans. With respect to the portion of the Bank subscription payable in gold, United States dollars also are acceptable.

Of the remaining commitment, which could be paid in gold, currency or credit, \$2,062.5 million would be paid to the Fund at the time of organization while \$571.5 million would be paid in or subject to call by the Bank for loans, a total of \$2,634 million.

Besides \$751 million in gold and \$2,634 million in gold, currency or credit, a total of \$3,385 million for payments at early dates, there would be a further amount of \$2,540 million subject to call to meet losses of the Bank from borrowed funds or guarantees of loans.

The resources of the present United States Exchange Stabilization Fund, which was created in 1934 from gold profit from devaluation of the dollar, might be used toward the financing of membership in the two institutions. The gold contributions, at least, could be obtained from this source. The Treasury might wish to retain a domestic stabilization fund with moderate resources. Only \$200 million of the original \$2 billion ever has been used and this amount, together with a profit, is intact. No part of the resources of the present Fund could be shifted to an international Fund without action by Congress, under a restriction inserted in the law authorizing the Fund at the time of its last extension in 1943. Authority for the Fund will expire on June 30, 1945, unless the law again is extended.

The balance sheet of the Exchange Stabilization Fund for June 30, 1944, shows total assets of \$2,058 million, of which \$1,821 million is in gold, \$208.5 million in checking accounts or cash, \$20.4 million in government securities, and \$8.2 million due from foreign governments or central banks.<sup>a</sup>

<sup>a</sup> See Pamphlet No. 1 in this series, p. 18, for complete balance sheet of the Stabilization Fund.

While the budget remains unbalanced, amounts appropriated by Congress, other than from the resources of the present Stabilization Fund, would be borrowed and added to the public debt, with an interest charge against the taxpayers. The total commitment for the two institutions would be larger than the total annual budget at the beginning of the Thirties. It represents only a part of contemplated postwar expenditures for international projects.

#### IV. Organization, Management and Control of the Fund and Bank

**Organization of Fund and Bank:** Two entirely separate organizations would be set up for the operation of the Fund and the Bank. Each institution would be under general control of a Board of Governors, consisting of one Governor and an alternate from each member country. The Governors and alternates would receive only expenses while attending meetings. Under each Board would be Executive Directors, who would be full-time salaried officials. A Managing Director would be the chief executive of the Fund while a President would occupy the corresponding post with the Bank. The headquarters of both institutions would be in the United States.

Each of the agreements would become effective when accepted by governments representing not less than 65 per cent of total quotas but not earlier than May 1, 1945. The agreements would remain open for signatures of original members up to December 31, 1945. Exchange transactions would not be commenced by the Fund until after major hostilities in Europe had ceased.

Members could withdraw from both the Fund and Bank more readily than originally proposed. Withdrawal would be effective upon receipt of notice from the member, instead of one year after such notice, as under the original White plan.

**Management of the Fund:** A Governor of the Board and an alternate would be selected for five year terms by each member in such manner as it might determine. The Board would select one of the Governors as Chairman. A quorum would require a majority of the Governors having two-thirds of the voting power.

There would be at least twelve Executive Directors. Of these, five would be appointed by the five members with the largest

quotas, who at the outset would be the United States, the United Kingdom, Russia, China and France. Two would be elected by the American republics other than the United States. Five would be elected by other members under a proportional system of voting by which each member would have a voice in electing at least one of the Directors. Two additional Executive Directors might be appointed to represent the two countries whose currencies were being used by the Fund in the largest absolute amounts, if these countries were not included in those already entitled to representation. The number of Executive Directors might be further increased as new countries became members of the Fund.

The Board of Governors might delegate its powers to the Executive Directors, except on certain issues of major economic or political significance, such as the admission of new members, changes in quotas, a uniform change in par values of currencies, withdrawals of members, and liquidation of the Fund.

The Executive Directors would be responsible for general operations of the Fund. A quorum would be a majority of the Directors with not less than half the voting power. The Managing Director, selected by the Executive Directors, would be Chairman.

**Control of the Fund:** Each member of the Fund would have 250 votes, plus one additional vote for each \$100,000 of its quota. Total votes would be 99,000, on the basis of quotas amounting to \$8.8 billion. In voting on problems involving the use of resources of the Fund, the voting power of those nations whose currencies were in the greatest demand would be increased while that of nations making the most use of the Fund's resources would be decreased.

The Governor appointed by each member nation would have the voting power of that nation in actions by the Board of Governors. Executive Directors would cast the number of votes of the country or countries appointing or electing them. An Executive Director would be required to cast as a unit all votes of which he had control. In nearly all instances action might be taken by a majority vote.

The number of votes which might be cast initially by the "Big Five" countries and the percentage of the total represented by each follow:

The United States, 27,750 votes, 28 per cent; the United Kingdom, 13,250 votes, 13.4 per cent; Russia, 12,250 votes, 12.4 per cent; China, 5,750 votes, 5.8 per cent; France, 4,750 votes, 4.8

per cent. The voting power of the "Big Five" nations would be almost two-thirds of the total.

The votes and percentages of other countries with more than 1 per cent of the total follow:

India, 4,250 votes, 4.3 per cent; Canada, 3,250 votes, 3.3 per cent; Netherlands, 3,000 votes, 3 per cent; Belgium, 2,500 votes, 2.5 per cent; Australia, 2,250 votes, 2.3 per cent; Brazil, 1,750 votes, 1.8 per cent; Czechoslovakia, 1,500 votes, 1.5 per cent; Poland, 1,500 votes, 1.5 per cent; Union of South Africa, 1,250 votes, 1.3 per cent; Mexico, 1,150 votes, 1.2 per cent.

The 29 other nations of the 44 represented at Bretton Woods each would have less than 1 per cent of the total votes.

The United States, although contributing 31 per cent of the \$8.8 billion allotted to the 44 nations, would have voting power equal to only 28 per cent of the total. However, if other countries had drawn upon the Fund for dollars equal to half of the United States quota, its voting power would be increased to 31.5 per cent of the total. A further drain on the Fund's supply of dollars might increase the voting power of the United States up to as much as 35 per cent of the total.

The British Empire would control 25.3 per cent of total votes; continental Europe, excluding Russia, would account for 16 per cent; and Latin America, 9.7 per cent.

Situations might arise in which the United States would be outvoted. If the British Empire voted as a unit and all of Europe, including Russia, joined forces with it, the combined voting strength would be 53.7 per cent of the total.

The United States, however, with the aid of Latin America and Russia could muster 50.1 per cent of the votes and with China would have 55.9 per cent of the total. The United States and the British Empire would have 53.3 per cent of the total vote.

**Management of the Bank:** The Board of Governors and the Executive Directors of the Bank would be selected in much the same manner as those for the Fund. The "Big Five" would name five of the twelve Executive Directors while all other countries would participate in the election of the remaining seven. There is no provision for the selection of two of the directors by Latin American countries as in the case of the Fund. Such a provision was held not to be necessary for the Bank, because each member would have authority to veto any action with respect to funds subscribed by it.

The Bank would have an advisory council of seven members elected by the Board of Governors, which would include representatives of banking, commercial, industrial, labor and agricultural interests. The President of the Bank would be selected by the Executive Directors.

**Control of the Bank:** The distribution of voting power in the Bank would be determined by the same formula as for the Fund. The votes would total 102,000 on the basis of \$9.1 billion of subscribed capital out of an authorized capital of \$10 billion.

The United States would have 31.4 per cent of the voting strength although it would contribute 34.8 per cent of the \$9.1 billion.

The votes of the "Big Five" nations and their percentages of the total follow:

The United States, 32,000 votes, 31.4 per cent; the United Kingdom, 13,250 votes, 13 per cent; Russia, 12,250 votes, 12 per cent; China 6,250 votes, 6.1 per cent; France, 4,750 votes, 4.6 per cent.

The votes and percentages of other nations with more than 1 per cent of the total voting strength follow:

India, 4,250 votes, 4.2 per cent; Canada, 3,500 votes, 3.4 per cent; Netherlands, 3,000 votes, 2.9 per cent; Belgium, 2,500 votes, 2.4 per cent; Australia, 2,250 votes, 2.2 per cent; Czechoslovakia, 1,500 votes, 1.5 per cent; Poland, 1,500 votes, 1.2 per cent; Brazil, 1,300 votes, 1.3 per cent; Union of South Africa, 1,250 votes, 1.2 per cent.

Each of the other 30 nations would have less than 1 per cent of the voting power.

The British Empire would control 24.8 per cent of the votes; continental Europe, exclusive of Russia, 15.2 per cent; and Latin America, 7.9 per cent.

## V. Operations of the Fund

**Exchange Rates:** Initial par values of currencies in terms of gold or of United States dollars of the weight and fineness in effect on July 1, 1944, would be established by agreement between member nations and the Fund. Thereafter, except as changes were made under an authorized procedure, members would seek to maintain the rates of exchange with other currencies repre-

sented by these par values. Purchases and sales of gold for the settlement of international transactions within prescribed margins above and below par values would be a means of maintaining stable exchange rates. The Fund would prescribe these margins.

The maximum and minimum rates for spot exchange transactions between the currencies of members would be allowed to differ from parity by not more than 1 per cent.

Machinery would be provided for adjustments in exchange rates. Member nations would have the right, after consultation with the Fund but without obtaining its concurrence, to alter the par value of their currencies by 10 per cent from that initially established. In the event of a further change of not to exceed 10 per cent, the approval of the Fund would be necessary and it would be required to make a decision within 72 hours, if so requested. For any further changes, the Fund might take more time for consideration.

The Fund, by a majority of the total voting power, might make uniform proportionate changes in the par values of the currencies of all members, provided the move had the approval of every member with 10 per cent or more of the total quotas. On such a proposal each of the three nations with more than 10 per cent of total quotas, the United States, the United Kingdom and Russia, would have a veto power. Any member would have the right to prevent a change in the par value of its own currency. The provision for uniform changes has been attacked as paving the way for world-wide debasement of currencies and inflation.

A member would be under an obligation to contribute to the maintenance of the gold value of the Fund's assets by the payment of an amount of its own currency equal to any depreciation in its value which might occur. This would be true even in the event of a uniform change in values, unless the Fund decided otherwise.

While no member would be expected to propose a change in the par value of its currency except to correct a "fundamental disequilibrium," a term for which there is no exact definition, there is recognition in the Articles of Agreement of the possible need for changes. The Fund would be obligated to concur in a proposed change if it were satisfied that the change was necessary to correct a "fundamental disequilibrium." If so satisfied, it would not have the right to object to a proposed change because of the

domestic social or political policies of the member proposing the change. This means that if the United Kingdom, for example, desired to maintain policies necessitating a higher price level, there would be no bar to a depreciation of the pound sufficient to place British industries on a competitive level with industries of other countries.

**Flexibility versus Rigidity:** The procedure for making changes in par values and exchange rates contemplates far more flexibility than under either the original or the revised White plan.

The first White plan made no provision for changes in the value of unitas, its proposed new monetary unit, in terms of gold. No changes might be made under that plan in the value of the currency of a member country in terms of gold or unitas without the approval of four-fifths of the member votes. The revised White plan permitted a change in the gold value of the unitas with the approval of 85 per cent of the member votes, which gave the United States veto power; par values of currencies might be changed by a three-fourths vote.

The Keynes plan of the British, on the other hand, permitted changes by a majority vote in the gold value of bancor, its proposed currency unit, and in the value of currencies in terms of bancor. The joint statement of the experts, which formed the basis for the plan approved at Bretton Woods, sanctioned a degree of flexibility comparable to that of the Keynes plan.

One of the stated purposes of the Fund is "to promote exchange stability, to maintain orderly exchange arrangements among members and to avoid competitive exchange depreciation." In view of the extreme flexibility of the mechanism for changing exchange rates, the question is being raised as to whether the plan actually would promote stability.

The Fund would be expected to give the benefit of the doubt to member nations seeking to change the par values of their currencies. On the basis of the experience of past years, a change by one country might be followed by changes by other countries. If this occurred, it would mean a competitive depreciation of currencies, with adverse effects upon world trade in the long run. The effect would be to create instability rather than stability.

On the other hand, it is recognized that conditions after this war will be so chaotic as to make it extremely difficult to determine proper exchange rates. Hence, it is contended that an or-

derly arrangement for adjustments under the supervision of the Fund would tend in the end to promote stability.

An official elaboration of this viewpoint is contained in an article in the *Federal Reserve Bulletin*.<sup>7</sup> An excerpt from this article follows:

Stability does not mean rigidity and rigidity in the past has resulted in extreme instability. A country which finds that its domestic economy is suffering greatly from inability to balance its international transactions at its existing exchange rate and which finds it impossible to correct the situation by other adjustments without seriously harmful consequences, has no alternative but to change its rate.

The provision for orderly changes in rates at such times, in consultation with the Fund and with its concurrence, is, therefore, expected to result in the long run in more rather than less stability of exchange rates.

Stability, however, is viewed not as an end in itself but as a means of promoting trade, and, through trade, a high level of employment and income. Insistence on stable rates, irrespective of the effects of those rates on employment and income, might have meant losing sight of this objective.

**Keynes on Gold:** The controversy between those desiring a maximum of flexibility and those preferring a considerable degree of rigidity in exchange rates involves the former international gold standard, which exerted an influence on domestic economic conditions through movements of gold and resultant changes in interest rates and prices.

The flexibility in the Bretton Woods plan reflects the determination of the British to avoid internal adjustments required by a rigid relationship of a currency to gold. The British viewpoint has been expressed graphically by Lord Keynes.

In a speech in the House of Lords on May 23, 1944, Lord Keynes defended the joint statement of experts, the basis of the Bretton Woods plan. An excerpt from his remarks follows:<sup>8</sup>

If I have any authority to pronounce on what is and what is not the essence and meaning of a gold standard, I should say that this plan is the exact opposite of it. . . .

The gold standard, as I understand it, means a system under which the external value of a national currency is rigidly tied to a fixed quantity of gold which can only honorably be broken under

<sup>7</sup> "Bretton Woods Agreements" by E. A. Goldenweiser and Alice Bourneuf, Division of Research and Statistics, Board of Governors of the Federal Reserve System, *Federal Reserve Bulletin*, September, 1944, p. 852.

<sup>8</sup> From text published by British Information Service.

*force majeure*; and it involves a financial policy which compels the internal value of the domestic currency to conform to this external value as fixed in terms of gold. On the other hand, the use of gold merely as a convenient common denominator by means of which the relative values of national currencies—these being free to change—are expressed from time to time, is obviously quite another matter. . . .

There must be *some* price for gold; and so long as gold is used as a monetary reserve it is most advisable that the current rates of exchange and the relative values of gold in different currencies should correspond. The only alternative to this would be the complete demonetization of gold. I am not aware that anyone has proposed that. For it is only common sense as things are today to continue to make use of gold and its prestige as a means of settling international accounts. To demonetize gold would obviously be highly objectionable to the British Commonwealth and to Russia as the main producers, and to the United States and the Western Allies as the main holders of it.

On the other hand, in this country we have already dethroned gold as the fixed standard of value. The plan not merely confirms the dethronement but approves it by expressly providing that it is the duty of the Fund to alter the gold value of any currency if it is shown that this will be serviceable to equilibrium.

In fact, the plan introduces in this respect an epoch-making innovation in an international instrument, the object of which is to lay down sound and orthodox principles. For instead of maintaining the principle that the internal value of a national currency should conform to a prescribed *de jure* external value, it provides that its external value should be altered if necessary so as to conform to whatever *de facto* internal value results from domestic policies, which themselves shall be immune from criticism by the Fund. Indeed, it is made the duty of the Fund to approve changes which will have this effect. That is why I say that these proposals are the exact opposite of the gold standard.

Lord Keynes reiterated these views at Bretton Woods on July 6, 1944, in a press conference in which he referred to confusion existing between "the rigid gold standard and a currency standard based on gold without the rigidity."

Sir John Anderson, British Chancellor of the Exchequer, in a speech in London on October 4, 1944, referred to a suggestion that the Bretton Woods plan meant a return to the gold standard. He said, in part:

Now I doubt whether those critics who use the words "gold standard" as a term of opprobrium always have a perfectly clear idea of what they mean, but, perhaps, one can assume that what they are thinking of is a system under which the external value

of sterling was fixed, and the internal credit policy was made subservient to the maintenance of that value. To that system, if it ever existed in such crude form, we do not propose to return.

**American Viewpoints:** While British supporters of the Bretton Woods plan have emphasized its elasticity and differences from the gold standard, the American proponents have placed greater stress upon the possibility of obtaining stability of exchange rates and upon similarities to the gold standard. The viewpoint of proponents in this country is that the plan has the advantage of a gold basis but avoids the disadvantages of the former gold standard. Still another American viewpoint is that of advocates of a return to an international gold standard, who regard the Bretton Woods plan as much too flexible and who think that more obstacles to changes in exchange rates should be set up, once the values of currencies have been determined.

The American viewpoint with respect to similarities to and differences from the gold standard, which has official sanction, is presented in the *Federal Reserve Bulletin* as follows:<sup>a</sup>

A question arises about the similarities and the differences between the functioning of the proposed International Monetary Fund and the functioning of the gold standard.

The fundamental forces at work would be the same under both systems. Under the gold standard, as under the Fund, each country ultimately must find means of paying for its foreign purchases by the sale of its goods and services. Under both arrangements temporary deficits can be met by gold shipments and by credit, and under neither of the arrangements can these methods offer permanent solutions.

