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Bretton Woods Proposals

A STATEMENT ON NATIONAL POLICY BY THE

Research Committee

OF THE

COMMITTEE FOR ECONOMIC DEVELOPMENT

This statement on the Bretton Woods Proposals is part of a longer policy statement that is now in preparation dealing with International Trade, Foreign Investment, and Domestic Employment.

RESEARCH COMMITTEE
OF THE
COMMITTEE FOR ECONOMIC DEVELOPMENT

Introduction

IT IS THE POLICY of the Research Committee of C.E.D. to direct its efforts toward the solving of the larger problems of the transition in the postwar period rather than to offer conclusions on matters of merely current interest. Since, however, the Bretton Woods Agreement relates to long time policy, but at the same time comes up for early action, it has seemed wise to publish this advance section of our forthcoming Policy Statement on Foreign Trade.

The Bretton Woods Proposals cover a field difficult for many citizens to understand. We therefore give herewith some elucidation to the main point of the position taken in this report.

It is a synthesis of the present opposing views about the Bretton Woods Proposals, not a compromise between them.

This synthesis is effected by the suggestion that the proposed Bank for Reconstruction and Development be given *the express power* to extend loans to member countries to help maintain, when necessary, the established parity of the borrower's currency; and also loans designed to help in the general restoration of a member's economic status after the war.

The Bank's managers could assume this power, if they decided to exercise it, under the very broad terms of one phrase in a crucial Article: "Loans made or guaranteed by the Bank shall, *except in special circumstances,* be for the purpose of specific projects of reconstruction and development." (italics ours)

The need, in many instances, of the type of loans referred to can and may be construed as "special circumstances." But the absence here of *an express power* in the Bank to make such loans is a source of misgivings that have arisen about the wisdom of attempting to operate an International Monetary Fund, of the character created by the agreements, in the immediate postwar period.

The prime purpose of the International Monetary Fund is to enable each member country, by right of membership but within set limits, to cover *temporary shortages* of a needed currency, arising from an adverse balance of trade between it and some other member.

Perhaps the weightiest criticisms of the International Monetary Fund have centered in the expectation that the principal demands upon this pool of currencies will arise, not from such short-lived imbalances of trade, but from the very serious distortions in production and international trade relations caused by the war.

The Monetary Fund, it is held, will inevitably be put to the necessity of having to "finance unstable conditions" in many countries for an indeterminate period; its stronger currencies will quickly be drained away and replaced by weak currencies which few firms engaged in international commerce will need or want; that is, the managers of the Fund, in spite of some safeguards, will in fact be powerless to prevent the use of this pool of money for what would be in effect stabilization, reconstruction and "general purpose" loans to war-stricken countries.

Consequently, it is held, the prime intended function of the Fund, to deal with currency transactions and to correct temporary currency imbalances, would be perverted; not through expected mismanagement, but because of the underlying economic necessities of the postwar period in many war-torn nations. This result, it is anticipated, may lead to early breakdown and future serious international monetary, economic, and political difficulties.

It is certain that many member countries after the war will need stabilization, reconstruction and general purpose loans. If such loans, as this Committee proposes, are thrown expressly *within the province of the Bank's management,* where normal credit-extending considerations could be expected to govern every transaction, the International Monetary Fund could then be constantly maintained to serve its special purpose, to deal with temporary imbalances of international trade. The Fund's managers could refer to the Bank demands that would tend to transform it, from its prime and true function, into a long-term loaning agency.

It seems to this Committee that such an extension of the Bank's powers is one to which it should be easy to gain acceptance from the present forty-four signatories of the Bretton Woods Proposals. It is not a radical change; in actuality it would be a mere clarification of a present obscure phrase.

The agreements among member nations not to depreciate their currencies by unilateral action; to remove their present exchange controls progressively; to consult and cooperate closely and constantly with one another on all monetary matters; to open up, under proper safeguards, a ready flow of capital for developmental purposes over the world—these, and other features of the Bretton Woods Proposals, will constitute momentous progress in international collaboration, *if such agreements turn out to be workable and lasting.* Both a sound Fund and a sound Bank are needed to make them workable and lasting, with the functions of each instrumentality clearly delimited and recognized by all member nations.

With the simple but significant change proposed here, the soundness of both the Fund and the Bank will be better assured, and hope of successful achievement of their great purposes is not unreasonable, even in the very difficult readjustment of the world economy that must take place in the years after the war.

