Folder Title:	Bretton Woods Documents - Riddle Comments on Bretton Woods Proposals - Comments
Folder ID:	1849648
Series:	Bretton Woods collection
Dates:	05/01/1944-05/31/1944
Sub-Fonds:	Leonard B. Rist files
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ISAD Reference Code:	WB IBRD/IDA STAFF-09-02
Digitized:	6/23/2020

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May 1944

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Proceedings
The Academy of Pol. Science
May 1944

INTERNATIONAL FINANCIAL ORGANIZATION

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IN the debate over stabilization plans and foreign credits we sometimes lose sight of more basic factors. There are two fundamental prerequisites to stabilized exchanges which should be kept in mind in any discussion of plans. One is international peace and political stability, and the other is internal political and economic order.

International political conditions constituted one of the principal reasons for the failure to achieve permanent exchange stability in the interwar period. Political fears and uncertainties not only hamper the free flow of funds in the usual channels, but stimulate flights of capital and throw international payments seriously out of balance. The restoration of genuine peace and security throughout the world will do more to promote long-run exchange stability than any other single factor.

The establishment of internal political and economic order is almost equally important. Unstable governments, unbalanced budgets, and general internal economic disorder are not conducive to balanced international accounts and stable exchange rates.

International financial organization in the transition period must be adapted to the conditions and problems that will prevail at that time. A world torn by five or six long years of destructive war cannot return to a state of balanced order overnight. Political strife and economic chaos will prevail in many areas; some countries may be without responsible governments, for a time at least, and world trade relations will be completely disorganized. There will be only a few creditor countries at most, and many debtor countries with the current balance of payments running strongly and consistently against them.

Stabilization Procedure

In the world of disorder that will prevail, I can think of no more practical approach to the short-term problem of stabilization than to deal with each currency separately, beginning with the pound sterling and other key currencies. This is sometimes known as the "key-country" approach.

The major problem will be for the great nations to put their own houses in order. If they can keep the peace of the world, bring their own international accounts into better balance, and are willing to eschew policies that depress other currencies, the major battle for world stability will have been won. On the other hand, if the great nations do not meet these requirements, long-run stability cannot be achieved. It was largely the actions and policies of the four great Powers between the two world wars that prevented a reasonable degree of exchange stabilization and economic order in the world.

Stabilization Agreement with England

The first task, if we wish to do something practical and concrete, is to work out plans with England for stabilizing the dollar-pound rate. That agreement could include provision for consultation regarding a change in rate if and when basic conditions seem to warrant, thereby protecting the pound against the effects of too great rigidity. Arranging a stabilization agreement with England faces two difficulties; one arises from differences in stabilization theories between the two countries, and the other from England's debit balance.

The English seem reluctant to tie the pound too closely to the dollar or to gold. They want some stability, but not too much stability. They are keenly conscious of unemployment problems and other domestic social issues, and seem to feel that some variability in the exchange rate may be necessary to maintain stability in the internal economy. To what extent this policy can be reconciled with the goal of international stabilization remains to be seen. I should add, however, that Keynes himself recognizes far more clearly than he did a decade ago the destructive effects of freely flexible exchanges and the necessity for substantial stability.

The second difficulty arises partly from the large blocked sterling balances accumulating, and partly from a debit balance of payments expected to prevail after the war. England has probably lost half her income from foreign investments and much of her foreign income from banking and shipping.

Most of the blocked sterling balances, however, are due to Empire countries and perhaps settlements can be reached directly with the countries concerned. England still has substantial investments in some of the countries that have built up sterling balances. Some of the blocked balances could probably be refunded into long-term securities, and some settled by the shipment of manufactured goods from England.

There is some doubt as to whether her post-war international accounts will be as much out of balance as some of the more pessimistic calculations indicate. She may produce more food than formerly. Production costs have probably been held down more effectively in England than in the United States, which should help in the redevelopment of her export trade. England's productive equipment is still in far better shape than that of other European countries, and the fact that many countries have built up balances in London will serve to give her an outlet for goods.

No doubt England will have to maintain certain exchange and trade controls until blocked balances are reduced to more manageable proportions, and her international accounts brought more nearly into balance.

It has been suggested that some of England's initial needs in the post-war period might be supplied by lend-lease. This suggestion raises difficult questions, but it might be explored, if coupled with a proviso for more definite but liberal terms of repayment. It is within the defense interests of the United States to see that England starts on the road to recovery from the great burdens which the war has imposed upon her.

Whether England will need stabilization credits, as well as how to meet these needs in a manner mutually beneficial to both parties, is a matter for careful study. As her credit position improves, she could probably float a substantial public loan in this country. To give England more time to work out her problems, we should postpone for five years the settlement of lend-lease aid, and cancel her World War I debt obligations to us.