The Fund proposes to re-establish international currencies on a gold basis, but to eliminate or moderate the disturbing rigidities which characterized the gold standard. One important difference between the gold standard world and one visualized under the International Monetary Fund is that such adjustments as might have to be made in exchange rates are intended to be orderly, systematic, noncompetitive, and to be taken in the light of full information and consultation with an impartial body. They should not involve a breakdown of established machinery as they did under the gold standard.

Another important difference is that such borrowing of short-term funds as was done under the gold standard was entirely uncontrolled and consequently subject to uncertain conditions prevailing in the short-term money market, while under the Fund there would be facilities available for obtaining the use of foreign

<sup>a</sup> *Federal Reserve Bulletin*, September 1944, p. 851.

currencies on reasonable and equal terms for all countries, regardless of pressures that might exist in money markets.

The result of these differences is that under the International Monetary Fund the violent domestic adjustments at times required by the gold standard would be avoided both because the Fund would enable a country to tide over a bad situation and would exert its influence to cause proper adjustments to be made and because a change of exchange rates would be permitted when it became necessary.

**Exchange Restrictions:** A possible inconsistency in the monetary stabilization plan is found in the authority given to member nations to continue exchange restrictions in effect for a considerable period of time. Just as the extreme flexibility in the changing of exchange rates might defeat the purpose of stability, so this special privilege, in the view of some authorities, might tend to prevent the attainment of another of the declared objectives.

One of the stated purposes is "to assist in the establishment of a multilateral system of payments in respect to current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade." Members, as a general rule, would be prohibited from imposing restrictions on the making of payments and transfers for current international transactions without the approval of the Fund.

Despite the declared objective and the general prohibition, members would be allowed in the postwar transitional period to "maintain and adapt to changing circumstances (and, in the case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions."

It is stipulated that members, however, shall have continuous regard in their foreign exchange policies to the purposes of the Fund and "as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the maintenance of exchange stability."

While member nations would be expected to withdraw their restrictions on exchange as soon as possible, there is recognition of the likelihood that this would not be done by some nations for a number of years. It is provided that not later than three years after the Fund begins operations and in each year thereafter the Fund should report on the restrictions still in force. Five years after the Fund begins operations and in each year thereafter any member retaining any restrictions inconsistent with its

purposes would be required to consult with the Fund as to their further retention. The Fund might, in exceptional circumstances, make representations to a member with respect to the withdrawal of restrictions.

Besides the obligation to avoid restrictions on current transactions, members would be expected not to engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund. Here, also, members would be allowed to continue their previous practices for a period. They would be required to consult with the Fund as to their progressive removal.

Payments for current transactions are defined as those which are not for the purpose of transferring capital and may include payments due in connection with trade, service, and normal short-term banking and credit activities, payments of interest on loans and of net income from other investments, payments in moderate amounts for amortization of loans or for depreciation of direct investments, and moderate remittances for family living expenses.

**Use of Resources of Fund:** Resources of the Fund are intended for use of members in maintaining a balance in current international transactions. Members would not be allowed to draw upon the Fund to meet large or sustained outflows of capital or to provide for facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

The specific exclusion of international indebtedness arising out of the war, notably the blocked sterling balances resulting from extensive war expenditures of the United Kingdom in British colonies and elsewhere, makes it obvious that too much should not be expected of the Fund. The elimination of provisions of the White plan for absorption of a limited amount of blocked balances was a recognition of the danger of overloading the Fund. The British joined with the United States in obtaining the defeat of proposals by the Indian delegation at Bretton Woods, which would have given the Fund some measure of responsibility in connection with the blocked balances. This problem would have to be dealt with outside the Fund.

The Fund would not be concerned with specific transactions in international trade. Ordinary transactions in exchange by nationals of member countries would continue to be effected through the usual channels. When a country's adverse trade bal-

ance with another country was reflected in a shortage of the latter country's currency, the private traders through their banks or other media would turn to central banking or other government agencies which would obtain the needed foreign exchange from the Fund. Through adequate supplies of foreign exchange thus made available, the authorities would hope to prevent market fluctuations in exchange rates.

A member nation would be allowed to deal with the Fund only through its Treasury, central bank, stabilization fund, or other similar fiscal agency.

**Capital Movements:** Abnormal movements of capital in the years prior to the present war were a major cause of instability of currencies.<sup>10</sup> The Articles of Agreement for the Fund recognize the desirability of the control of international movements of capital.

Members would be authorized to exercise such controls as were necessary to regulate movements of capital, but no member could do so in a manner which would restrict payments for current transactions or unduly delay transfers of funds in settlement of commitments. Exceptions to this prohibition would be permitted in connection with controls over scarce currencies and controls which members would be allowed to maintain temporarily during the transition period.

As a means of avoiding the use of the Fund's resources to meet a large or sustained outflow of capital, the Fund would have authority to request a member to exercise controls. If the member failed to comply with the request, the Fund could declare the member ineligible to make further use of its resources.

Nothing in the regulations for the use of resources of the Fund would be deemed to prevent their use for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business, or to affect capital movements met out of a member's own resources of gold and foreign exchange.

**Purchases of Foreign Exchange:** While the Fund would be essentially a means of providing credit to nations desiring to buy more from other countries than could be paid for with current exports of goods and services, the transactions would be desig-

<sup>10</sup> See Pamphlet No. 1 in this series, p. 23.

nated as purchases of rather than the borrowing of foreign exchange. Devices designed to encourage the repurchase by member nations of their own currencies, which would be used in obtaining credit from the Fund, are evidence of the real character of the transaction. The proposed procedure tends to raise questions as to whether the Fund's resources would be used only for short-term credits or whether actually credits would be for indefinite periods and for purposes usually associated with long-term advances.

The loan characteristics of purchases of foreign exchange are recognized in the *Federal Reserve Bulletin*, which says:<sup>11</sup>

In the Fund, a country's currency is an obligation of that country, a claim on its resources. It is important to an understanding of the Fund's operations to recognize that a country's currency, as such, is good only in the issuing country, and that when it acquires foreign currencies from the Fund and pays for them in its own currency, it, in effect, borrows these foreign currencies and gives the Fund, in exchange, demand obligations which constitute a claim on its goods and services. Currencies are obtained from the Fund only for immediate use in making payments in other countries, whereas currencies paid into the Fund in exchange are claims held by the Fund for use when and if a demand for them develops. The transaction has elements of a loan by the Fund to the country which purchases exchange from it, notwithstanding the fact that the currency paid into the Fund for the foreign exchange is money in its own country. This is the explanation of the fact that throughout the Fund Agreement a country's use of the Fund's resources at a given time is measured by the amount of its currency in the Fund's possession in excess of its original contribution.

The limit of a member nation's purchases of foreign exchange from the Fund with its own currency would be reached when the Fund's holdings of the currency amounted to 200 per cent of the nation's quota. A member might not increase the Fund's holdings of its currency by more than one-fourth of the quota in any year, unless the Fund's holdings had previously dropped below 75 per cent of the quota. If a member contributed 25 per cent of its original quota in gold, the 200 per cent limitation would mean that it could actually buy foreign exchange to the amount of 125 per cent of its quota, which when added to its original payment of 75 per cent of the quota in currency would bring the total held by the Fund to twice the quota. In other

<sup>11</sup> *Federal Reserve Bulletin*, September 1944, p. 856.

words, its borrowing power in the form of purchases of foreign exchange would be equal to its quota plus an amount equal to its gold contribution, the latter in the case of most nations being less than 25 per cent of the quota. If the gold contribution were 25 per cent, it would take five years for a nation to exhaust its credit. Purchase of additional foreign exchange would be possible to such extent as payment was made in gold or the Fund's holdings of a nation's currency were reduced by repurchases. Nations would be encouraged to purchase foreign exchange from the Fund with gold instead of currency.

**Repurchase of Currencies:** Two provisions are designed to force a nation to repurchase its currency from the Fund. One would require a nation whose holdings of monetary reserves in the form of gold and convertible currencies were in excess of its quota to draw upon these reserves for the repurchase of a stated part of the increase during a year of the Fund's holdings of its currency. The other repurchase provision is intended to limit the use of one currency for financing adverse balances of payments between two other countries. Under this limitation members would be required to use excess gold and other currencies acquired in such transactions for the repurchase of their own currencies.

Another device intended to encourage the repurchase of a nation's own currency from the Fund is a system of graduated charges payable in gold on the Fund's holdings of the nation's currency in excess of its quota. In effect these charges would be interest payments, which further emphasizes the loan character of purchases of exchange. The charges vary with the amount of the currency and the length of time it is held by the Fund. These charges, which reach 5 per cent at varying intervals between five and ten years for different percentages of excess holdings, would be in addition to a uniform service charge of three-fourths of 1 per cent on all purchases of foreign exchange.

Unless conditions were very favorable with respect to a nation's monetary reserves, repurchase provisions would not be effective. Whether the charges would be sufficient to be a deterrent to the use of the Fund is questionable.

**Possible Abuses of Purchase Privilege:** A major criticism of the plan is based on the likelihood that member nations would consider themselves entitled to make purchases of foreign ex-

change without subjecting their fiscal position to careful scrutiny by the Fund.

Purchases could be made upon representation by a member nation that a currency was needed for payments consistent with the provisions of the agreement. Under the language of the provision, the Fund might accept the statement of the member with little or no investigation. There is, however, a clause which allows the Fund to postpone exchange transactions with any member if the circumstances are such as to lead to the use of resources of the Fund in a manner contrary to the purposes of the agreement or prejudicial to the Fund or the members.

Wide differences of opinion as to the soundness of the financial and economic policies of the various nations would be certain to arise. Without strict supervision, nations might use the resources of the Fund when their condition did not warrant it.

Nations might be more likely to seek credit than if they were forced to make a showing of their needs.

The danger of abuse of privileges might be enhanced by reason of the fixing of some of the quotas on the basis of political or military factors rather than economic importance.

Abuses also might occur under a provision authorizing the Fund in its discretion to waive any of the limitations on purchases of foreign exchange. There are also provisions for suspension of various regulations for periods of 120 days in times of emergency.

The Fund might feel bound to pursue a rather liberal policy in waiving limitations. The Articles of Agreement specifically authorize liberal treatment if a member has a record of avoiding large or continuous use of the Fund's resources. The Fund would take into consideration periodic or exceptional requirements of the member requesting a waiver. Furthermore, the Fund would take into consideration a member's willingness to pledge as collateral security, gold, silver, securities, or other acceptable assets having a value sufficient in its opinion to protect its interests. The Fund might require the pledge of such collateral security as a condition of the waiver. This clause of the agreement might open the door to excess purchases of foreign exchange by silver using nations.<sup>12</sup>

With debtor nations in a position to control the policies of the Fund, it might reasonably be assumed that the general attitude

<sup>12</sup> The Mexican delegation sought unsuccessfully to obtain approval of a program for additional credit facilities to countries whose people hoard silver coins. It was contended that these countries are forced to melt silver coins and sell them as bullion each time their balance of payments becomes unfavorable and that they need additional foreign exchange to support the parity of their currencies.

would be more liberal than if creditor nations supplying the bulk of the resources were dominant.

**Scarce Currencies:** One of the greatest uncertainties in connection with the operations of the Fund has to do with the probability of a scarcity of dollars, the currency which would be in greatest demand.

If the Fund found that a general scarcity of a particular currency were developing, it might so inform members and issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end.

The Fund might replenish its holdings of the scarce currency either by borrowing the currency or buying it with gold. The member nation whose currency was scarce, presumably the United States, might at its discretion loan a supply to the Fund or approve a loan by another nation. The Fund would have the authority to require a member to sell its currency for gold.

If the United States should finance a loan of dollars to the Fund by borrowing through the banking system it would have inflationary tendencies in this country, as could the receipt of gold in payment for currency.

If conditions were such as to threaten the Fund's ability to meet demands for a currency, the Fund might declare the currency scarce and thereafter apportion such supply as was available. Under such conditions, the member country whose currency was scarce would be authorized to impose exchange controls.

Inasmuch as the scarcity of a currency would be due to a persistent demand for the goods and services of a country in excess of that country's purchases from other countries, the difficulty would continue until a balance was established between exports and imports. To attain such a condition, the Fund would bring pressure upon the country whose currency became scarce to lower its tariff duties and otherwise encourage imports.

The United States under such circumstances would be faced with the alternative of adjusting its policies or withdrawing from the Fund. In the one event, domestic industries might be affected adversely. In the other, the Fund would be destroyed, as it could not exist long without the United States.

As a scarcity occurred in dollar holdings of the Fund, its holdings of other currencies for which there was little demand also would offer a problem. The possibilities in these directions emphasize the point that the Fund would be successful only in the

event of other favorable factors, including the adoption of commercial policies consistent with an expansion of world trade and avoidance of unsound domestic practices.

An unduly liberal policy, in the light of conditions likely to exist, inevitably would result in the collapse of the Fund.

**Probable Largest Users of Fund:** The United Kingdom, with the largest quota next to that of the United States, presumably would be the largest purchaser of foreign exchange from the Fund. Solution of the British postwar financial problem is a prerequisite to any stabilization of currencies. The United Kingdom will need dollars to pay for necessary food and raw materials. Its export industries are at a low ebb as a result of war conditions. The liquidation of a portion of British foreign investments has greatly impaired a source of revenue which formerly was very important in providing means for payments for imports. Shipping revenues, which also were important for this purpose, will decline because of American competition. It is estimated that these changed conditions may necessitate an expansion of British export trade by as much as 50 per cent above the prewar level, if international payments are to be balanced.

The United Kingdom would be able to obtain dollars from the Fund to a total of \$1.3 billion, its quota, plus the amount of its gold contribution. It could obtain in any year only 25 per cent of its quota or \$325 million. This sum falls considerably short of the amount by which imports of goods and services may exceed exports. The problem of the British in financing its imports would remain difficult unless other assistance were provided, such as through a continuance of the Lend-Lease device after the war.

In the view of those who are skeptical of the possibilities under the Fund, a better method would be for the United States to furnish Great Britain a substantial credit in connection with an agreement upon an exchange rate between the dollar and the pound and thereafter attempt to stabilize other currencies through the "key-countries" approach.

Russia with a quota of \$1.2 billion could obtain \$300 million a year from the Fund. China with a quota of \$550 million could obtain \$137.5 million annually. In the light of quotas considerably greater for these two nations than their position in world trade would appear to justify, there might be a serious question as to the ultimate balancing of their purchases from the United States

by sales to this country. In three years the United Kingdom, Russia and China might obtain dollars from the Fund in a total greater than the original currency portion of the subscription of the United States.

Many of the countries which will desire to import capital goods and raw materials for reconstruction and development would be handicapped by the smallness of their quotas. Belgium, for example, had a volume of foreign trade more than twice as great as that of Russia in 1938 yet its quota in the Fund is only about one-sixth as large. France, Netherlands, Canada, and India all had a more extensive foreign trade than either Russia or China before the war but rate below them in quotas in the Fund. In the case of some of these countries, credits might be more certain to provide the foundation for permanent two-way trade than the amounts available to nations with larger quotas.

## VI. Operations of the Bank

**General Policies:** Prior to the Bretton Woods Conference it was expected that there would be greater opposition in this country to a world bank for long-term credits than to a currency stabilization fund. The opposite has proved true. The reason may be found in the policies which were written into the Articles of Agreement for an International Bank for Reconstruction and Development. These policies are conservative from a banking standpoint. The objective would be to further the flow of private funds into international investment channels rather than to preempt the field for governmental credit.

The total loans and guarantees by the Bank would not exceed an amount equal to the total subscribed capital, surplus and reserves. The original plan had contemplated loans and guarantees several times greater than the amount of capital funds.

The relatively small amount of the Bank's capital which could be devoted to direct loans and the much greater part reserved to meet losses from guarantees or on borrowed funds are indications of the emphasis placed upon assistance to private enterprise and avoidance of unnecessary governmental activity in this field.

The expectation would be that the Bank would set the general pattern of interest rates and other terms for international loans and that by reason of its readiness to supply funds or guarantee loans the conditions applicable to the use of private funds would

be kept on a reasonable basis. There would be less likelihood of abuses such as occurred in the loans on which there were defaults in the Twenties.

Member countries would be jointly and severally liable on guarantees, each country's liability being limited to the amount of its subscription. The spreading of the liability over all the nations with membership in the Bank was viewed at Bretton Woods as giving assurance of a cautious policy and also as creating a situation whereby borrowers would be more determined to avoid default.

**Loans and Guarantees:** The Bank might guarantee, participate in, or make loans to any member or any political subdivision thereof and any business, industrial, and agricultural enterprise in the territories of a member. All dealings with the Bank would be through a member nation's Treasury, central bank, stabilization fund or other similar fiscal agency. A private borrower would not be able to go direct to the Bank. Loans other than to a government would require a guarantee by a government or governmental agency.

A loan would be made or a guarantee approved only for the purpose of a specific project of reconstruction or development and only after a competent committee had made a careful study of its merits and had submitted a favorable recommendation in a written report.

Arrangements would be made to ensure that the proceeds of the loan were used only for the purposes for which it was granted, with due attention to considerations of economy and efficiency and without regard to political or other noneconomic influences.

The Bank would not participate in a project unless it were satisfied that the rate of interest and other charges were reasonable and that such rate, charges and the schedule of repayment of principal were appropriate.

In making or guaranteeing a loan, the Bank would give due regard to the prospects that the borrower or guarantor would be in a position to meet their obligations. The Bank would be expected to act prudently in the interests of the particular member in whose territories the project was located and of the members as a whole.

The resources and facilities of the Bank would be used exclusively for the benefit of members and with equitable consideration to projects for both development and reconstruction. Special

regard would be given to lightening the financial burden of members in war-devastated areas and to expediting the completion of projects for restoration and reconstruction.