Ralph Flanders
Chairman, Research Committee

A STATEMENT ON NATIONAL POLICY BY THE

Research Committee of the

Committee For Economic Development

ON THE

Bretton Woods Proposals

THE COMMITTEE FOR ECONOMIC DEVELOPMENT as a group of business men is deeply interested in the proposals made at Bretton Woods for the establishment of an International Monetary Fund and of an International Bank for Reconstruction and Development.

The efficient movement of international trade and capital will be facilitated by orderly relations among the various currencies of the world, and by the outlawing of the use of currencies and exchange devices for purpose of international economic warfare. Also, an orderly and adequate means of providing needed capital for world reconstruction and development will hasten the restoration and growth of production and trade with beneficial consequences for world prosperity and security.

Accordingly, in the United States high levels of productivity and of the standard of living will be more easily reached and more certainly maintained *(a) if the relation between currencies is orderly,* and *(b) if the financing of reconstruction and development is promptly and soundly arranged.*

The Research Committee, therefore, believes that it is necessary to create international machinery in which the United States would participate in order to obtain orderly international currency relations; to reduce the dangers of economic warfare; to make loans, underwritings, and guarantees in connection with reconstruction, development, and currency stabilization; and to provide arrangements under which currency and other financial problems affecting world stability and prosperity can be freely and systematically discussed.

FIVE BASIC PRINCIPLES

IN ATTAINING those objectives certain principles should be observed. First, *we want the greatest order possible in international currency relationships without infringing the essential self-interest of any country.* We hope to gain the acceptance of long-term self-interest over short-run expediency in the management of currency relationships and to harmonize, so far as possible, the interests of all. We wish to eliminate caprice, unnecessary uncertainty, and hostile actions; we do not wish to interfere with the just right of peoples to deal as may seem to them proper with their own internal problems.

Second, *in so far as possible, loans should be truly loans; currency transactions should be currency transactions; and gifts should be gifts.* Lack of clarity as between intent and method at this point will produce in the future, as it has produced in the past, misunderstanding and bitterness between countries. If a gift cannot be made as a gift, it should not mask behind the facade of a loan.

Third, *in the making of loans, underwritings, and guarantees, for reconstruction and development, the amount and kind of the loan should be geared into the amount and kind of imports needed by the borrowing country for the approved reconstruction and development projects.* Uneconomic international debt should not be created for the purposes of relief or to bring about an internal expansion which might be better produced by and within the borrowing country itself.

Fourth, *we must accept for some time as a condition of orderly currency relationships within the framework of long-term self-interest of ourselves and others, the continuance of methods of exchange control that alter what otherwise would have been the free flow of trade and investment.* Although such methods are subject to abuse, they need not be harmful in themselves. The problem is that, when they are invoked, their use should be proper and not improper; and international consultation and cooperation will help attain this end.

Fifth, *creditor countries should behave like creditors,* they should adopt measures that will make it possible for a debtor willing to pay his debts to do so. *Debtor countries should behave like debtors,* they should adopt measures that make it easier for them to observe the letter and spirit of their obligations.

The Bretton Woods Proposals

THE BRETTON WOODS PROPOSALS cover two sets of machinery, an international bank and an international currency fund. This machinery is intended to provide the means for making international loans and for short-term stabilization of currencies. We believe that both these objectives are desirable, whether they are achieved through two organizations or through one.

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

WE BELIEVE *that the lending objective can be accomplished satisfactorily through the proposed International Bank for Reconstruction and Development, although we do recommend some extension of its powers. The purposes of the Bank as stated do not seem to be sufficiently broad to include loans expressly intended to serve the requirements of long-continuing stabilization.* We feel that the purposes should be so broadened.

The needed general stabilization loans which would assist in orderly monetary relations might be of two sorts. There will probably be a need for long-term loans of a type for which there is no provision at present under either the Bank or the Monetary Fund. The Bank's loans, as at present provided, are to be for specific projects of reconstruction or development; but there will probably be a number of countries that will need some more general form of loan assistance than these specific projects imply—loans designed to provide for imports of a variety of goods and services *in a general restoration of a country's powers of production and trade.* There may also be a need for short-term credits to assist in the maintenance of orderly relations in currency transactions themselves. These short-term credits may be particularly needed toward the end of the transition period, as nations proceed to relax their exchange controls and to find the equilibrium rates of exchange to which their international accounts could be balanced in a freer exchange market.

The managers of the Fund require and deserve the protection to the clarity of their operation that would come from clear authority to the Bank to make loans for stabilization purposes when they are justified.

Otherwise, there will be pressure on the managers of the Fund to permit transactions not consistent with the short-term stabilization operations of a currency fund.