Other Currencies

In emphasizing the need for stabilizing key currencies there is no thought of excluding other currencies from the arrangements, or of neglecting them. Any country would be included in the agreements when it can take the necessary steps to stabilize. The problem of each country is different, and the nature of the adjustments to be made will vary widely. Some countries will have little difficulty in fixing and maintaining rates in terms of dollars.

Others, such as the occupied countries, will face greater difficulties. Some will suffer from internal political dissension, as well as chaotic fiscal and economic conditions. In those countries exchange controls will have to be maintained longer while they work out their problems. The task rests largely with the individual countries. No one else can do that job for them. Each country must put its internal house in order and show the necessary determination to bring its international accounts into some kind of balance. Credits should be granted only on the merits of each individual case.

Responsibility of the United States

A major responsibility rests upon the United States to take the lead in stabilization. The dollar should be the strong currency on which general stabilization efforts center. That would require the United States to put its own fiscal affairs in order, and to keep the dollar firmly fixed to gold at $35 per ounce, with unrestricted exports and imports of gold.

The United States should also assume the true rôle of a creditor country, and give greater encouragement to the importation of foreign goods. A nation is enriched by its imports rather than by its exports. We export in order that we may import. A reduction of tariff barriers would facilitate the development of multilateral trade and the solution of exchange problems. If we accept more foreign goods, other countries will have more dollars with which to buy our goods. A greater willingness to accept British goods would facilitate the working out of a stabilization agreement with England.

International Bank

Some kind of international institution is desirable as an aid to stabilization efforts, but it should not have broad powers of control over international trade and the economic affairs of nations. It might be an international bank with a simple structure and limited powers, acting largely as the instrumentality of the principal central banks and treasuries.

I have in mind an institution similar to the Bank for International Settlements, which, if freed completely from reparation payments and German influence, and with certain other charter changes, could be adapted to the new problems. If the prejudice which has grown up against that institution would prove to be a handicap, however, a new organization along similar lines, with necessary modifications, could be established.[1]

Such an international bank would be a meeting place for central bankers and treasury officials to discuss monetary problems. A central place for officials to meet and exchange ideas would promote among them a better understanding of one another's problems and encourage maximum coöperation in monetary matters. Principal reliance for the success of the institution would be based on friendly official and personal relationships, information and persuasion. Free collaboration by the nations, rather than compulsion, would be the basis of operations.

One function of the bank would be to collect international statistics and other information. It would maintain a corps of experts and make comprehensive studies of the exchange problems of various countries. It would become a consultative body on international monetary matters, including proposals for changing rates to meet basic conditions. Its expert knowledge and advice could help guard against too great rigidity of rates as well as against hasty and ill-considered changes that might lead to retaliatory measures.

The bank could handle international clearings, including gold clearings, thereby facilitating international transactions and minimizing gold shipments. It would have only limited lending functions; the major credits would have to come from the creditor countries. However, countries could grant mutual aid through its facilities. The bank could aid in the negotiation of stabilization credits which might be extended by the

1 The institution suggested here should not be confused with the United Nations Bank for Reconstruction and Development proposed by Treasury experts for encouraging or providing long-term loans.

creditor countries, and could aid in the servicing of international loans.

The international bank would extend limited credits to cover seasonal or other purely temporary needs, thereby enabling countries to avoid exchange difficulties or rate changes because of a temporary lack of balance in their international payments. In this way it would facilitate the operations of existing banking machinery for financing international trade and for making current international payments. In no sense should it be an eleemosynary institution. It would not grant long-term loans, or make loans to cover the chronic lack of balance in a country's payments.

The International Bank would not require a big capital fund, probably not over $500 million. Central banks and governments would supply the capital, but subscriptions from all countries would not be essential. A few founding countries could subscribe for the majority of the shares and organize the institution.

Keynes and White Plans

The Keynes and White plans for stabilization have been under discussion about a year. Many changes have been made in them and the discussions are continuing with a view to arriving at some agreement between the experts of the various countries. What the status of these plans is today or what the ultimate compromise may be, we do not know.[2] If finally reduced to some simple, practical organization, it may find acceptance.

In their original forms, however, those plans were entirely too ambitious and quite impractical. They relied rather heavily upon generous credits to solve the world's difficulties. They provided for credits based on quotas or formulas that had little relation to credit needs or credit worthiness. They seemed wholly unsuited to the conditions that will prevail in the transition period. If a stabilization fund of the kind suggested should be established now, it would inevitably be utilized to

[2] Since the delivery of this address, the monetary experts of the United and Associated Nations issued on April 21 a statement of principles which had been agreed upon as the basis for the establishment of an international monetary fund.

finance some of the chronic debit balances of the transition period, and might be left in such a frozen condition as to interfere materially with its usefulness later on. The original plans provided for broad controls over international transactions and seemed entirely too complex to be generally acceptable.