The Bank could not require that funds be spent in any particular country. A direct loan from the Bank, however, could be used in a particular country only if the Bank were able to furnish the amount in the currency of that country. Gold held by the Bank could be used to buy a needed currency.

**Direct Loans:** The Bank might make direct loans from its own funds, representing the 20 per cent of capital subscriptions subject to call for this purpose, one-tenth of which 20 per cent would be in gold or United States dollars. Direct loans also would be possible from borrowed funds, in which event there would be a proportionate reduction in the possible amount of guaranteed loans. Consent of a member country would be necessary for the borrowing of funds in its markets. This would form an important safeguard.

The Bank would fix the interest rate, amortization provisions, maturity and the commission to be charged on each direct loan. The charges and the schedule of repayment would be reasonable and appropriate to the particular project. The rate of commission on direct loans from borrowed funds would be between 1 and 1½ per cent per annum for the first 10 years of the Bank's operation, after which a reduction might be made on outstanding loans and either a reduction or increase on new loans. The total cost to the borrower would be similar to what he would pay on a guaranteed loan.

The Bank would have authority to relax the conditions of payment in a time of exchange stringency.

Member countries would be consulted on loans in their currencies, which in effect would enable them to pass upon projects to be financed with these currencies. The Bank would be free to loan the gold portion of subscriptions without the approval of the member. Payments of interest and principal would be in the same currencies in which loans were furnished and in the case of these repayments members would have a voice in the further use of their own currencies. The Bank might use any currencies in its possession to meet losses only if the 80 per cent of capital subscriptions reserved for that purpose were inadequate.

The Bank normally would lend foreign currencies only for use outside the borders of the borrower, who would be expected

except in unusual circumstances to raise funds otherwise for local expenditures. The borrower would not be permitted to acquire currencies from the Bank in order to sell them in the exchange markets for other currencies. If a borrower wished currencies to finance purchases in other countries the exchange would be made by the Bank. China, for example, might obtain a loan in sterling to finance the purchase of electrical machinery in the United Kingdom but the British manufacturer might need dollars or Chilean pesos with which to buy copper. These currencies could be furnished by the Bank as part of the transaction.

**Guarantees of Loans:** The Bank would not guarantee loans by private investors without the approval of the member in whose markets the funds were raised and the member in whose currency the loan was denominated. After such approval borrowed funds could be exchanged for other member currencies without restriction, and used to finance purchases in any member country.

Besides guaranteeing private loans, the Bank might guarantee securities acquired through participation in a loan with private interests. Such securities would be sold when feasible, thus making the funds available for other loans.

The Bank would receive compensation for its risks in making guarantees of loans. For the first ten years of the operation of the Bank the commission for guarantees would be between 1 and 1½ per cent per annum and would be payable on amounts outstanding. Terms would be similar to those on direct loans from borrowed funds.

By means of guaranteed loans, as well as through direct loans from its own resources and from borrowed funds, the Bank would be expected to help in the restoration of economies affected adversely by the war, in the reconversion of productive facilities from war to peacetime use, and in the industrialization and development in areas outside the path of the war.

**Nations Likely to Borrow from Bank:** Nations in Europe and Asia which have been devastated by the war and will require extensive reconstruction would be expected to borrow from the Bank. Such Latin American nations as have been backward in the development of their resources also would be probable borrowers. Possible aggregate loans and guarantees are estimated at a minimum of \$1 billion and a maximum of \$2 billion annually.<sup>18</sup>

<sup>18</sup> *Survey of Current Business*, Department of Commerce, November 1944, p. 13.

Such countries as the United States and Canada would not be likely to use the facilities of the Bank. The United Kingdom also might not borrow. Its delegation at Bretton Woods supported the Bank chiefly because of a desire to provide assistance for allied nations on the European continent. British influence was credited with being in part responsible for the limitation of loans and guarantees to 100 per cent of the unimpaired subscribed capital, reserves and surplus.

An example of a possible loan or guarantee is provided in a suggestion that Poland might ask assistance in the building of power plants in connection with the development of resources in that country. Without the Bank's guarantee, Poland might not be able to secure the necessary credit and without a foreign loan might be unable to pay for imports needed in the project.

The cost of the Polish project might be \$50 million, of which \$25 million would be secured at home to pay for domestic labor and supplies. The other \$25 million would be spent in other countries for machinery and other capital goods. The Bank might either make a loan of \$25 million for expenditure in the United States or it might guarantee a loan by American bankers. If the project were found of sufficient merit to justify a guarantee by the Bank, private investors probably would be willing to supply the funds at a reasonable interest rate.

A flow of American capital to other countries for carefully considered long-term investments is viewed as highly desirable for the postwar period. If the management of the Bank complied strictly with the principles set forth in the Articles of Agreement the activities of the institution would tend to promote a maximum of private lending through normal channels. Competition between the public agency and private investment firms and banks would be avoided. Such direct loans as were made would be for projects for which private capital would not be available.

## VII. Relation of Fund and Bank to Other International Agencies and Policies

**Dumbarton Oaks Program:** The International Monetary Fund and the International Bank for Reconstruction and Development would form part of an extensive program of economic collaboration in the international sphere.

The Articles of Agreement for each institution contain a clause stating that it "shall cooperate within the terms of this agreement with any general international organization and with public international organizations having specialized responsibilities in related fields." Provision is made for amendments to the agreements which might be necessary in connection with a plan for cooperation with other organizations.

The Dumbarton Oaks plan for a general international organization for the maintenance of peace and security provides for an Economic and Social Council which would be a coordinating agency for various economic, social and humanitarian groups, including the International Monetary Fund, the International Bank for Reconstruction and Development, the International Labor Organization, the United Nations Food and Agriculture Organization and other proposed organizations.

The Economic and Social Council would consist of representatives of eighteen members of the general international organization. The eighteen nations would be selected for three year periods by its General Assembly. The Council would have authority to make recommendations with respect to international economic, social and other humanitarian matters, to receive and consider reports from the various organizations or agencies brought into relationship with the general international organization, and to coordinate their activities through consultations with, and recommendations to them.

Each such organization or agency would be brought into relationship with the general international organization on terms to be determined by agreement between the Economic and Social Council and the appropriate authorities of the specialized organization or agency, subject to approval of the General Assembly.

**Resolution on Economic Problems:** The necessity for the adoption of proper policies on a broad range of related subjects was recognized at Bretton Woods. The Final Act of the Conference contains a resolution on international economic problems which was adopted at the instance of Commission III.

The text of this resolution follows:

Whereas, in Article I of the Articles of Agreement of the International Monetary Fund it is stated that one of the principal purposes of the Fund is to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and

real income and to the development of the productive resources of all members as primary objectives of economic policy;

Whereas, it is recognized that the complete attainment of this and other purposes and objectives stated in the agreement cannot be achieved through the instrumentality of the Fund alone; therefore

The United Nations Monetary and Financial Conference recommends to the participating governments that, in addition to implementing the specific monetary and financial measures which were the subject of this conference, they seek, with a view to creating in the field of international economic relations conditions necessary for the attainment of the purposes of the Fund and of the broader primary objectives of economic policy, to reach agreement as soon as possible on ways and means whereby they may best:

(1) reduce obstacles to international trade and in other ways promote mutually advantageous international commercial relations;

(2) bring about the orderly marketing of staple commodities at prices fair to the producer and consumer alike;

(3) deal with the special problems of international concern which will arise from the cessation of production for war purposes, and

(4) facilitate by cooperative effort the harmonization of national policies of member states designed to promote and maintain high levels of employment and progressively rising standards of living.

**Trade Barriers:** As emphasized in the above resolution of the Bretton Woods Conference, the effectiveness of the International Monetary Fund would hinge upon the degree of success attained toward the elimination of trade barriers and the establishment of a broad basis for international economic collaboration.

Principles to which the nations are committed in the Atlantic Charter and in the Lend-Lease agreements are pertinent to this situation.

Articles IV and V of the Atlantic Charter, subscribed to by President Roosevelt and Prime Minister Churchill on August 12, 1941, contain declarations relating to economic collaboration among the nations. Article IV includes a pledge "to further the enjoyment by all states, great or small, victor or vanquished, of access on equal terms to trade and to the raw materials of the world, which are needed for their economic prosperity." In Article V is a declaration for "the fullest collaboration between all nations in the economic field with the object of securing, for all, improved labor standards, economic advancement, and social security."

The mutual aid agreements signed in connection with the Lend-Lease program provide a method of approach to the working out of a common economic program by the nations.

Article VII of the United States-British agreement, signed February 23, 1942, and of similar agreements with other nations asserts that in the final determination of the benefits under the Lend-Lease program the terms and conditions shall be such as not to burden commerce between the countries but to promote mutually advantageous economic relations. To that end it is stated that the terms of settlement shall include provisions for agreed action through appropriate international and domestic measures for the expansion of production, employment and the exchange and consumption of goods, the elimination of discriminatory treatment in international commerce, the reduction of tariffs and other trade barriers, and the attainment of the economic objectives of the Atlantic Charter. It is provided that at an early convenient date conversations shall be commenced between the United States and the various other signers of the agreements on the best means of attainment of the objectives.

An international economic conference, scheduled to be held at the invitation of the United States during 1945, would have as its objectives the elimination of all forms of discriminatory treatment in international commerce, abolition of exchange restrictions on commercial transactions, the progressive elimination of quotas, embargoes and prohibitions against exports and imports, a reduction of import tariffs, establishment of fair rules of trade with special reference to government monopolies, cartels, and transactions between countries with different types of government, and creation of an international trade organization to study the problems and recommend practical solutions.<sup>14</sup>

The Bretton Woods Conference did not come to grips with the tariff issue. However, a basic premise in the plan for the Fund was that a reduction in tariffs by the United States would be necessary to avoid a continuous scarcity of dollars among nations desiring to buy from this country. Inasmuch as the resources of the Fund would be intended only for temporary relief for countries with adverse trade balances, inability of these countries ultimately to balance their imports with exports would be fatal to the institution.

<sup>14</sup> Dean Acheson, Assistant Secretary of State, outlined this program in testimony before the House Committee on Postwar Economic Policy and Planning on November 30, 1944.

Whether the United States is willing to subordinate domestic factors which have figured in the determination of its tariff policy to international considerations is a pertinent question in connection with action by Congress on the proposal for an International Monetary Fund.

### VIII. Official and Other Favorable Comments on Fund and Bank

STRONG SUPPORT of the Bretton Woods program for a Monetary Fund and an International Bank has come from officials in various branches of the government and from American delegates to the Conference and others.

**President Roosevelt:** Approval of the Bretton Woods agreements was urged by President Roosevelt in his annual budget message to Congress on January 9, 1945,<sup>15</sup> and in a special message (while this pamphlet was on the press) on February 12.

The President in his budget message said:

Last July the United Nations Monetary and Financial Conference formulated Articles of Agreement for the establishment of an International Monetary Fund and an International Bank for Reconstruction and Development. These institutions will be integral parts of a broad program for cooperation among the United Nations in those areas of economic contact where failure to adopt common policies will result in economic "spite fences," economic waste, and economic warfare.

A concrete program for international monetary and financial cooperation at an early date is essential. In the first place, all countries agree that a solution must be found for the evils that stem from the unstable and destructive exchange practices which the Fund is designed to eliminate. Second, the need for international investment is already becoming acute. The liberated countries will require loans for the reconstruction of their industry, their transport, their cities, their agriculture, and their trade. The International Bank will make direct long-term loans out of its capital or from borrowed funds, and particularly will guarantee private loans for these purposes. While the proceeds of these loans will be spent to procure equipment in the countries where it is available, the risks of lending will be spread equitably among all member countries.

It is therefore imperative that both the Fund and the Bank be established at once in order that they may be properly staffed and equipped to cope with problems which are already developing

as the countries in Europe are liberated. Accordingly, I urge acceptance of the agreements and recommend the enactment of legislation which will permit the United States to make its proportionate investment in the Fund and the Bank.

The President also recommended expansion of the lending power of the Export-Import Bank for the purpose of providing short- and medium-term credits to exporters. He advocated repeal of laws restricting foreign investments.

President Roosevelt concluded his special message, a 2,000-word document, as follows:

The point in history at which we stand is full of promise and of danger. The world will either move toward unity and widely shared prosperity or it will move apart into necessarily competing economic blocs. We have a chance, we citizens of the United States, to use our influence in favor of a more united and cooperating world. Whether we do so will determine, as far as it is in our power, the kind of lives our grandchildren can live.

**Secretary Morgenthau:** Secretary of the Treasury Morgenthau, head of the American delegation and chairman of the Bretton Woods Conference, described the program as representing "the initial steps through which the nations of the world will be able to help one another in economic development to their mutual advantage and for the enrichment of all."<sup>16</sup> Continuing, he said:

The representatives of the 44 nations faced differences of opinion frankly, and reached an agreement which is rooted in genuine understanding. . . .

What are the fundamental conditions under which commerce among the nations can once more flourish?

First, there must be a reasonably stable standard of international exchange to which all countries can adhere without sacrificing the freedom of action necessary to meet their internal economic problems. . . .

Second, long-term financial aid must be made available at reasonable rates to those countries whose industry and agriculture have been destroyed by the ruthless torch of an invader or by the heroic scorched-earth policy of their defenders.

Long-term funds must be made available also to promote sound industry and increase industrial and agricultural production in nations whose economic potentialities have not yet been developed. They must be enabled to produce and to sell if they are to be able to purchase and consume. The Bank for International Reconstruction and Development is designed to meet this need.

<sup>15</sup> Address at closing plenary session of the United Nations Monetary and Financial Conference, July 22, 1944.

<sup>16</sup> Budget for fiscal year 1946, p. xxi.

Objections to this Bank have been raised by some bankers and a few economists. The institutions proposed by the Bretton Woods Conference would indeed limit the control which certain private banks have in the past exercised over international finance. It would by no means restrict the investment sphere in which bankers could engage. On the contrary, it would greatly expand this sphere by enlarging the volume of international investment and would act as an enormously effective stabilizer and guarantor of loans which they might make.

The chief purpose of the Bank for International Reconstruction and Development is to guarantee private loans made through the usual investment channels. It would make loans only when these could not be floated through the normal channels at reasonable rates. The effect would be to provide capital for those who need it at lower interest rates than in the past and to drive only the usurious money lenders from the temple of international finance. . . .

This monetary agreement is but one step, of course, in the broad program of international action necessary for the shaping of a free future. But it is an indispensable step and a vital test of our intentions. We are at a crossroads, and we must go one way or the other. The Conference at Bretton Woods has erected a signpost—a signpost pointing down a highway broad enough for all men to walk in step and side by side. If they will set out together, there is nothing on earth that need stop them.

Secretary Morgenthau argued for approval of the Fund and Bank in an article on “Bretton Woods and International Cooperation,” published as the Seventy-ninth Congress, which will pass upon the proposals, convened.<sup>17</sup> He said:

The fate of the Treaty of Versailles adds to the significance of the course we adopt on the Bretton Woods proposals. As the President has pointed out, the Allied leaders are acquainted with our constitutional processes as they affect our dealings with foreign powers.

**If there are any Americans who would utilize the division of powers to defeat the ends sought by the vast majority of Americans, they are not likely to succeed if the issues are clearly and unambiguously presented to the Congress and the people.**

We must always keep in mind that other nations are anxiously asking whether the United States has the desire and ability to cooperate effectively in establishing world peace. If we fail to ratify the Bretton Woods agreements, they will be convinced that the American people either do not desire to cooperate or that they do not know how to achieve cooperation. They would then have little alternative but to seek a solution for their pressing political and economic problems on the old familiar lines, lines which will inexorably involve playing the old game of power

politics with even greater intensity than before because the problems with which they will be confronted will be so much more acute. And power politics would be disastrous to prosperity as to peace.

In opposing the “key-countries” approach to monetary stabilization advocated by critics of the Bretton Woods program, Secretary Morgenthau said:<sup>18</sup>

The Bretton Woods Conference had to succeed because there is no other method of dealing with international monetary and financial problems than through international cooperation. There is no satisfactory alternative. There has been a suggestion that these were questions that could be solved by the United States and England, perhaps with the aid in later years of a few so-called key countries. But this approach takes no account of the realities of the postwar situation. The establishment of an exclusive Anglo-American condominium would not be the appropriate means of dealing with international monetary problems. . . .

I doubt that the 42 other United and Associated Nations, who have been fighting and working with us during the war, would take kindly to what might be regarded as dictatorship of the world's finances by two countries.

Secretary Morgenthau in participating in a radio program sponsored by the Congress of Industrial Organizations on January 27, 1945, said:

There is nothing remote about the Bretton Woods proposals. They involve your bread and butter. They are an essential part of the President's program for the attainment of 60 million jobs here in the United States. We cannot reach such a level of employment at home unless there is a lifting of living standards abroad and a revival of international trade.

The International Monetary Fund is simply a device to make it possible for workers in all parts of the world to exchange the goods they produce on a stable basis and in an orderly way. It would free the flow of commerce from artificial currency barriers. It would substitute economic cooperation for economic warfare among the nations of the earth.

The International Bank, on the other hand, is intended to give economic help to the people of war-torn lands. Only with such help will they be able to buy what we produce. The only good customers are prosperous customers.

**Harry D. White:** Assistant Secretary of the Treasury White, in a discussion in the same issue of *Foreign Affairs* in which Secretary Morgenthau's article appeared, replied to criticisms of the Fund. He asserted that no economic measure ever had received

<sup>17</sup> *Foreign Affairs*, January 1945, p. 184.