THE INTERNATIONAL MONETARY FUND

THE PURPOSES of the Fund are more difficult to attain than those of the Bank. The Fund is intended primarily as an agency of long-continuing monetary management. It is intended to give all member countries access to a common fund of currencies *in order to meet the short-term fluctuations in their international position.* The basic assumption for the successful operation of such a Fund is that there should be a tendency for international transactions to equalize, apart from short-term fluctuations.

The principal criticism of the Fund is that, in the abnormal conditions of the transition from war to peace, the expectation of an even-balanced position could not be realized. If serious unbalance developed, the Fund would become lop-sided, that is, frozen with unwanted currencies. The result would be much the same as though the surplus countries had made loans to the deficit countries. In this way the Bretton Woods Proposals in their present form might lead to a frozen Fund, cause international misunderstanding, and thereby be more harmful than helpful to the cause of international monetary cooperation.

This risk of failure to work during the transition has raised the question whether the establishment of the Fund is urgent. The *urgent* need will be for specific and general credits to be granted to individual countries, rather than the need of general access to a common stabilization fund, which will become more appropriate when exchange controls are in process of removal.

But the Fund also provides for other important functions. It provides for international consultation on currency and financial matters as well as for ordinary clearing of currency balances. These functions are both useful and important.

Agreement on acceptable exchange practices, which would tend to prevent capricious change in exchange rates and to eliminate the use of currency and exchange devices for purposes of economic warfare, constitute a great advance in international cooperation. But it is true that these purposes could be served, if necessary, by the Bank, at least for the time being, leaving for a later day decision on the establishment of a separate currency Fund.

However, a significant feature that might disappear, if the consultation and clearing functions now set up in the Fund should be assigned to the Bank, *is the right of member countries to exchange their own currency for that of other countries, within limits and without the approval of the management of the Fund.*

The existence of this right is valued by every country, because it dignifies its relation to the Fund and to others, because it facilitates currency transactions, and because it avoids the necessity of a country going in debt to anybody as long as its purchase of a needed currency is within the framework of a bona fide currency transaction.

This right of access gives the Fund its short-term stabilizing power, but it also leads those who have reservations about the Fund to feel that the right might be abused, with or without intent, and that the United States would be forced to take actions to unfreeze the Fund; that the United States would be blamed by others for failure to take what would be considered adequate action to protect the Fund; and that we ourselves would misjudge the distortion of the Fund, coming from the inescapable consequences of postwar readjustments, as evidence of bad faith on the part of others.

To be sure, these dangers can be minimized if the managers of the Fund have the courage and skill to invoke at the right time the protective provisions that are written into the Articles of the Fund. But there may be proper doubt as to whether the managers would be able, in fact, to exercise these powers, unless their position is strengthened.

The solution of this difficulty lies *in giving to the Bank the clear power to make loans for long-term and short-term stabilization purposes at times when such loans are needed and appropriate.*

The managers of the Fund can then refer to the Bank those transactions for which the Fund is not intended. They can also require a country to correct any seriously unbalanced currency position through recourse to the Bank when such recourse is appropriate, rather than by taking more drastic action. Thereby the Fund can be substantially protected. We believe that the danger of abuse of the Fund would largely disappear if the purposes of the Bank were broadened to include, expressly, loans intended to serve needs for long-continuing stabilization.

We attach great weight to these considerations, particularly since the essential functions of the Fund, wherever located, require support of the Bank by powers not presently existing. We urge, therefore, that the possibility of strengthening the Bank be re-examined by the Government.

Recommendations

WE RECOMMEND the approval of the International Bank for Reconstruction and Development and also recommend that at an appropriate time, which would not delay its approval, its powers

be broadened to include the extension of general long-term or short-term loans for stabilization purposes.

After the Bank is strengthened in this way, we feel that the management of the Fund should be able to use the Fund strictly for currency transactions. Accordingly, the dangers inherent in the Fund as it now stands would be substantially reduced and we would recommend that the Fund be approved.

We are well aware that the Bretton Woods proposals do not exist in a political and diplomatic vacuum. We know that there are considerations outside the proposals proper, some of which are matters of public record, some of which may not be. These considerations must be weighed by the Administration and by Congress against the risks that are inherent in (a) approving both the Fund and the Bank as now proposed, (b) approving the Fund, and the Bank strengthened as we suggest or (c) approving the Bank alone and assigning to it the currency stabilization function.

Unless the Bank is strengthened, or unless there are weighty political or diplomatic considerations, we would recommend that certain functions of the Fund be carried on by the Bank and that the establishment of the Fund be postponed.

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