New Mechanisms and Generous Credits

In spite of past experiences the belief still seems to exist in some quarters that the world's economic problems can be solved by elaborate new mechanisms and generous credits. There is no magic in mechanisms, however, and there are a great many problems that credits cannot cure.

After the last war, there was a great demand for new facilities to finance foreign trade. A number of organizations were established for that purpose, both in this country and in England. The imposing list of names includes: The Mercantile Bank of the Americas, Inc., The American Foreign Banking Corporation, the Asia Banking Corporation, The Park-Union Foreign Banking Corporation, The Foreign Credit Corporation, the Federal International Banking Corporation, and the First Federal Foreign Banking Corporation. The British list is almost as imposing. Mr. Wilbert Ward, Vice President of the National City Bank of New York, in a recent survey of these institutions and their activities said that "On both sides of the Atlantic they dissipated their capital, and made no important contribution toward achieving the objectives outlined in their prospectuses." [8] In the course of a few years they had run into difficulties; some disappeared and others were absorbed by older institutions. Much of the capital funds put into those institutions was lost.

Substantial amounts of long-term loans were also extended to European countries in that period. Of the loans made by the United States government to foreign governments in connection with World War I, about $3 billion were advanced after the Armistice. A large portion of them went to continental Europe, either directly or through England. There were also substantial private loans made to Europe during the 1920's, perhaps as much as $2 or $3 billion. These loans and the

[8] Wilbert Ward, "Foreign Trade — Post-War Plans and Prospects", a reprint from *Burroughs Clearing House*, January 1944.

agencies for financing foreign trade, however, did not result in any lasting stabilization of European currencies. On the contrary, they increased long-run exchange difficulties, as a rule, because they piled up additional debts and lulled borrowing countries into doing nothing about needed readjustments in their affairs. The fact is that we were generous with credits during that period, but generous credits do not solve stabilization problems.

The purpose of stabilization efforts should be to make the participating countries self-reliant. Loans and credits granted to a debtor country should enhance its productivity and increase its power to meet foreign obligations. Foreign credits granted for nonproductive purposes, with no clear prospect of creating additional exchange resources, will accentuate exchange difficulties rather than relieve them, as we saw in the interwar period.

To grant credits to a country simply because it has an unfavorable balance of payments would be somewhat like making loans to a corporation because it operates in the " red ". Either condition may indicate the need for reorganization and new policies. The London *Statist* has said:

> There is no method better calculated to perpetuate disequilibrium than the distribution of largesse on an international scale to all countries whose balances of payments happen to be in debit. There is far too marked a tendency among academic commentators on the currency schemes and on the world capital bank plan to regard the existence of a deficit in a country's balance of payments as sufficient reason for granting it help in the shape of short- and long-term credit.[4]

America will aid in the relief and rehabilitation of many of the war-torn countries, but we should make a sharp distinction between relief and credits. Let us not grant relief in the form of credits that cannot be repaid, thereby piling up international obligations that will bedevil the exchanges and our international relations for decades to come. A United Nations relief organization has already been established to which the United States has and will continue to contribute generously. Perhaps other aid could be granted through lend-lease. Our government will possess large stocks of equipment, machinery and other materials for which there may not be much demand in this

[4] *The Statist*, International Banking Section, November 27, 1943, p. 4.

country, but which might be lend-leased on liberal terms of repayment.

Foreign Buying Power in This Market

It is incorrect to assume that foreign countries are without reserves of buying power that can be utilized in this market. It is estimated that foreign countries own approximately $13 billion of gold, and foreign banking funds held in the United States aggregate about $5 billion.[5] That makes a total of $18 billion of gold and dollar exchange held by foreign countries, not including foreign investments here probably aggregating $5 or $6 billion. The world's production of gold outside the United States will probably rise rather quickly to over $1 billion per year after the war.

The principal source of dollars for foreigners, however, will be our imports, visible and invisible. The greatest single contribution that the United States can make to the recovery of the world and to stabilization efforts will be to maintain prosperity in this country. The volume of our imports varies directly with our business activity. A high level of activity requires a high level of imports. The Bureau of Foreign and Domestic Commerce has estimated, on the basis of certain assumptions as to gross national product, that our merchandise imports might aggregate over $6 billion by 1948, and invisible imports, plus long-term capital transactions, another $4 billion.

How the United States can maintain a high level of business activity is not within the scope of this paper. Free private enterprise can perform this service for the country and the world, however, if the investment incentive is not too severely repressed.

There seems little doubt as to the ability of our present banking system, with its foreign branches and connections and years of experience, to finance any amount of foreign trade that may develop, and to grant terms to foreign importers of raw materials that will cover the time necessary to process the goods and export the finished products.