<sup>18</sup> *Ibid.*, p. 191.

the careful consideration, extensive discussion and painstaking labor that went into the formulation of this proposal. He declared that the Fund would provide greater assurance of exchange stability than would be possible under the gold standard. He denied that adequate safeguards were lacking. He ridiculed the "key-countries" approach. He said no one disagreed with the contention that additional measures would be necessary to supplement the activities of the Fund and the Bank.

Taking exception to the suggestion that only the Bank receive approval, Mr. White said:<sup>19</sup>

Quite recently, the suggestion has been made that the Fund be dropped and that the Bank be authorized to make stabilization loans. There is in this suggestion a basic error—the assumption that the principal purpose of the Fund is to provide additional exchange resources. Primarily, the Fund is the means for establishing and maintaining stability, order and freedom in exchange transactions. The resources of the Fund are only for the purpose of helping countries to adopt and keep such policies. Long-term stabilization loans would defeat this purpose.

We need constant, continued and general cooperation on exchange problems and exchange policies, and this is possible only through the Fund. Both the Fund and the Bank have important but distinct functions in maintaining a high level of international trade and sound international investments. While each would function alone, they supplement and strengthen each other. Together they could make a great contribution to a prosperous world economy.

The world is in desperate danger of reverting to economic isolation after the war, and economic isolation will inevitably breed political isolation. Those who talk of waiting and of bilateral arrangements with one or two countries are in fact proposing that we do nothing, that we allow the world to drift back to the restrictions and disorders of the prewar decade. This is a risk which neither we nor the rest of the world can afford. We have the opportunity to put into effect the fundamental principle which must be the basis for a peaceful and prosperous world, the principle that international problems are an international responsibility to be met only through international cooperation. The Fund and the Bank are concrete applications of this principle in the international currency and investment spheres.

**Department of Commerce Viewpoint:** Department of Commerce publications, in supporting the Bretton Woods program, have stressed the need of parallel action for a reduction of trade barriers. August Maffry, Chief, International Economics and

Statistics Unit, Bureau of Foreign and Domestic Commerce, in an article on "Bretton Woods and Foreign Trade," said:<sup>20</sup>

The proposed International Bank can, within the limits of its resources, help to increase export markets for American products; and the Monetary Fund, by promoting exchange stabilization and by providing short-term accommodations for temporary exchange stringencies, can create conditions favorable to the ultimate abolition of exchange restrictions on trade and the restoration of a multilateral settlement system. While they facilitate solution, they do not in themselves solve the international trade problem and cannot be completely successful even in their own fields unless parallel programs for the direct reduction of trade barriers and the expansion of world commerce are soon adopted. Conversely, the assurance which the Fund and the Bank afford for stability and orderly adjustments in the monetary relations of nations and for substantial international financial support in temporary difficulties should encourage greater readiness on the part of governments for bold action to liberalize conditions of international trading.

However desirable, it is perhaps too much to hope that either the United States or any country would undertake any material reduction of its tariffs or other trade restrictions unless there is assurance of similar and simultaneous reduction of the barriers to the admission of its products into the principal other markets. Moreover, the need for the earliest possible restoration of peacetime production and trade everywhere does not allow the time necessary for carrying through a long series of negotiations between pairs of countries, even if they could be as effective for the purpose.

The only promising approach is through supplementing the agreements reached at Bretton Woods with a similar collective convention for the concurrent substantial reduction of tariffs and other barriers to trade on the part of the largest possible number of countries. A cardinal feature of such a convention is that the participating countries shall move toward the progressive restoration of world commerce to a predominantly open and competitive basis.

Especially if the multilateral convention on postwar commercial policy should be brought into effect at about the same time as the monetary agreements, the more specific provisions which it could embody regarding permitted practices in the application of all the various methods of regulating a country's trade should safeguard against exchange controls being used for unnecessarily restrictive or diversionary purposes. Alert and courageous administration of the monetary and the commercial policy agreements taken together holds out high promise for our revival and expansion of international trade on stable and equitable foundations.

<sup>19</sup> *Ibid.*, p. 209.

<sup>20</sup> *Foreign Commerce Weekly*, October 5, 1944.

**Federal Reserve Viewpoint:** The limitations of the Fund and Bank in the solution of postwar international problems were emphasized in the 20-page summary of the Bretton Woods agreements in the *Federal Reserve Bulletin*, excerpts from which already have been quoted. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, was a delegate to the Bretton Woods Conference and experts of the Board participated in the drafting of the agreements. While the influence of the Board has been exerted in favor of the program, an officer of the Federal Reserve Bank of New York has been a leading spokesman for those preferring a less ambitious scheme.

The article in the *Federal Reserve Bulletin* contained the following:<sup>21</sup>

The International Monetary Fund aims at the restoration of conditions under which transactions arising out of foreign trade could be settled smoothly with the elimination of unnecessary risks and harmful pressures on the economies of participating countries. The Fund is not intended to correct economic maladjustments in the different countries, but to exert an influence on members to undertake corrective action and to afford them time to make such action effective. It proposes to promote exchange stability and to offer facilities for orderly adjustment of exchanges when necessary to the correction of basic maladjustments.

The proposed International Bank for Reconstruction and Development is designed for the purpose of making long-term productive foreign loans to member countries out of its own funds or out of funds borrowed from private investors, and of guaranteeing such loans made through the investment market. All members would share the risks in proportion to their participation. It is intended to assure funds for the reconstruction of devastated countries and for the development of resources in all member countries.

The two institutions would be mutually supplementary. The operations of the Fund would reduce the exchange risks involved in international investment, and the Bank would provide help to countries in developing their economies in such a way as to be able to keep their international payments in balance. They would not and do not aspire to provide all the elements necessary for the re-establishment of sustained international trade and prosperity. In particular, they could not take the place of the development of sound domestic policies nor of the adoption of rational commercial policies shaped in accordance with the position of various countries as creditors or debtors in their international relationships.

<sup>21</sup> *Federal Reserve Bulletin*, September 1944, p. 850.

In addition to what was accomplished at Bretton Woods, much more will have to be done to rehabilitate disruptive tendencies that were operative before the war.

**Edward E. Brown:** The only banker on the American delegation, Edward E. Brown, chairman of the First National Bank of Chicago, has approved the program. In a radio forum in which he participated with Secretary Morgenthau and other delegates, Mr. Brown was asked as to the fear that the Fund would collapse because of a scarcity of dollars.<sup>22</sup> Mr. Brown said:

I don't think there is very much to that. Not all countries in the Fund are going to use its credit facilities. Certainly a great number of countries, such as South America, even countries like France and Holland, which have been invaded, have got large gold and foreign exchange resources, and they are going to use those up first; they are going to keep their ability to borrow from the Fund or have recourse to it as an ace in the hole. And they don't really expect to use it in the near future.

In the first place, a country can draw only 25 per cent of the quota in any one year. In the next place, there are various provisions in the Fund which require a country whose balance of payment position improves and which gets more gold and foreign exchange to pay it back into the Fund. With all those considerations, I don't think the dollars are going to run out if we maintain a proper trade policy.

Asked his view on the Bank, Mr. Brown said:

Well, I am certainly in favor of it, and I think that anything which increases the volume of our export business is bound to increase the profits of banks. It isn't so much the mere handling of foreign exchange, although there will be more of that than before and more of it handled through banks, but a higher level of prosperity in this country means more loans for the banks, more deposits, more transactions, more business, and more profit.

Mr. Brown has offered a comprehensive defense against criticisms of the Fund proposal in an article in *The Journal of Business* of the University of Chicago.<sup>23</sup> In concluding this article, Mr. Brown said:

All the critics of the International Monetary Fund realize that the United States must, in its own interest, help the rest of the world get on its feet after this war is over, either by gifts or by furnishing credit and taking credit risks. No proponent of the Fund believes that it is a panacea, or that it alone will be sufficient to solve the economic problems of the world.

<sup>22</sup> American Forum of the Air, Mutual Broadcasting System, August 22, 1944.

<sup>23</sup> "The International Monetary Fund: A Consideration of Certain Objections," *The Journal of Business*, October 1944.

Some considerable degree of currency stabilization is generally recognized as one of the indispensable things which must be provided for a reconstructed world economy. No other plan has been suggested which involves less risk to the American people than the Fund, even assuming that we shall continue our present high-tariff policy.

Our contribution to the Fund should cost us little or nothing. It is to be hoped that Congress will adopt it. The alternative, unfortunately, is not something better. It is to do nothing, or to try to go ahead with various temporary and bilateral stabilization agreements.

It is probable that if our Congress adopts the Fund all the countries of the world will do likewise and that the use of currency manipulation for national power purposes will be renounced by all the world. It is not too much to hope that its adoption could and would be followed by an international conference looking to the gradual removal of unnatural tariff barriers.

In addressing the Chicago Association of Commerce on January 17, 1945, Mr. Brown said:

If the United States recognizes the fundamental truth that the creditor nation must ultimately accept payment for its exports in goods, using the word "goods" to include services, the Fund should be able to work indefinitely without the dollar becoming scarce. If the United States insists on continuing to export more than it imports, dollars are bound to become scarce and other countries of the world will have to discriminate against American goods no matter how much they may desire them.

It is to be hoped that before the dollars in the Fund become scarce the American people will have come to a greater maturity in their economic thinking and will radically change their present tariff policy.

The two plans represent not weeks but months and years of steady and earnest effort . . . to bring about the result which all the United and Allied Nations desire.

**Mabel Newcomer:** The only woman in the American delegation, Miss Mabel Newcomer, professor at Vassar College, has actively advocated adoption of the program. Miss Newcomer, in opening an address, said:<sup>24</sup>

The Bretton Woods Conference has taken us a long step forward toward the goal set forth in the Atlantic Charter: "to further the enjoyment by all states, on equal terms, of access to the trade and raw materials of the world."

The plans formulated at the Conference for an International Fund and an International Bank are admittedly only one step toward the re-establishment of international trade on a sound

<sup>24</sup> Address before the Association of Bank Women, Chicago, September 23, 1944.

basis, but they are an essential first step—at least in the judgment of the delegates of the 44 nations signing the agreement.

**Pennsylvania Bankers Association:** On the recommendation of a committee of 11, the Council of Administration of the Pennsylvania Bankers Association unanimously approved a report favoring both the Fund and the Bank.<sup>25</sup> It was suggested in the report that the Secretary of State, the Secretary of the Treasury and the Chairman of the Board of Governors of the Federal Reserve System be consulted before the representatives of the United States on the boards of these institutions were selected, that these representatives be appointed by the President with the advice and consent of the Senate, and that an official statement of the obligations of the United States be made if and when the proposed agreements were accepted by this government.

In concluding its report, the committee said:

The committee believes (a) that it is in the interest of the United States to promote international economic collaboration; (b) that agreement upon the principles and objectives underlying cooperation in international finance is necessary; and (c) that these principles and objectives should be expressed in the form of comprehensive plans for dealing with postwar financial problems.

The committee believes that the essence of success of any international plan dealing with exchange rates, long-term lending, or other aspects of postwar problems lies in mutual trust, understanding, and willingness to undertake and carry out obligations by all participating countries. To be effective, any collaboration must be based on good faith.

The committee further believes that the principles and objectives underlying the proposed agreements for the International Monetary Fund and the International Bank for Reconstruction and Development provide a foundation for working out a suitable policy and program to deal with international financial problems after the war. It therefore recommends that Congress give these agreements favorable consideration.

**American Farm Bureau Federation:** Approval of both the Fund and the Bank was given by the American Farm Bureau Federation at its annual meeting.<sup>26</sup> Text of the resolution follows:

The American Farm Bureau Federation favors the participation of the United States in the proposed International Monetary Fund and the proposed International Bank for Reconstruction and Development, as outlined in the Bretton Woods Monetary Conference.

<sup>25</sup> Meeting held at Philadelphia, December 9, 1944.

<sup>26</sup> Annual meeting, Chicago, December 14, 1944.

In adopting these new international institutions, it should be realized that they are not substitutes for sound domestic fiscal policies. Unless sound domestic and foreign trade policies are adopted by the nations of the world, no plan of international monetary stabilization or monetary cooperation will succeed.

The International Monetary Fund and the International Bank should not be used as relief agencies in the postwar period, but should be conducted on a business basis, leaving relief grants to other agencies of government. In adopting this plan, it should be clearly understood that the United States will not provide funds to perpetuate uneconomic trade practices or unsound monetary policies through the operation of the stabilization fund. Foreign trade must be developed upon a basis of the exchange of goods and services among the nations of the world, and not upon the basis of extending credits.

These proposed international institutions should be operated in such a manner as to promote stability in the general level of prices within the various countries of the world.

Since the proposals by necessity leave wide discretionary powers to the administrators of the two institutions, the individuals chosen to operate these institutions must be high type men, representatives of the various segments of our economy, experienced in international affairs, and free from political domination.

**Jacob Viner:** Among economists supporting the Bretton Woods program is Professor Jacob Viner of the University of Chicago. In a symposium on *International Financial Stabilization*, published by the Irving Trust Company, New York City, in December 1944, Professor Viner denied that the resources of the Fund would be unnecessarily large, that the American contribution would be disproportionately large, and that access to the Fund's resources would be made too easy for undeserving members.

In concluding his article, Professor Viner said:

We are to make an investment in the Fund and the Bank not merely in the hope that they will directly and indirectly promote American employment and prosperity by promoting American exports but in the grander hope that with the leadership our dollars confer upon us we may succeed in establishing a postwar pattern of international economic cooperation and collaboration favorable to world prosperity and to world peace. It is largely an American blueprint for the postwar economic world which is in process of being drawn. It seems to me a magnificent blueprint. If it is to be rejected, to be torn into shreds, at least let it not be by American hands.

**Alvin H. Hansen:** Another economist contributing an argument in behalf of the Bretton Woods proposals for the symposium of the Irving Trust Company was Professor Alvin H. Hansen of Harvard University. One of the points on which he took issue with critics was with respect to a possible shortage of dollars under the operation of the Fund.

Professor Hansen said:

The notion that the Fund creates a new hazard with respect to the problem of dollar shortages is mistaken. The Fund does not intensify the problem of general scarcity of dollars. Indeed, it reduces the probability that foreign countries will run out of dollars. It does so by supplying foreigners with additional dollars, by providing an orderly adjustment of exchange rates which would tend to reduce the excess demand for dollars, and by international consultation and agreement on measures to promote international equilibrium.

In general, the fear that dollars in the Fund will become exhausted rests upon a very pessimistic view with respect to the future balance of payment position of the United States. It assumes, in effect, that this problem is insoluble. Before dollars in the Fund would, in fact, become scarce, disequilibrium in the United States' international account would have prevailed on a stupendous scale over many years. Before this point is reached, the member countries, acting both individually and collectively through the Fund, would have demonstrated their utter incapacity to achieve a reasonably moderate degree of international stability.

**Irving Fisher:** Among other economists favorable to the Bretton Woods proposals is Irving Fisher, retired Yale professor and author of books on monetary subjects. Professor Fisher said:<sup>27</sup>

My main comment on the Bretton Woods conference is one of rejoicing that at last an international monetary and economic conference has made a fine record, and of hopefulness that its proposals will be accepted without change by all the signatory nations.

I have no doubt that any economist can find faults. But after all of the painstaking efforts in good faith to work out an acceptable set of plans no possible good service could be served by scrapping the finished product, which would almost inevitably be the result of trying to amend it. . . .

Personally, I find very little which I would take out of either plan. I could name some worthwhile additions. But the time for changes has gone by. The whole question is whether on the whole the plans should be accepted or should be rejected. There can be but one answer.

<sup>27</sup> Letter to editor, *Commercial and Financial Chronicle*, August 11, 1944.

**Foreign Policy Association:** In concluding a 10-page report favorable to the proposals of the Bretton Woods Conference, the Foreign Policy Association said:<sup>28</sup>

If the plans so overwhelmingly approved by the Conference are cast aside, there is apt to be a serious feeling of discouragement. Questions as to the possibility of any comprehensive economic collaboration would then inevitably arise. In fact, all economic conferences in the next few years would be made difficult and uncertain by failure to accept the workmanlike efforts and honest results of international consultation as expressed in the Act of Bretton Woods.

Before passing judgment on the plans, responsible persons will naturally look carefully into the exact nature of the proposals, and bear in mind the consequences of currency depreciation, exchange confusion and spasmodic, unregulated foreign investment.

## IX. Trend of Critical Opinion

WHILE MISGIVINGS as to the Fund have remained in the minds of bankers, business men and economists who were critical of the original White and Keynes plans, the attitude of many of them toward the Bank has become much more favorable as a result of the conservative policies incorporated in the Articles of Agreement for that institution.

**Movement for Single Agency:** As a result of public discussions and studies by various groups, a definite movement has developed for approval of the Bank with sufficient additional powers to enable it to act as a medium for consultation and leadership in monetary stabilization and also to make modest loans for this purpose.

Under such a program, advantage would be taken of the impetus given by the Bretton Woods Conference to cooperative efforts by the nations. The objectives of the Conference would be approved, but without the complicated mechanism contemplated in the Fund. The authority to promote monetary stabilization and foreign investment would be centered in a single international agency, whose activities would be supplemented by credit made available by the Export-Import Bank of the United States and by private lenders in this country and elsewhere.

<sup>28</sup> "Bretton Woods Monetary Conference—Plans and Achievements," *Foreign Policy Reports*, September 1, 1944.

The substitute plan would include the granting of power to obtain from the different countries statistics of international importance, which under the Bretton Woods program would be a function of the Fund.

The Board of Governors of the Bank would be in a position to negotiate stabilization agreements, country by country, as conditions warranted it, with a view to ultimate attainment of a multilateral system of international payments free from exchange restrictions.

The cost to the United States under the unified program would be greatly reduced, its proponents believing that the proposed Bank capital would be sufficient for stabilization loans as well as for long-term credits for reconstruction and development. There would be greater emphasis upon safeguards against loss.

Some bankers and economists continue to hold that neither the Fund nor a Bank to extend long-term credits is essential and that a reorganized Bank for International Settlements or a similar new institution with broadened authority would provide an adequate medium for international consultation and for statistical and research work and also for seasonal stabilization credits. This group, which would prefer that other credits be granted by an agency in which the United States had sole responsibility and by private lenders, is not disposed to offer very pronounced objections to the proposed International Bank in the light of the conservative policies agreed upon. In the opinion of this group, proper commercial policies are more essential than new credit agencies.

**American Bankers Association:** The Economic Policy Commission of the American Bankers Association in September 1943, when the White and Keynes plans were being discussed, issued a report<sup>29</sup> in which four major points were emphasized, as follows: (1) that some international institution, either a reorganized Bank for International Settlements or a substitute, is desirable to help nations in stabilizing their currencies, to provide a meeting place for the discussion of monetary questions, and for temporary seasonal or emergency stabilization credits; (2) that to extend credit before sound economic programs are established would be to invite failure and loss; (3) that the most promising approach is through free collaboration based on mutual advan-

<sup>29</sup> See Pamphlet No. 2 in this series, p. 80, and Pamphlet No. 3, p. 12.

tages and built up by persuasion and friendly relationships rather than by compulsion and broad controls; and (4) that credit should be extended in accordance with proven standards, based on the merits of the individual case, and conditioned on adequate commitments by the debtor. It was asserted that the first requisite for any genuine progress toward stabilization is a stable dollar free of all exchange restrictions and that the second step should be establishment of definite rates between the dollar and the pound sterling, which is the "key-countries" approach.

The association, at its annual meeting in the fall of 1944, deferred taking a definite position on the Bretton Woods proposals, which went far beyond the suggestions of the 1943 report. A further study was authorized to be made by an Advisory Committee on Special Activities, subject to approval by the Administrative Committee.

In its 1944 resolutions, the association reaffirmed the belief that "the integrity and stability of the United States dollar in terms of gold is an essential basis for the re-establishment of money stability and world trade in the postwar period upon which rest the prosperity and contentment of millions of people."

W. Randolph Burgess, vice chairman of the National City Bank of New York, who had been chairman of the Economic Policy Commission at the time of its 1943 report, was elected president of the American Bankers Association at its 1944 meeting. In referring to plans for the Fund and the Bank in his inaugural address, Mr. Burgess said:<sup>80</sup>

The plans are elaborate and complex. It is not clear, particularly in the Monetary Fund, that only good loans are contemplated. . . . It may be that the American Bankers Association after further study will be able to suggest means of simplification of the Bretton Woods proposals or alternative constructive proposals which will make sure that funds which we may provide for world recovery are wisely and prudently used. There is no more virtue in making bad international loans than bad domestic loans. Both make trouble. We do not wish to repeat, whether through government or private channels, the mistake we made in foreign loans after World War I. They led to over-expansion followed by collapse.

W. L. Hemingway, president of the Mercantile-Commerce Bank and Trust Company, St. Louis, and a former president of the American Bankers Association, was in charge of the asso-

<sup>80</sup> Annual Meeting, A. B. A., Chicago, September 27, 1944.

ciation's study of the Bretton Woods proposals as chairman of its Advisory Committee on Special Activities. In an article in *Banking*, the organ of the association, Mr. Hemingway said:<sup>81</sup>

Inasmuch as an attempt to stabilize the currencies of continental Europe is premature and the Fund, so far as Great Britain is concerned, is inadequate, might it not be better to postpone action on the International Monetary Fund and have a study made of the entire European position with particular reference to prompt assistance to Great Britain?

The plan for the Bank has more chances for success than that for the Fund because it follows more nearly the procedures with which business men are more or less familiar. The Fund sails on new seas for which we have no chart and, therefore, men feel uncertain about the course they are taking. . . .

One institution should be able to serve the purpose and it would certainly be desirable to avoid the difficulties of setting up two elaborate and complicated organizations if one can be made to do the job.

**A. B. A. 1945 Report:** Following a careful study and consultation with other groups, the Advisory Committee on Special Activities of the American Bankers Association, with the approval of the Administrative Committee, made public an extensive report and recommendations. Committees of the Association of Reserve City Bankers and the Bankers Association for Foreign Trade joined in the report.

The recommendations, in summary form, as offered by these groups, follow:<sup>82</sup>

1. That the capital funds of the Export-Import Bank be increased to \$2 billion, first to provide means for meeting promptly deserving credit needs prior to the setting up of an international bank, and second to enable the United States to make loans in which this country has special interest and which can be made more effectively through a national institution than through an international body.

2. That the Johnson Act and any analogous provisions in the Neutrality Act now standing in the way of private loans to certain foreign countries be repealed.

3. That the Bretton Woods plan for an International Bank for Reconstruction and Development be adopted but with the following suggested changes:

- (a) That the two paragraphs in the Bank agreement which make membership in the Bank dependent on membership in the Fund be deleted.

<sup>81</sup> *Banking*, December 1944.

<sup>82</sup> Report of the Committee on Special Activities of the A. B. A. and Committees of the Association of Reserve City Bankers and the Bankers Association for Foreign Trade, issued February 5, 1945.

(b) That an article be added placing on the Governors and Directors of the Bank responsibility for arranging and negotiating agreements between the member countries with respect to the stabilization of currencies, removal of exchange controls as rapidly as practicable, and the general rules of procedure in carrying out monetary policies.

(c) That the Bank be authorized to collect information with respect to monetary and economic matters as outlined in the Monetary Fund proposal.

(d) That the lending powers of the Bank be broadened sufficiently to allow it to make loans, under the same safeguards as the other loans of the Bank, for the purpose of aiding countries in stabilizing their currencies.

As an administrative matter, it is presumed that with the adoption of the above recommendations, which do not include approval of the proposed Fund, the Bank would set up under properly qualified management a separate department to deal with currency stabilization. The experience of central banks constitutes a reservoir of information and experience which should be tapped by the Bank, and every effort should be made to see to it that qualified central bankers participate in the management of the Bank.

These provisions should enable the Bank to carry out all the essential purposes of the Fund in a sound and practical manner. The capital provided in the Bank plan should be adequate for all the purposes included in the amended proposal. If, after a few years operation, successful results demonstrate the need for more capital, there is nothing to prevent reconsideration of the subject at that time.

A certain number of safeguards should be thrown around the operations of the Bank in the enabling legislation which the Congress adopts in approving the Bank. These should include the provision that the American Governor and Director of the Bank should be appointed by the President with the advice and consent of the Senate and that they should be men of tested banking experience.

Provision should also be made for a United States directing committee consisting of officers such as the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, a representative of the Federal Reserve Banks, the Foreign Economic Administrator, and the President of the Export-Import Bank. This committee might instruct the American Governor or Director of the Bank in important decisions of broad policy affecting the welfare of the country. The committee also might act as the agency of the United States in those matters in which the articles of the Bank call for a decision by this government. There should also be provision for regular consultation between this committee and the appropriate Congressional com-

mittees and formal reports at regular and frequent intervals to the President and the Congress.

In addition to suggesting this amended plan the banking committees again reaffirm the position which the American Bankers Association has taken repeatedly: that a primary foundation for the stabilization of currencies is the firm stabilization of the United States dollar in relation to gold.

The committees also reaffirm the position heretofore taken by the American Bankers Association that any plan for general stabilization of currencies can endure only if it is based on sound internal economic policies of the nations and on sound international economic policies, including trade arrangements which encourage a continued two-way flow of trade.

In a concluding comment, the committees said:

The committees of three major banking organizations having studied the Bretton Woods plans with great care, make the foregoing recommendations in the belief that, with able and experienced management, the plan proposed would prove sound and effective over a term of years in achieving the major objective of international financial cooperation. The committees believe that the Monetary Fund as drafted is unsound and would increase the already grave danger of inflation; would delay fundamental economic adjustments; and would fail to protect the principles and interests of the United States and her citizens. They believe that the simplified program they here suggest would accomplish the desired purposes more effectively and with much less danger. They believe that it would be accepted as readily by other countries and would wear better in the realities of this chaotic world.

**New York State Bankers Association:** A special committee of the New York State Bankers Association made public on February 15, 1945, recommendations differing in detail but in general harmony with those of the American Bankers Association. The committee, headed by Percy H. Johnston, chairman of the Chemical Bank and Trust Company, New York, asserted that adoption of the Fund at this time would be unwise. A 62-page report included suggestions, in part as follows:

(1) That action on the proposal for the International Monetary Fund should be postponed until basic conditions have become sufficiently stable to provide a reasonable chance of its attaining its objectives.

(2) That the International Bank for Reconstruction and Development be accepted with whatever changes may be desirable. . . . There are certain features of the Fund designed to encourage international monetary cooperation that, in modified form, could be transferred to the Bank. These include the facilities for consultation among the nations on monetary and financial matters.

At the time applications for membership are made to the Bank, moreover, the following covenants should be made: (a) An understanding between the Bank and its members on initial parity rates so that members may know the amounts of local currencies necessary to meet their capital subscriptions; (b) Agreements from members to make rate changes only after consultation with the Bank, and specifically to avoid competitive rate changes; (c) Agreements from members to remove exchange controls and trade barriers as the varying conditions of the different nations permit; (d) Agreements from members to supply statistical data similar to those provided for in the Monetary Plan.

(8) That further study and consultation be undertaken to determine how the International Bank might appropriately assume limited stabilization functions, i.e., how and when stabilization loans might be granted, whether this would require additional capital funds for the Bank, and how such funds might be provided.

**Investment Bankers Association:** A trend of opinion similar to that of the American Bankers Association was in evidence at the 1944 annual meeting of the Investment Bankers Association, which with other banking and business groups was not then prepared to take a definite position on the Bretton Woods proposals.

John Clifford Folger, president of the association, in addressing the meeting, said:<sup>33</sup>

The Bretton Woods Conference has intervened since last we met. In examining the list of delegates, we find that with one or two exceptions bankers were conspicuously absent. The business was taken over largely by a new type of functionaire, known as a technician. While bankers could not qualify as technicians and therefore were not invited to the party, this fact alone should not be decisive. That representatives of 44 nations got together in one room and agreed upon anything furnishes a background not to be lightly discarded. . . .

Two separate projects are proposed, a Stabilization Fund and a United Nations Bank, or World R. F. C. In either case, the program contemplates spreading low cost money through the world with Uncle Sam putting up the lion's share of the money, either through the front door or the back door.

**National Foreign Trade Convention:** In keeping with the policy of the banking groups, the 1944 National Foreign Trade Convention provided for further study of the Bretton Woods proposals. Its resolutions on the subject were less comprehensive than in 1943.<sup>34</sup>

<sup>33</sup> Annual meeting, I. B. A., Chicago, November 27, 1944.

<sup>34</sup> See Pamphlet No. 2 in this series, p. 33, for resolution adopted at the 1943 convention.

The 1944 resolutions affirmed that "the United States can make an important contribution toward international monetary stability by making determined efforts to put its own affairs in order and by adopting policies with respect to tariffs and other trade restrictions which will permit debtor nations to meet their engagements through the delivery of goods and services."<sup>35</sup>

The resolutions authorized appointment of a committee to report to the directors whether agreements for the Fund and the Bank "should be ratified by the Congress of the United States, or what other steps should be taken by Congress to facilitate cooperation with other nations in this field."

The convention went on record that "the direction of our post-war policy should be toward the eventual restoration of the free convertibility of the dollar into gold." The resolutions also recommended the repeal of the Johnson Act, the Neutrality Act and any other laws which prohibit private loans to foreign governments still owing the United States on obligations incurred in World War I.

**National Grange:** Although the American Farm Bureau Federation approved both sections of the Bretton Woods program, the National Grange favored the Bank with a qualification and opposed the Fund.

The National Grange in its annual meeting in November 1944 included among recommendations the following:<sup>36</sup>

Modification of International Bank for Reconstruction and Development to give those who furnish the most capital greater control; also elimination of International Monetary Fund because better handled by the Bank itself.

In a report on which the resolutions were based the Fund proposal was declared to be objectionable on the ground that currencies would be fixed at artificially high values, control would be in the hands of the borrowers, demands upon the Fund would be mainly for dollars and the project would fail without constant replenishment by the United States, and the amount was too large for stabilization but not sufficient to enable foreign nations to pay us for the excess of our exports over imports.

With respect to the Bank, it was stated that the United States should have a greater degree of control because it would be the

<sup>35</sup> Annual convention, New York City, October 11, 1944.

<sup>36</sup> Annual meeting, Winston-Salem, North Carolina, November 15, 1944.

principal lender, loans should be made primarily for productive purposes and fundamental needs and not to bolster unsound currency, and insurance of sound short-to-medium term private loans by United States sellers to foreign buyers should be encouraged.

**International Business Conference:** Representatives of private business from 52 nations were present in November 1944 at the International Business Conference sponsored by the Chamber of Commerce of the United States, the National Association of Manufacturers, the National Foreign Trade Council, and the American Section of the International Chamber of Commerce.<sup>87</sup> The conference did not adopt resolutions but received reports from the different sections.

The report of the Section on Currency Relations Among Nations took no position either for or against the Bretton Woods proposals. The report, however, stressed the need of action on matters other than in the monetary field. It was stated on behalf of the American delegation that any declaration on the Bretton Woods program would have been presumptuous in view of studies in progress by various banking and business groups. The report said in part:

It was the general feeling that the world should keep gold as a monetary metal and use it as a constituent part of the postwar monetary system. That system might depart in certain particulars from the older forms of the gold standard but should eventually be characterized by stable parities between currencies and by the freedom of international payments. It was felt that a transitional period would be necessary after the end of hostilities before an international monetary system could be fully organized. It was fully recognized that a stable exchange relationship between the U. S. dollar and the pound sterling is an essential condition of international monetary stabilization.

References were made to the need for domestic measures in several countries to bring national economies into equilibrium. It was recognized that such domestic policies would be required for the achievement of stable monetary and commercial relations among nations. . . .

A great deal of emphasis was placed by several speakers on the need for a large volume of trade freely moving throughout the world. Indeed, it was the general sentiment of the Section that monetary measures alone would not be sufficient to create and maintain international monetary stability, but that they would have to be based upon the firm foundations of a liberalized trade.

<sup>87</sup> Conference held at Rye, New York, November 11 to 18, 1944.

An addendum to the report of the Section for Encouragement and Protection of Investments, which was added unanimously by a plenary session on motion of a British delegate, stated that "although a detailed examination of the mechanism of the International Bank for Reconstruction and Development proposed at Bretton Woods was not made by the Section, opinion was expressed that such an institution would be an encouragement to sound international investment in the postwar period by giving protection to both borrower and lender."

**John H. Williams:** In the forefront of the discussions on monetary stabilization has been John H. Williams, professor of economics at Harvard University and a vice president of the Federal Reserve Bank of New York. Mr. Williams was one of the American members of the preparatory commission, which developed an agenda for the World Monetary and Economic Conference at London in 1933. He has had long experience in the field of foreign exchange.

Mr. Williams was an outstanding proponent of the "key-countries" approach to monetary stabilization as an alternative for the White and Keynes plans.<sup>88</sup> In the most recent of a series of articles in *Foreign Affairs*, Mr. Williams favored approval of the Bank proposal and postponement of action on the Fund.<sup>89</sup> The Board of Governors of the Bank, in Mr. Williams' opinion, should be the agency to take initial steps toward monetary stabilization.

Mr. Williams asserted that "the realistic and helpful approach now, whatever one's earlier preferences may have been, is to see whether out of these plans a solution can be found which is technically adequate, which is acceptable as a basis for cooperation among countries with different attitudes and problems, and which is sufficiently within the pattern and the general intent of the previous negotiations to avoid the danger of prolonged delay in further negotiation."

Mr. Williams said:

The Bretton Woods Conference made the Bank for Reconstruction and Development the adjunct of the International Monetary Fund and made membership in the Fund a prerequisite to participation in the Bank. I think it would be wise to separate the two, to adopt the Bank as soon as possible consistent with careful study, and to withhold for the present a decision on the Fund.

<sup>88</sup> See Pamphlet No. 2 of this series, p. 16.

<sup>89</sup> "International Monetary Plans after Bretton Woods," *Foreign Affairs*, October 1944.

This suggestion is the result of my persistent doubts about the Fund, together with a growing appreciation of the possibilities of accomplishing through the Bank much of what is desired from the Fund while avoiding much that in the latter still seems to me defective.

Apart from details of organization, the major questions to be asked about the Monetary Fund have to do with: (1) the extent, the character, and the time of the need for it; (2) its monetary mechanics; and (3) the basic economic principles of its operation.

On the first set of questions, the development of the discussion over the past year or more has pointed increasingly toward the conclusion that the Fund is intended primarily as a long-run agency of monetary regulation. . . . The problems of relief, reconstruction and settlement of international indebtedness arising out of the war are specifically excluded from the range of the Fund's operations. . . . It seems probable that many member countries will continue their controls, and Great Britain has already given notice that she will do so. The agreement seems to contemplate that the period of these transitional arrangements will last at least five years. These provisions seem to me wise, but they do raise questions about what is to be the role of the Fund during the transition period, and whether it is desirable to set up on paper a system calling for multilateral trade and free exchange convertibility (except for capital transactions) so far in advance of any reasonable expectation of their being carried out. The Bank, on the other hand, could be very useful in the transition period itself and could help to create the more normal long-run conditions which are prerequisite to the successful operation of the Fund. . . .