Long-Term Loans

There will probably be substantial foreign demand after the war for American capital for reconstruction and developmental

[5] Including a limited amount of securities maturing within one year.

purposes. If an era of genuine world peace can be restored, no doubt in time a natural flow of private capital to foreign countries will develop. For the time being, however, there may not be much enthusiasm on the part of private investors for foreign securities. Temporarily, some governmental agency may have to be the spearhead for long-term foreign loans. Since the United States will be practically the only important creditor, with many debtors, the suggestion that the loans be made by some institution with an international board of directors seems unacceptable.

I suggest that we explore the possibilities of expanding the powers and functions of the Export-Import Bank with a view to making it the center of our foreign long-term loan activities in the transition period. The organization is already set up and has had years of experience in dealing with foreign countries. Apparently its commitments have been made with care and the Bank has been able to avoid some of the pitfalls of private investment during the 1920's. As in the past, the funds used might be supplied chiefly by private sources under the guarantee of the Export-Import Bank.

It would be a healthy development if the flow of long-term productive capital to foreign countries could take the form of direct investments, or the purchase of equities, rather than of loans. It would allow greater latitude of time in making transfers and reduce the burden on international exchanges, because returns would not run counter to the exchange position of the capital-importing country. On the whole this type of investment seems to weather economic storms better than fixed-interest investments. One suggestion that may be worth pursuing is that with suitable government attitudes our industries might participate directly in helping to reconstruct European industries.

Limitations on Commitments

The extent of our credits, loans and investments abroad will presumably depend largely upon the kind of world that will develop, and the extent of intergovernmental guarantees against confiscation. The international political outlook is by no means clear. Different political ideologies will prevail in different parts of the world, and we do not yet know what spheres of influence may develop or what kind of international organization may be set up. The outlook for the development of foreign trade is equally obscure. Different kinds of economic philosophy and trading practices will prevail among the nations; government monopoly of foreign trade in some cases, cartels, division of markets and preferential arrangements in others. How will this affect the course of our efforts at free competitive enterprise?

These uncertainties would seem to suggest caution against large-scale global credit commitments. It may be wise to limit the scope of our future commitments and to concentrate on those areas and countries which are more directly associated with our interests, at least until we see what the new world order will be.

Summary of Conclusions

(1) The major contribution which this country can make to stabilization efforts would be to maintain prosperity at home, thereby encouraging imports and supplying dollars with which foreigners can buy more of our goods.

(2) The United States should put its own finances in shape and make the dollar the strong currency on which stabilization efforts center. The dollar should remain firmly tied to gold at $35 per ounce, and both exports and imports of gold should be unrestricted.

(3) Each country must restore internal order and put its own finances in shape before its currency can be stabilized. These measures cannot be imposed from without.

(4) Exchange stabilization must be worked out country by country, and credits must be considered on the merits of each case. The chief problem is for the major countries to keep their own currencies stable, and to follow policies favorable to international stabilization.

(5) In so far as possible, reliance should be placed upon existing financial agencies, with necessary adjustments, instead of establishing elaborate new international financial mechanisms.

(6) An international bank with a simple organization and limited powers seems desirable to facilitate international settlements, to direct international financial studies, to serve as a

meeting place for central bankers and monetary authorities, to act in a consultative capacity regarding stabilization problems, and to grant limited short-term credits.

(7) Long-term reconstruction and developmental loans can be made by an enlarged Export-Import Bank, or private funds can be advanced with the guarantee of the Export-Import Bank.

(8) There should be a sharp distinction between gifts and credits. Credits that cannot be repaid create exchange difficulties in the long run.

(9) Direct investments abroad should be encouraged by suitable governmental policies and guarantees against confiscation. Where long-term loans are essential they should be limited to productive purposes which are calculated to produce foreign exchange sufficient to service such loans.

(10) Until we know more about the political complexion of the world and the various spheres of influence that may develop we should avoid global credit arrangements and restrict our commitments to particular areas and countries.

(11) Lasting international peace and political stability are prerequisites to permanent stability of currencies. Without these, no stabilization measures or plans can succeed in the long run.

REMARKS BY THE CHAIRMAN

CHAIRMAN COUDERT: I congratulate Mr. Riddle on his ability to make clear so many apparently difficult and intricate questions of finance.

All of us who listen to the radio know the next speaker. He keeps us informed concerning the military movements in this war. But he is more than a great technical commentator on military affairs of which he is a master. He is also a man who has thought deeply on post-war problems. Anyone who wants to understand the world that we are living in today, and the world that we must fashion after the war, if a victory is to be worth achieving, should read a very interesting book that I picked up last night at the bookstand. It is one of the best books recently written on the war, and it was written by Major George Fielding Eliot, for whom we all have a high regard. Major Eliot, we wish to hear from you!