So far as my first set of questions is concerned—the extent, the character, and the time of need of exchange resources—the Monetary Fund seems poorly suited to deal with the problem. It would supply working balances of foreign exchange under circumstances when what is chiefly needed is loans or gifts for purposes excluded from the Fund's operations. It would supply these balances indiscriminately to all the United Nations and would make them available on a time schedule and as a matter of automatic right. For some countries whose need for working balances is urgent the amounts provided would be inadequate, while for many others they would be superfluous and even dangerous. The operations of the Bank, on the other hand, would be selective and would carry no implication of automatic right to credit. The Bank could supply the kind of credit needed, to the countries needing it, and at the time of need. . . .

The great weakness of the Fund, from a mechanical standpoint, is that while other countries in paying for our exports would use up the Fund's supply of dollars, our own payments for imports would not replace these dollars.<sup>40</sup> Thus, even though this country

had an even balance-of-payments position, the Fund's holdings of dollars would be rapidly exhausted. This follows from the fact that the dollar is a key currency. We do not pay for our imports by buying foreign currencies but with dollars, and would therefore have no occasion to go to the Fund for foreign currencies. . . . Thus the Fund, constantly threatened with a shortage of dollars and constantly in danger of being glutted with other currencies, would be compelled to fall back on the roundabout and doubtfully effective repurchase provisions. . . .

On the principles of adjustment I have little to add to my earlier papers. The crux of the problem is still the divergence of American and British attitudes. . . . The clear fact, I think, is that a mutually satisfactory statement of principles cannot at present be devised, and we have a choice between going on without it or postponing the attempt. . . .

Meantime, I have become increasingly interested since Bretton Woods in what might be accomplished through the Bank. The work done on it seemed to me the most constructive part of the Conference. . . .

My growing appreciation of these advantages in the Bank, combined with doubts about the Fund, has led me to wish to explore the possibilities of expanding the Bank's functions to include some part of what is desired from the Fund. For the transition period, in particular, I think it could be the better instrument. . . .

So far as the transition period is concerned, which means at least the first five years after the war, the monetary problems to be dealt with will be mainly two. There should be provision from the outset (1) for agreeing upon initial rates of exchange, and (2) for changing them as conditions warrant by a process of mutual consultation and assistance. With most countries planning to continue exchange controls, the first will be largely a stand-by function and could, I believe, be performed quite as well by the Board of Governors and the Executive Directors of the Bank as by the governing bodies of the Fund. But in providing foreign exchange support for weak currencies when rate adjustments are being made, which would probably come toward the end of the transition period, the Bank's operations, as now defined, would need to be expanded. At present the Bank is intended to finance specific projects of reconstruction and development. There would need to be added an exchange stabilization loan department. But since this would operate selectively, and provide exchange only where needed, it would require a much smaller sum, and at the same time probably be much more flexible and effective. . . .

I have been trying to find a solution within the framework of the official plans and have become impressed by the possibilities of the Bank. With regard to monetary stabilization my views have not greatly changed. I believe not only that the solution must be found through the key-countries principle, as seems now to be recognized, but also that it must be a gradual process and must

<sup>40</sup> Mr. Williams' contention that a mechanical weakness in the Fund would lead to exhaustion of its supply of dollars is challenged by Alice E. Bourneuf of the technical staff of the Board of Governors of the Federal Reserve System in a communication to *The American Economic Review*, December 1944, p. 840.

be built upon the stabilization of the two key currencies, the dollar and the pound, with respect to each other.<sup>41</sup>

**Leon Fraser:** Among bankers whose experience gives special authority to expressions on monetary stabilization and world credits is Leon Fraser, president of the First National Bank of New York and former president of the Bank for International Settlements.

Mr. Fraser, in November 1943, proposed a dollar-sterling accord, a \$5 billion gold credit by the United States to the United Kingdom, and reorganization of the Bank for International Settlements as a center of international monetary consultation and planning and as an agency for temporary stabilization credits to smaller nations.<sup>42</sup>

**Winthrop W. Aldrich:** A leading spokesman for a group which is critical of both the Fund and the Bank is Winthrop W. Aldrich, chairman of the board of the Chase National Bank, New York City. Mr. Aldrich was one of the six American delegates to the International Business Conference, at which he presented an argument for a "key-countries" approach to monetary stabilization. His position in world economic affairs is attested by his selection in the early part of 1944 as chairman of the Committee on International Economic Policy, which is working in cooperation with the Carnegie Endowment for International Peace, and in November 1944 as president of the International Chamber of Commerce.

Mr. Aldrich's general viewpoint is that credit extension cannot serve as a substitute for the adoption of appropriate commercial policies. He holds that it is unfortunate that so much time and energy were given to the Bretton Woods proposals rather than to the main task of economic reconstruction. Currency manipulation, he contends, will not solve the basic economic problems of a war-ridden world. Once a solution of fundamental problems has been effected, he believes that the stabilization of currencies and the extension of international loans will become integral parts of the over-all pattern of world reconstruction.

In a statement before a section meeting at the International Business Conference, Mr. Aldrich said:<sup>43</sup>

<sup>41</sup> A reply to Mr. Williams' arguments for a "key-countries" approach is made by E. M. Bernstein, assistant director of the Division of Monetary Research, Treasury Department, in an article on "A Practical International Monetary Policy," *The American Economic Review*, December 1944, p. 783.

<sup>42</sup> See Pamphlet No. 2 in this series, p. 18, for details of Mr. Fraser's 1943 proposal.

<sup>43</sup> Statement before Section on Currency Relations Among Nations, International Business Conference, November 13, 1944.

Those of us who advocate the "key-nation" approach believe that the stabilization of key currencies is the first and indispensable step in the stabilization of all currencies. Key currencies are those in which international trade is commonly conducted and, at the present time, consist of the British pound sterling and the American dollar.

The problem then becomes that of setting forth the prerequisites of dollar-pound stabilization. These are three in number:

1. The elimination of the war debt problem between the United States and the United Kingdom. This involves the cancellation of World War I debts, the repeal of the Johnson Act of 1934, and a generous settlement on the part of this country of the net amount due on Lend-Lease obligations.

2. The reduction of trade barriers between the United States, the United Kingdom and the other members of the British Commonwealth of Nations. Immediate conversations between these nations should take place relative to such problems as tariff barriers, imperial preference, export subsidies, bulk purchasing and regional currency arrangements.

3. Following a successful conclusion of the proposed trade conference, the United States should be prepared to extend to the United Kingdom a grant in aid, as a form of retroactive Lend-Lease, to cover her immediate postwar import needs. The amount involved may come to \$3 billion. . . .

The "key-nation" approach is a specific approach to the problem of currency stabilization, as opposed to the global approach of the Bretton Woods plan for an International Monetary Fund. It recognizes the fact that the currency problems of nations differ from one another and that separate solutions are needed in each instance. The "key-nation" approach maintains that loans should be granted for specific projects of economic merit. It is opposed to the automatic granting of credits provided for in the Bretton Woods proposal, in which credit quotas bear no relationship to credit needs.

In an earlier address at Chicago, dealing with both the Fund and the Bank as well as commercial policy, Mr. Aldrich said:<sup>44</sup>

One cannot study the Bretton Woods proposal for an International Monetary Fund without coming to the conclusion that many of its provisions and purposes are basically contradictory. The Fund wavers between the objectives of currency stabilization and economic development. Emphasis is given to the need for currency stabilization, yet currency depreciation is made an easy and normal process. In England, the proposal is termed the opposite of the gold standard; in the United States, a further application of the gold standard.

Credit extensions by the Fund are to be made on an automatic basis and for a great diversity of purposes. In consequence, the

<sup>44</sup> Address before Executives' Club, Chicago, September 15, 1944.

Fund's assets may eventually take the form of long-term, non-self-liquidating credit grants. Good currencies will have been depleted in support of poor. I am convinced that the plan, in the course of time, will offer another illustration of Gresham's Law, which, as you know, is simply the familiar rule that bad money drives out the good. But, in this case, the currencies of the world would be weakened, and the stabilization attained through this means would seek the lowest level. . . .

There are many questions which must be answered before this country can decide to become a stockholder in the Bank. The first concerns the general and yet very fundamental question of the effect upon the international balance of payments of a large volume of loans granted to foreign borrowers. . . . My own opinion is that capital for domestic reconstruction and development should come from local sources. . . . Unless capital exports are kept at a minimum and are limited to projects which produce foreign exchange, debtor nations may resort to the International Monetary Fund to meet interest and perhaps even a portion of the amortization payments due on foreign borrowings. In this event we may find ourselves supplying dollars to the International Monetary Fund in order to enable borrowing nations to service their dollar debts to the International Bank for Reconstruction and Development. . . .

A second question of a less general nature concerns the relationship of the proposed Bank to existing governmental institutions. What, for example, is to be its relationship to the Export-Import Bank? And if both institutions function, what will be the aggregate volume of foreign credits which this nation may find itself extending either directly or indirectly?

A final question has to do with a fundamental point in international policy, namely, whether in the postwar period the United States Government should extend long-term dollar loans indirectly through an International Bank, or directly through one of its own agencies. . . .

I am convinced that to the extent that our government feels called upon to make foreign loans, these should be granted through the Export-Import Bank, which has accumulated valuable experience in foreign credit operations. The loans extended should not be large and need not be large in view of the volume of dollar assets held by many foreign nations. . . .

The Bretton Woods proposals are no substitute for the real job of economic reconstruction. They are unrealistic and unnecessarily complex. They are unrealistic in their implied assumption that the creation of credits, the counterpart of the creation of the debts, will, in the absence of appropriate fiscal, credit and commercial policies in each member nation, solve the complicated international monetary problems which beset the world. Their technical provisions are needlessly complex, a defect which stems in part from the fact that more fundamental problems remain unsolved.

The all-important economic problem of the postwar world is the removal of trade barriers.

**B. H. Beckhart:** Support of the position taken by Mr. Aldrich has been given by B. H. Beckhart, professor of banking at Columbia University and director of research for the Chase National Bank, in an article in a publication of the Academy of Political Science.<sup>45</sup>

Mr. Beckhart, after a 40-page criticism of the Bretton Woods proposals, offered a specific program as follows:

The alternative to a rejection of the Bretton Woods proposal is not chaos. An alternative approach would endeavor to find solutions for the prerequisites of stabilization and, in particular, would comprise the following steps:

1. Consideration of and provision for the financial needs of the transitional period.

2. The immediate convening of a trade conference by the United States, to be attended by those United Nations and neutral Powers professing belief in the private enterprise system, for the purpose of eliminating barriers to international trade.

3. Following the evolution (as a direct consequence of this conference) of a constructive plan by the United States and the British Commonwealth of Nations for the elimination of trade barriers, the extension of financial aid by this country to England along the lines suggested by Mr. Fraser and Mr. Aldrich.

4. The reorganization of the Bank for International Settlements, or the establishment of a similar institution. There is nothing in the record of the Bank for International Settlements to justify its liquidation. If, however, prejudice against the institution is too strong to be overcome, then a similar institution might be organized. Its capital, of perhaps \$500 million, could be paid in gold and owned by central banks. Its functions would be those of extending seasonal stabilization credits; serving as a meeting place for central bankers, where they could give consideration to credit and monetary policies and other problems of mutual interest; collecting pertinent monetary and financial data; and engaging in research.

Once the above measures have been taken, the post-war credit needs of nations should receive careful study. Many possess a sufficient supply of gold and dollar exchange to render them financially independent. Less fortunate nations may have to borrow, and the credits which they will need should be supplied, in so far as is possible, by existing institutions.

American commercial banks are in a position to care for certain of these credit needs—those pertaining to self-liquidating credits and to short or medium-term loans extended against the collateral

<sup>45</sup> *Political Science Quarterly*, December, 1944. See Pamphlet No. 2 of this series, p. 22, and Pamphlet No. 3, p. 17, for earlier comments by Mr. Beckhart.

of gold, deposits and securities. An example of a medium short-term collateral loan is the recent credit of \$100 million extended to the Dutch government. In addition, American commercial banks, manufacturers and exporters might unite in the establishment of an export guarantee system.

Not all nations, once political stability has been attained and internal inflation checked, will need to borrow to effect the external stabilization of their currencies. It has been suggested that those nations standing in need of dollar stabilization loans, if these cannot be obtained in the private market, might secure such loans from the Export-Import Bank, if its borrowing powers were raised. Likewise the Export-Import Bank could extend long-term loans for meritorious purposes of economic development, where such funds could not be obtained privately. . . .

In the financial reconstruction of the world this country has a great responsibility and opportunity for exercising constructive leadership. Our greatest contribution can be rendered through our willingness to make substantial reductions in our tariff rates and to establish a dollar, free of all foreign exchange controls, in which the other trading nations of the world can have confidence.

Mr. Beckhart, it will be noted, would make provision for all the credit needs through commercial banks and the Export-Import Bank, implying disapproval of the proposed International Bank as well as of the Monetary Fund. In an address a few weeks after publication of his article, however, Mr. Beckhart gave qualified approval to the International Bank.<sup>46</sup>

In proposing a program similar to that given above, Mr. Beckhart incorporated the following:

The United States could accept membership in the International Bank for Reconstruction and Development, following a successful termination of the trade conference and a solution of the British exchange problem. Its charter should be amended in order to require that payments on account of paid-in capital take the form entirely of gold or dollars, that all gold and currencies possessed by the Bank be free of exchange controls and restrictions, and that an exchange stabilization loan department be added.

Commenting further on the Bank Proposal, Mr. Beckhart said:

The lending provisions of the Articles of Agreement of the International Bank for Reconstruction and Development stand in marked contrast to those of the Fund. Credits are not to be granted on an automatic basis irrespective of the credit worthiness of the borrower. No credit is to be extended unless a competent committee, in a written report, has recommended the project and unless the Bank is convinced that the borrower and

guarantor will be able to meet their obligations. Loans are to be tailored to fit specific borrowing requirements and the use of the proceeds is subject to supervision. . . .

The success of the Bank will largely depend upon the conservatism and competence of its management and its freedom from political influences.

**National City Bank of New York:** In summarizing the results of the Bretton Woods Conference, the monthly *Letter* of the National City Bank of New York commented quite favorably on changes in the plan for the Bank but expressed continued skepticism of the Fund proposal.<sup>47</sup>

After reviewing provisions of the Bank plan, the *Letter* said:<sup>48</sup>

All in all, the foregoing summary would indicate that the Conference, in drafting the Bank plan, has moved along fairly conservative lines. This is particularly true with respect to the trimming down of the more ambitious proposals for the Bank's lending power in relation to capital, and also in the various provisions inserted in the effort to safeguard individual credits. . . .

The plan has the advantage of simplicity, and in its use of the guarantee feature adopts a form of procedure in international lending made familiar by our Export-Import Bank. . . .

One overall question that arises is whether the sum of \$10 billion capital is not larger than necessary, considering both the large volume of gold and foreign exchange now held by many countries and available for immediate postwar needs, and also the fact that some countries should be able to borrow on their own credit without guarantee. . . .

Then there is the question as to whether it would not be better for this country to do its own foreign lending without other countries having a say in the matter and with this country in a better position to benefit from the trade flowing from such operations. . . .

The fact that none of the loans issued or guaranteed by the Bank could be placed in this market without approval of the U. S. representative on the Bank directorate would afford this country a considerable measure of protection.

After reviewing changes made in the Fund plan at Bretton Woods, the *Letter* said:

Such changes are in the direction of safeguarding the creditor countries, and as such will doubtless be looked upon in this country as all to the good, with the only question as to whether they go far enough. The general structure of the plan—with its system of quotas and rights to start borrowing without question of credit worthiness from a large general fund, which has been

<sup>46</sup> Institute on Money and the Law, New York City, January 15, 1945.

<sup>47</sup> See Pamphlet No. 2 in this series, p. 26, for earlier comments.  
<sup>48</sup> National City Bank *Letter*, September 1944.

so widely criticised—remains unchanged. There is still the objection that the plan places too much emphasis upon the financial and credit machinery of stabilization and too little on the underlying essentials of sound internal economies and liberal trade policies.

**Guaranty Trust Company:** The view of advocates of the gold standard was presented in a summary of results of the Bretton Woods Conference in the *Guaranty Survey* of the Guaranty Trust Company of New York.<sup>49</sup>

Comments on the Fund included the following:

Most of the criticism that has been brought against the agreement is based on the view that it represents an attempt to enforce exchange stability without striking at the causes of instability. More specifically, the management of the Fund could be expected to hold the exchange values of members' currencies at or close to parity but would have no control over the internal policies affecting the true values of those currencies.

Only when nations balance their budgets, hold their tariffs at moderate levels, follow sound monetary and credit practices at home, and otherwise keep their financial houses in order can the exchange values of their currencies be permanently maintained. When such policies are followed, no international fund is required to keep exchange rates at parity. When they are not followed, any attempt to enforce an arbitrary and unreal stability is not only futile but dangerous.

The quickest and most effective way to bring about exchange stability in the postwar period would be for the principal commercial nations to replace their currencies on the gold standard at the earliest possible moment. Some of the smaller nations could immediately take similar action. Others could "tie" their currencies to the gold-standard currencies until they had had time to build up their gold reserves. The process would require measures of financial reform in almost all countries, including the United States. But the need for such reform cannot be escaped by the creation of elaborate international mechanisms.

**Irving Trust Company:** In a symposium on "International Financial Stabilization," the Irving Trust Company of New York has made available arguments both for and against the Bretton Woods program. Several well-known economists contribute to the discussion.

Murray Shields, economist for the Irving Trust Company, in an introduction to the 186-page volume, urged immediate approval of the Bank proposal, with such changes in form and

<sup>49</sup> *The Guaranty Survey*, August 29, 1944.

function as would free it from the necessity for making or guaranteeing credits without a directly productive purpose. He also recommended immediate approval and organization of the Fund, but with the qualification that its application be deferred until the most pressing problems of the transition period have been dealt with realistically.

Mr. Shields said:

The Bank is less controversial in character and more likely to succeed than the Fund. . . .

Neither the arguments in favor of use of the Fund in the postwar transition period nor the contentions of the opposition that it simply cannot function in the transition period itself can be disregarded. The basic weaknesses in the Fund proposal have their origin in the compromises necessary so that it could function during the early postwar years as well as in the post-transition period. The Fund is too constructive in concept and too essential to the economic health of the world to have it placed in operation before conditions are propitious for its success. The first firm step toward international financial stabilization must not fail.

The problems of the transition period can well be met through the use of machinery of collaboration similar to that the Allies have used with skill and advantage in the war period.

**J. H. Riddle:** In an address shortly after the conclusion of the Bretton Woods Conference, J. H. Riddle, economic adviser of the Bankers Trust Company, New York, offered severe criticism of the Fund.<sup>50</sup> Mr. Riddle in 1943 made a comprehensive study of the White and Keynes plans as part of the financial research program of the National Bureau of Economic Research, Inc.<sup>51</sup>

In his address Mr. Riddle said:

The system of credits based on the quotas of member countries seems unrealistic and impractical as a basis for operations. The quota of a member country may have little relation to its actual credit needs or to its credit-worthiness. By establishing such a formula each country is encouraged to believe that it has a right to credits up to a stipulated amount, and no doubt most of them will make every effort to get their share regardless of internal conditions and the general state of their international accounts. It is difficult to see how the dissipation of substantial amounts of credits could be avoided. . . .

To me the plan agreed upon by the Bretton Woods Conference seems grandiose and over-ambitious. There is no assurance whatever that it would accomplish any lasting good. In view of the difficult problems of the transition period, it seems to me that

<sup>50</sup> Address before Sales Executives Club of New York, July 29, 1944.

<sup>51</sup> See Pamphlet No. 2 in this series, p. 27.

stabilization will have to be undertaken step by step. It would be better to move slowly and surely than to undertake too much.

... Americans are willing and anxious to cooperate in international affairs in any practical way, but they may hesitate to finance the elaborate schemes of world planners. . . . We have piled up a colossal public debt in this country that will burden us for many generations. Every sound instinct and every lesson of history cries out against a continuous piling up of that debt after the war. Is this but the beginning of a long series of new spending and lending programs, not only domestic but also foreign, that will keep the budget unbalanced indefinitely? When do we begin to retrench to protect our own currency? Our first duty to ourselves and to the world is to protect the dollar and keep it strong by putting our own fiscal affairs in order.

**E. W. Kemmerer:** A return to an international gold standard was advocated by E. W. Kemmerer, professor emeritus of international finance at Princeton University, who opposed the Bretton Woods program in an address before the Institute on Money and the Law. The Institute was held under the auspices of the New York University School of Law and the Economists' National Committee on Monetary Policy, of which Mr. Kemmerer is president.<sup>52</sup>

Mr. Kemmerer said:

How would the American people vote if they were fairly presented with the question: What kind of an American dollar would you prefer, for the payment of your wages, your defense bonds, your life insurance and your bank deposits, and for the carrying on of your business, a gold-standard dollar or a managed-paper-standard dollar of the Bretton Woods type, largely under the control of a governmentally appointed international Board of Governors? . . .

The Fund is essentially a loan fund. The great majority of the states represented at Bretton Woods are small states in terms of population and business. Twenty-one of the 44 were in default when the war broke out in 1939 on dollar loans made to them by the United States.

Mr. Kemmerer directed attention to the ease with which nations might depreciate their currencies. In commenting specifically on the authority for a uniform change in values of all currencies, he said:

Since nearly all the members will be debtor nations and since public opinion is usually strongly resistant to deflation, this provision, realistically speaking, is one to make possible by political

<sup>52</sup> Institute on Money and the Law, New York City, January 15 and 16, 1945. See Pamphlet No. 2 in this series, p. 35, and Pamphlet No. 3, p. 20, for earlier comments by Mr. Kemmerer.

action world-wide inflation. And, more than that, it will make such world-wide inflation dangerously easy. The action requires only a majority of the total voting power, if there is an affirmative vote of every member which has 10 per cent or more of the total quotas. . . .

Do we in America want to make the value of our dollar so easy to alter? Even if we do, are we willing to place the power to alter it so largely in foreign hands, the hands of our debtors? If the gold standard seems too rigid—as some of its critics maintain—would not a plan of this kind give the world a nationalistic monetary fluidity of flood proportions?

**Henry Hazlitt:** Among other speakers criticizing the proposed International Monetary Fund at the Institute on Money and the Law was Henry Hazlitt, an editorial writer of *The New York Times*.<sup>53</sup>

Mr. Hazlitt said:

The greatest single contribution that America could make to exchange stability after the war is to announce its determination to stabilize its own currency. This would provide an example, a standard and an anchor for all other currencies. The next most important step that we could take would be to relax our own trade barriers.

Neither of these steps would be merely negative. Neither of them would be easy. The first would require gold convertibility, and on something much better than a 24-hour basis. It would require a return to balanced budgets, with all the political courage and the rejection of current fashionable ideologies which that implies. The second step would take the same sort of courage, together with an abandonment of neo-mercantilist views. . . .

The proposed International Monetary Fund is bad from so many aspects that it is difficult to know in advance which danger will prove the most serious. By keeping up exchange rates by artificial means, buying currencies at par regardless of their real market value, and making devaluation easy and respectable, the way will be cleared for encouraging every government in power to follow the easy political path. It can continue to pay heavy subsidies to all sorts of pressure groups, to embark on public works and patronage on a grand scale, and to tax lightly, thus continuing chronic budget deficits and financing them by added debt.

The proposed International Bank for Reconstruction and Development, on the other hand, is at least an institution in which, with proper safeguards, the possibilities for good might outweigh the possibilities for harm. It should be temporary in nature, however, and should confine itself to currency stabilization loans only. Where help is needed for humanitarian reasons

<sup>53</sup> Address on "Bretton Woods Agreements and Freedom of Trade."

it should be granted freely and generously, as a pure gift. The United Nations Relief and Rehabilitation Administration already exists for this purpose. Its scope may need to be expanded. But everything above this should be placed on a strictly business basis. It will never be placed on such a basis if it is managed by governments.

Mr. Hazlitt said that "the most ominous provision of the Fund, from an inflationary standpoint, is that which permits it by a majority of the total voting power to make 'uniform proportionate changes in the par value of the currencies of all members.'" Continuing, he said:

Now this provision of the Fund is a provision for periodic world inflation. The historic instances in which the par value of the monetary unit has been increased are so rare as to be negligible. The practical political pressures are always in the other direction. So we are safe in assuming that the "uniform proportionate changes" referred to by the Fund mean uniform proportionate devaluation.

Devaluation is the modern euphemism for debasement of the coinage. It always means repudiation. It means that the promise to pay a certain definite weight of gold has been broken, and that the devaluing government, for its bonds or currency notes, will pay a smaller weight of gold. . . .

The provision in the Fund for world inflation, in brief, is a provision to make resort to inflation easy, smooth, and respectable.

**Arthur K. Kuhn:** Insufficient planning in some of the juridical aspects of the Bretton Woods agreements was found by Arthur K. Kuhn, a member of the board of editors of the *American Journal of International Law*, also a speaker at the Institute on Money and the Law.<sup>54</sup> While agreeing with most of the purposes, Mr. Kuhn questioned the adequacy of various provisions, such as with respect to the capacity of the institutions to sue and be sued, procedure for adjudication of claims against them, and methods of settling disputes between the institutions and their members. Mr. Kuhn said that the rather meager provisions for arbitration of disputes compared unfavorably with the carefully drafted provisions of the agreement which created the Bank for International Settlements.

In urging better integration of the Fund and Bank with other international agencies, Mr. Kuhn said:

Having in mind the proposed permanency of the institutions elaborated at Bretton Woods, it is to be hoped that the Fund

<sup>54</sup> Address on "The Bretton Woods Recommendations in the Light of International Law."

and Bank shall not be allowed to develop in a vacuum, but that there shall repose somewhere a responsibility to some organ of the International Authority. These institutions, being institutions of peace, must be "capable of life and growth" to use the phrase of President Roosevelt in his most recent message to Congress of January 6, 1945. As they are to be created by international legislation, their economic and political future will depend upon integration with the general structure of international cooperation.

**British Criticisms:** While spokesmen for the British Government, including Lord Keynes, head of its delegation at Bretton Woods, and Sir John Anderson, Chancellor of the Exchequer, have commented favorably on the program there has been a strong undercurrent of criticism in England.

Whether or not the plan for the Fund contains any of the elements of the gold standard has been a subject of controversy. Paul Einzig, well-known British economist, in an article in the *London Banker* in September 1944 contended that the plan contained too much of the gold standard and expressed dissatisfaction with a condition wherein it was possible to welcome it as such in the United States and to view it, in the words of Lord Keynes, as "exactly the opposite" in Great Britain. The editor of the *Banker* answered Mr. Einzig by agreeing with the Keynes viewpoint.

Robert Boothby, member of parliament, is another who protested against the Bretton Woods program because of its provisions relating to gold. In an article in *The National Review*, published in London in the fall of 1944, Mr. Boothby said:

The issues at stake are of immense importance. In 1929 we were dragged to the depths of an unparalleled economic depression simply because we were tied to a gold standard, and therefore to Wall Street. It could happen again—it will happen again—if Bretton Woods goes through. Through the development and consolidation of the sterling area within the Empire and in Western Europe, we could build up an economic unit of immense influence and power, pledged to the fulfillment of an expansionist economic policy, and the achievement of full employment and a rising standard of living. Any such project would be killed, finally, by Bretton Woods.

The *London Economist* asserted in July 1944 that "here are proposals which will confer benefits on the world if certain optimistic assumptions are fulfilled, but which may be a dangerous tying of hands if the hopes are not realized."

A correspondent of the *London Times* in a series of articles in August 1944 raised questions as to the possibility of avoiding

various methods of commercial policy which appeared to have advantages but might infringe upon the stipulations of the plan for the Fund. In reply, Lord Keynes said there was nothing in the plan inconsistent with Britain requiring a country from which it imports to take in return a substantial quantity of its exports.

The Federation of British Industries, in a report issued in November 1944, gave qualified approval to the Bretton Woods program and asserted that the realization of the successful functioning of the Fund and the Bank would be dependent upon agreements on related matters. These agreements, it was stated, should include the reduction of obstacles to international trade, a common international commercial policy, orderly marketing of staple commodities at fair prices, measures to solve special international problems following drastic reductions of war production, and an understanding to maintain high levels of employment and rising standards of living.

The Federation proposed that a clause be inserted in the Articles of Agreement for each institution to provide for a reviewing conference at the end of the transition period, perhaps four years after the beginning of operations.

The London Chamber of Commerce, in a report issued in December 1944, asserted that the Bretton Woods program failed to assure the balancing of accounts among nations in terms of goods and services. The balancing in money, it was declared, would not accomplish the declared purpose of an expansion and balanced growth of international trade.

The London Chamber complained that the plan made no attempt to distinguish between faults of debtor and creditor nations and that it punished debtors severely without regard to the degree of blame which might attach to them.

In the view of this British business group, the Monetary Fund scheme would tend to deprive the nations of their defenses, such as tariffs, quotas and exchange controls, without removing the perils necessitating some means of protection.

## X. Recent Pertinent Monetary and Trade Developments

WHILE MUCH has been learned with respect to currency and credit problems from the experiences of the years between the two world wars, constantly changing situations make it difficult to devise a permanent pattern of policy.<sup>55</sup> Financial and economic

<sup>55</sup> See Pamphlet No. 1 in this series for detailed account of the international monetary developments between the two world wars.

trends during the present war have introduced new factors pertinent to discussions of plans for monetary stabilization and foreign investment.

A significant development has been an increase in gold stocks of many nations and a decrease in those of the United States. Dollar balances also have been accumulated by foreign nations. These substantial stocks of gold and dollar balances raise a question as to any general need of credit and give weight to the point made by critics of the Bretton Woods program that a global approach to monetary stabilization is not as yet feasible and that the problem of each nation will require separate treatment.

Lend-Lease and other war expenditures of the United States have materially changed the nature of world trade. Debtor-creditor relationships among the nations have been in process of alteration.

Among war developments figuring conspicuously in discussions of a postwar program is the accumulation of sterling balances in countries where the British have made war expenditures. Their liquidation must be accomplished outside the operations of the Monetary Fund.

**Foreign Gold Stocks and Dollar Balances:** The Board of Governors of the Federal Reserve System is authority for an estimate that foreign countries had gold and dollar reserves of about \$17 billion at the end of September 1944 as compared with \$7 or \$8 billion at the close of the Twenties.<sup>56</sup> Gold stocks of the foreign countries were estimated as of that date at a little more than \$14 billion and official dollar reserves in the form of balances in the United States about \$3 billion. Foreign-owned private banking funds account for an additional \$3 billion, bringing the total of foreign gold and dollar balances, official and private, up to \$20 billion.

Foreign countries increased their stocks of gold from the beginning of 1941 to the end of September 1944 by more than \$5 billion. During the same period stocks of gold in the United States decreased by more than \$1 billion. The decrease in the United States from peak gold holdings in October 1941 to September 1944 was about \$2 billion. Gold stocks of the United States at the end of September 1944 were a little less than \$21 billion.

<sup>56</sup> *Federal Reserve Bulletin*, November 1944, p. 1043.

Of official dollar balances held by foreign governments and central banks amounting to about \$3 billion at the end of June 1944, \$2 billion was accumulated after the start of 1940.

Shipment of goods from the United States to other countries under Lend-Lease, commencing in March 1941, served to check the flow of gold to this country. Thereafter, foreign nations were able to accumulate gold from new production. They also acquired gold from the United States and dollar balances in connection with sales of strategic materials and other goods. Military pay and other expenditures not covered by reverse Lend-Lease also helped to pile up dollars at the disposal of foreign nations.

As a result of these war developments, many countries now have much less occasion to draw upon the resources of either an International Monetary Fund or an International Bank than would have been true a few years ago. Gold stocks of Latin American countries were estimated at \$2,220 million at the end of September 1944 as compared with \$745 million in January 1941. Gold and dollar balances of Latin American countries totaled \$3.5 billion. The neutral countries of Europe increased their gold holdings considerably between 1941 and 1944. The increase in gold stocks of Switzerland was \$530 million, that of Sweden, \$295 million, that of Spain, \$60 million, and that of Turkey, \$130 million. South Africa increased its gold stocks by \$415 million. France, the Netherlands, and Belgium, all members of the former gold bloc of the Thirties, have managed to retain substantial gold holdings. Russia has increased its stocks from its own production.

The United Kingdom is in a less favorable situation with respect to gold holdings than at the beginning of the war. Its position in this regard gives emphasis to the recognized fact that its financial and trade difficulties are at the heart of the postwar problem of world rehabilitation.

**American Foreign Trade:** Lend-Lease is responsible for an unprecedented total of American export trade in recent years. For the year 1944 total exports, including Lend-Lease, amounted to \$14 billion as compared with a \$12.7 billion total for the year 1943. Lend-Lease accounted for about \$11.3 billion of exports during 1944, and for \$10.1 billion in 1943. Exports other than Lend-Lease were \$2.7 billion for 1944 and \$2.6 billion for 1943. Imports totaled about \$3.9 billion in 1944, and \$3.4 billion for 1943. The balance of international trade outside Lend-Lease operations has been adverse to this country since the end of 1942.

The enormous exports under Lend-Lease have not exerted the pressure of normal exports on the balance of payments as it has not been necessary for the recipient countries to obtain dollars for settlement. The excess of imports into the United States over exports other than Lend-Lease has been partially balanced by shipment of gold. Accumulated dollar balances of foreign nations eventually will be exchanged for goods. The present trend is the reverse of that during the Thirties when an excess of exports and an inflow of capital were balanced by imports of gold.

The highest total of exports in the Thirties was \$3.3 billion and the highest total in the Twenties, \$5.2 billion. The highest total of imports in the Thirties was \$3 billion and in the Twenties, \$4.4 billion.

The program of the Department of Commerce for an expanded foreign trade after the war is directed toward exports of \$7 billion and imports of \$6.3 billion, in terms of 1942 prices, to make possible a gross national product of \$175 billion, equivalent to a net national income of about \$140 billion.<sup>57</sup> The position of that department is that postwar exports in excess of \$6 billion can be achieved and maintained only through new foreign investment. In its view both the Fund and the Bank would contribute to the stimulation of a renewed flow of international capital.

While critics of the Fund concede that the dollars made available through its mechanism to foreign countries would increase American exports, they question whether the liberal policies contemplated for the Fund would provide an enduring foundation for world trade.

**Creditor-Debtor Relationships:** To what extent recent war developments have affected the creditor-debtor position of the United States is uncertain. The United States was a net debtor nation prior to the first World War but became a net creditor nation as a result of that war. Thereafter depression losses and the flow of capital from other countries to the United States caused a shrinkage in the net creditor position. At the end of 1939 we were a net creditor nation to the amount of only \$1.8 billion as compared with \$8.8 billion at the end of 1930, both figures being exclusive of official war debts. Foreign funds in the United States have continued to increase, partly due to the accumulation of dollar balances from our purchase of strategic materials abroad.

<sup>57</sup> "Foreign trade in the Postwar Economy," *Survey of Current Business*, November 1944.

The Department of Commerce recently estimated that, as of September 1944, foreign balances and investments in the United States exceeded United States holdings abroad by about \$1.2 billion, the large increase in foreign short-term holdings in this country being responsible for an apparent shift to a net debtor position by the United States.<sup>58</sup> With respect to long-term investments, however, the United States continues to be a substantial creditor. Many questions may be raised as to the accuracy of estimates on the creditor-debtor position of the United States. The expenditures of this country for war and other purposes abroad which do not result in payments with respect to principal or interest are excluded entirely and other arbitrary decisions are made as to types of assets and liabilities which should or should not be included.

From the standpoint of the net receipt or payment of interest and dividends, the United States is expected to remain a creditor nation, partly because foreign investments in the United States during the past decade have been largely in short-term assets with a negligible yield. Our creditor position, however, does not mean necessarily that our imports of merchandise must exceed exports. The United States was a creditor nation throughout the two decades between the two world wars but in no year were imports of merchandise in excess of exports. The substantial export surpluses in the Twenties were balanced by imports of gold and exports of capital. After the flow of capital was reversed in the early Thirties, imports of gold became sufficiently large to balance both the export surpluses and the inward movement of capital.

A very substantial increase in imports, however, will be essential if export trade is to be expanded after the war with a view to increased employment in the United States. A repetition of the huge inward gold flow cannot be expected and would not be desirable. The Department of Commerce goal of exports of \$7 billion and imports of \$6.3 billion as part of a peacetime gross national product of \$175 billion contemplates a balance of payments in which receipts of dollars for merchandise exports and interest and dividends on foreign investments would be balanced against payments of dollars for merchandise imports, travel and miscellaneous services and increased foreign investments.

In estimating possible foreign trade after the war, the Department of Commerce noted that a creditor nation might have a per-

sistent excess of exports over an indefinite period.<sup>59</sup> The United States, it was pointed out, was during the Twenties and again will be after the war, (1) a creditor country with respect to long-term investments, (2) a lending country, and (3) a country with an export balance of trade.

The facts cited by the Department of Commerce are pertinent in connection with some of the more extreme criticisms of the United States for failure to live up to its responsibilities as a creditor nation. Such criticisms frequently ignore the unsettled European conditions which were responsible for the flow of capital to the United States during the Thirties. The inflow of gold was due in greater part to the inward movement of capital than to an excess of exports.

Lord Keynes appeared to disregard the basic cause of the flight of capital from Europe during the Thirties when in his speech in the House of Lords in May 1944 he approved the monetary stabilization plan as "a far-reaching formula of protection against a recurrence of the main cause of deflation during the interwar years, namely the draining of reserves out of the rest of the world to pay a country which was obstinately borrowing and exporting on a scale immensely greater than it was lending and importing."

**Blocked Sterling Balances:** Among war developments which have occupied a conspicuous place in discussions of postwar world trade is the steadily increasing total of blocked sterling balances. These consist of unfunded short-time claims by other governments, central banks, fiscal agencies, financial institutions and individuals against foreign exchange reserves and gold in the United Kingdom. The very large increase in sterling balances of this nature has been due to expenditures by the British government for war purposes outside the borders of the United Kingdom.

A recent White Paper of the British Government estimated the net sale of overseas assets between September 1939 and June 1944 at £1,065 million and the increase in overseas liabilities during the same period at £2,300 million.<sup>60</sup> Lord Keynes at Bretton Woods asserted that the external war debt of the United Kingdom would amount to £3,000 million or about \$12 billion by the end of 1944. The Keynes total may include some items which are

<sup>58</sup> *Foreign Commerce Weekly*, January 27, 1945, p. 5.

<sup>59</sup> *Survey of Current Business*, November 1944, p. 10.

<sup>60</sup> *Statistics Relating to the War Effort of the United Kingdom*, presented by the Prime Minister to Parliament, November 1944, p. 40.

not in other estimates. The total value of British overseas investments in August 1939 has been estimated at £3,900 million and total assets, including gold holdings and dollar balances, at £4,500 million. The overseas investments have been depleted by liquidations and repatriations by about £900 million. Of investments still held, between £500 and £750 million are in war zones. British overseas investments which had not been liquidated by the middle of 1944 were estimated to represent a total as large as sterling balances and direct loans then outstanding.

According to estimates assembled by the United States Department of Commerce, the United Kingdom in the five years from 1939 to 1943, inclusive, incurred a total net deficit on current account of £3,073 million, exclusive of any liabilities in respect to Lend-Lease or payments offset by Canadian contributions.<sup>61</sup> This included an increase in sterling balances of £1,150 million; an increase in other external debt, £253 million; repatriation, etc., £685 million; investment liquidation in the United States, £175 million; sales of gold and dollar balances in the United States, £530 million; and a residue unaccounted for, £280 million.

The sum of £3,073 million is equal to more than \$12 billion at the present official rate of exchange. The Department of Commerce estimated on the basis of available information that the accumulated deficit probably would reach \$15 billion by the end of 1944.

The totals of sterling balances as listed by the Department of Commerce for the latest available dates, the latest being July 1944, are somewhat lower than some of the estimates by delegations at Bretton Woods. The grand total of external claims is given as £1,905 million or upwards of \$8 billion, including £1,351 million for sterling balances in official holdings such as of central banks and currency boards, £301 million for other holdings, and £253 million for the British Government external debt. The chief item among sterling balances is £752 million pounds as of July 1944 for India or about \$3 billion. The estimate at Bretton Woods was \$4 billion. Other countries, chiefly British, with sterling balances, include South Africa, Eire, Australia, New Zealand, Egypt, Iraq, Palestine, Malaya, British West Africa, British East Africa, and Southern Rhodesia. Also in the list are Argentina, Brazil, Uruguay, Portugal and Iceland.

<sup>61</sup> "Sterling Balances and Britain's External Debt," *Foreign Commerce Weekly*, November 4, 1944, p. 13.

Refusal of the Bretton Woods Conference to provide for absorption of a part of the blocked sterling balances by the Monetary Fund, as urged by the Indian delegation, but opposed by both the British and American delegations, means that their liquidation must be accomplished over a period of years. An obvious difficulty in the way of liquidating these balances through British exports of goods is the fact that for more than a century the United Kingdom has imported more than it has exported and any excess exports would be at the expense of needed imports.

Suggestions for settling the claims include voluntary agreements for cancellation of a portion as an additional contribution to the financing of the war, transfer of various airfields and other capital installations and surplus war property by the British to Empire and associated countries in which these are located, setting aside a portion of the balances as currency reserves, a funding of a portion into long-term loans to the United Kingdom, and the use of a portion for the purchase of goods from the United Kingdom or, with its consent, from the United States or other countries.

## XI. The Problem Confronting Congress

**Related Questions:** The range of responsibility of Congress extends far beyond the specific proposals of the Bretton Woods Conference. The International Monetary Fund and the International Bank for Reconstruction and Development form integral parts in a comprehensive program for postwar economic and political collaboration among nations.

Jurisdiction over the various parts of the program is scattered among several committees in the two branches of Congress. The monetary and credit proposals properly are in immediate charge of committees with special familiarity in these fields but consultation with committees having to do with related problems should be beneficial. Committees to be consulted should include those which are responsible for appropriations and the raising of revenue.

Interrelationship of monetary stabilization and foreign investment with other international and domestic questions was recognized by Secretary Morgenthau when he discussed his program in its early stages with four Senate and five House committees. Both branches of Congress have moved toward better integration of related legislation by the creation of special advisory committees

on postwar problems and policies. These and similar procedures should be helpful in keeping Congress mindful of the broader implications of the Bretton Woods proposals and their relation to and dependence upon other parts of the comprehensive postwar program.

**Prerequisites:** Standing by themselves, the two proposed institutions could not accomplish the objectives of the Bretton Woods Conference. Indeed, without certain prerequisites, the very substantial contribution to their resources by the United States not only would be wasted but might serve to add fuel to inflationary fires and thus aggravate unfavorable trends.

The prerequisites include means for maintenance of peace, the establishment of stable governments in countries in present war areas, adoption by these and other governments of domestic policies conducive to stability in values of a currency in terms of other currencies, and agreement by the nations upon commercial policies permitting an exchange of goods and services with a minimum of restrictions.

The process of establishing stable governments, already commenced in a few liberated countries under very difficult conditions, must take place in other regions overrun by the Axis powers. In virtually every nation involved in the war, a major reorganization of the domestic economy will be required.

The wild inflation which accompanied the liberation of Greece in 1944 and the internal dissension which delayed the establishment of a stable government provide an illustration of the obstacles to monetary stabilization. Greece was one of the nations represented at Bretton Woods. It has quotas in both the Monetary Fund and the International Bank.

Several other nations were represented at Bretton Woods by governments in exile whose tenure of office or ability to establish order among liberated peoples is questionable.

The difficulties attendant upon the fixing of temporary values of currencies in North Africa, Italy, France and Belgium will be encountered elsewhere.

Some factors appear favorable. The United Nations Relief and Rehabilitation Administration will provide assistance in first steps toward reconstruction in war areas. The United States Government will aid through various credit and other agencies and, for a period at least, through continuance of Lend-Lease methods. Private capital will be available to some countries as

in the case of a loan granted to the Netherlands Government. Longer-term credits for the financing of foreign trade, especially foodstuffs and raw materials, are probable. Some countries are fortified with substantial gold and dollar balances. Sterling claims and other guarantees will offer a basis for credit.

Even though a durable peace seems assured, assistance along these lines and through the activities of various proposed international organizations will be of no lasting benefit without the adoption of proper measures within the various countries. Fiscal policies must be on a sound basis. Political, social and economic conditions must be such as to provide domestic stability. Policies of nations must be favorable to trade with others. World stability of currencies reflects stable domestic economies and cannot be achieved without them.

**The Monetary Fund:** Discussions of the significance of various provisions of the Articles of Agreement for the Fund have made it evident that its activities would have a limited scope in the immediate postwar transition period. The stipulation that its resources should not be used for relief and reconstruction or for the absorption of international indebtedness growing out of the war, notably the blocked sterling balances, is a recognition that some of the immediate problems of most pressing importance would be dealt with otherwise. The authorization for a continuance of exchange controls for three or five years or even longer seems to imply that if currencies are stabilized during that period it will be in large part by methods which could be employed without the existence of the Fund.

Such credits as the Fund would make available, through purchases by member nations of foreign exchange, would help to expand world trade. But the opinion is widely held that it would not be a sound or lasting expansion and that the procedures would be such as to invite abuses.

Despite contentions to the contrary, many authorities feel that nations would consider themselves entitled, without regard to domestic conditions, to amounts based on quotas influenced by political and military factors. Terms would be liberal and the management of the Fund would have authority to waive all restrictions. Foreign exchange would be made available to central banks and government fiscal agencies without the necessity for examination of specific projects and without as elaborate safeguards as are provided for the International Bank. If only a

stabilization of currencies were intended, a much smaller Fund would suffice, in the opinion of foreign exchange experts.

Under these circumstances, there are fears that expansion of trade would be attended by inflationary evils, that the dollars in the Fund would be rapidly exhausted by nations desiring to purchase goods from the United States, that currencies without international validity would be accumulated, that this country would be forced to supply additional resources, and that such action would not prevent the eventual collapse of the Fund. A very large part of the Fund's supply of gold or currency with validity outside a country's own borders would come from the United States.

As to the adjustment of exchange rates, the viewpoints of the United States and the United Kingdom show a basic difference which might jeopardize harmonious action by their representatives on the Board of Governors of the Fund. While governmental spokesmen in the United States emphasize the desirability of attainment of stability of exchange rates, the British are more interested in flexibility of the mechanism for fixing exchange rates. British support of the Fund is predicated on the assumption that the mechanism would have sufficient flexibility to facilitate such changes in exchange rates as might be in keeping with domestic policies.

The policy of precedence for domestic over international considerations is the reverse of that under the former international gold standard, which through movements of gold among nations served as a regulator of domestic credit and interest rates and thus of business activity.

On the basis of the quotas and voting power, the creditor nations, principally the United States, might be obligated to conform to policies dictated by the debtor nations, which would be the principal users of credit. Against a possible encroachment upon our sovereignty, however, would be balanced advantages from common action by the nations. Much would depend upon the character of the personnel of the Board of Governors and Executive Directors and the wisdom of their judgments.

**The International Bank:** As against the doubts arising in connection with the Fund, increasingly favorable sentiment has developed for the Bank.

Unlike the new and untried devices proposed for the Fund, the operations of the Bank would have the elements of certainty of

a voyage on fully chartered seas. Its methods are more familiar to business men and bankers and more easily understood.

The safeguards with which the delegates at Bretton Woods surrounded the Bank plan are in marked contrast with the liberal provisions of the Articles of Agreement for the Fund.

The limitation on loans and guarantees to 100 per cent of subscribed capital funds, the requirement for close scrutiny of projects and of the prospects for repayment, the veto power of member nations on loans in their currencies or borrowings in their markets, and the sharing of losses by all member nations in proportion to their subscription of capital, would tend to reduce the dangers from unwise investments.

The emphasis upon guarantees of private loans and the authorization of direct loans only when funds were not available at reasonable terms would mean a purpose to avoid competition with private lenders. The standards set by the Bank and the availability of its funds would be expected to stimulate the flow of private capital into foreign investments under circumstances assuring reasonable protection to investors.

In view of the limited functions of the Fund during the transition period of three or five years, there is held to be valid ground for the theory that the Bank with somewhat broadened authority could deal adequately with immediate monetary stabilization problems, even if a separate institution were found later to be desirable.

By supervision of negotiations among its member nations, the Bank could guide a stabilization of currencies by a "key-countries" approach. Under this procedure there would be initial stabilization of the dollar and pound, perhaps accompanied by a substantial credit from the United States to the United Kingdom, and gradual extension to other currencies as warranted by the world situation and domestic conditions. Stabilization loans, which would require only a fraction of the sum contemplated for the capital of the Fund, could be granted by the Bank when needed.

Those who would prefer a program which includes neither the Fund nor the Bank hold that long-term credits should be supplied by private capital or by the United States Government through the Export-Import Bank. Private capital and the Export-Import Bank would play important roles, regardless of the action with respect to the Fund and the International Bank.

**Decisions to Be Made:** The primary need, in the view of both proponents and critics of the Bretton Woods program, is for an international institution to act as a medium for consultation among the nations, to assemble statistics and other information, and to assist in the stabilization of currencies.

The Congress must decide whether such an institution should have extensive powers contemplated by the proposed International Monetary Fund, whether all proper needs would be met by establishing the proposed International Bank for Reconstruction and Development with sufficient additional authority to make moderate stabilization loans and guide negotiations among the nations, or whether a reorganized Bank for International Settlements or other institution with limited powers would be adequate.

In making its decisions, the Congress must take account of requirements for world rehabilitation and also must give full heed to domestic aspects of the postwar problem, including the effect of an enormous outlay for international projects upon the burden of taxation and the public debt.

Monetary stabilization would form a cornerstone in a foundation for the revival and expansion of world trade, which if on a sound basis would be reflected in greater prosperity in the United States. Long-term credit for reconstruction and development would be a necessary part of the structure, which would need support also in the form of proper policies on related matters.

Nothing would be gained by credits, whether intended for stabilization or other purposes, which did not promise lasting benefits through a continued and increasing movement of goods and services among the nations.

The desirability of economic collaboration between the United States and other nations is not an issue in the discussions on the Bretton Woods proposals. World rehabilitation will require the active participation of the United States at a very substantial cost. Interested individuals and groups agree upon this premise but differ as to the effectiveness of proposed methods of collaboration and as to the amount which can be expended wisely.

Careful examination of the suggested mechanisms is consistent with democratic processes and should assure a final program which will safeguard the interests of the United States as well as enhance the prospect of realization of the objectives of Bretton Woods.

## Resolution on Monetary Policy

APPROVED by member organizations of Chamber of Commerce of the United States in a referendum vote, 2236 to 14, June 1944.

THE CHAMBER REITERATES its belief that restoration of a satisfactory international monetary standard and faith in the integrity of currencies are vital needs which must be met.

Stability in currencies is necessary for an adequate revival of private international trade, with its postwar benefits to the people of the United States and of other countries.

The gold standard is the only international monetary standard which has commanded any general acceptance. World trade moves on values based upon gold. The restoration and maintenance of a satisfactory standard are dependent upon the development of confidence, the balancing of public budgets, and the ultimate removal of restraints upon foreign exchange.

The United States should provide the necessary steadying influence internationally by assurance of stability of the dollar, free of exchange restrictions. Stability of the dollar will require abandonment of policies which are designed to encourage deficit financing, repeal of the authority to issue greenbacks, and prohibition upon exercise of executive power which would weaken the currency standard established by Congress.

Endeavors should be encouraged to establish definite rates between the dollar and pound sterling, which are so greatly used in world trade, with subsequent relation thereto of the currencies of other countries as they make necessary adjustments. Stability of those currencies demands resolute determination by the respective governments to establish sound domestic policies, with reliance upon their own efforts to the utmost extent possible and the avoidance of inflationary processes or attempts to obtain mercantile advantage through monetary manipulations.

Plans have been proposed for currency stabilization which contemplate the setting up of an international agency. Some international institution may prove to be desirable, perhaps utilizing existing machinery. It is of the highest importance, however, to insist upon proper limitations of power, sufficient national freedom of action in monetary policy, and adequate safeguards in credit extensions.

