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SENATOR TAFT'S CRITICISMS

On July 11 Senator Taft issued a statement about the proposed International Monetary Fund, in which he expressed serious doubt about the probability of it being approved by Congress. The points which he makes against the Fund and their brief appraisal follows. It may be added that these points represent the substance of criticism of the Fund made by others, and consequently their evaluation will counter not only Senator Taft's attack but also many others.

1. Senator Taft says: "The stability of national currencies depends primarily on the condition of the country issuing the currency, its economic activity, its fiscal policy, its ability to pay for neces sary imports, its willingness and ability to levy sufficient taxes to balance its budget. An international monetary fund could disappear almost overnight if it attempted to stabilize exchange before the countries concerned were restored to normal economic life."

In making this statement Senator Taft overlooks the fact that there are a number of provisions in the proposed agreement which would make it impossible for the Fund to disappear "almost overnight". In the first place countries are not permitted to use the Fund except for purposes of current payments. They cannot, therefore, utilize it for reconstruction purposes, to finance capital flights, or for any other movements of funds that conceivably could be on the scale which the Senator envisages.

There is also a provision in the Fund by which no country is permitted to utilize more than 25 per cent of its quota in the course of any 12-month period. This, in itself, would make an overnight disappearance of the Fund impossible. Furthermore, the countries which are using the resources of the Fund are obligated to pay certain charges which increase in proportion to the amount and duration of their use. This provision would tend to bring pressure on the countries to moderate their use of the Fund, both in amount and in time, and to curtail it as soon as they can.

2. Senator Taft says "The proposed fund is not large enough to deal with the post-war emergency situation and no such fund could be large enough. It is much larger than necessary to eliminate minor fluctuations after normal production is resumed and countries are again on a sound financial basis. To set up an international exchange fund now is to put the cart before the horse." No one would differ with Senator Taft's statement that no single fund could be large enough for the purpose of curing all the maladjustments and restoring all the economic plant devastated by the war. The sponsors of the Fund are aware of that and specifically state in the agreement that the Fund is not intended to provide a means for reconstruction or for the settlement of indebtedness accumulated during the war. In making his statement, therefore, Senator Taft sets up a straw-man and then effectively knocks him down.

When the Senator says, however, that the Fund is too large to take care of minor fluctuations he is in error in two respects. In the first place, he does not appear to realize that fluctuations might not be minor for many years to come, and that some machinery for reducing their range is consequently not only desirable but necessary. In the second place, there is no basis for the statement that the Fund is too large. Its proposed size has not been taken out of thin air. It is based on a careful estimate of the maximum fluctuations in balances of payments that have occurred before the war, with some allowance for the fact that after the war they may be expected to be larger. In the 20's and 30's a great many countries set up stabilization funds, and, if these funds were added together, the total would approximate the total proposed for the International Monetary Fund. The Senator's dictum indicates that he has not studied the factual basis of the proposal.

When the Senator says that to set up an exchange fund now is to put the cart before the horse he implies in effect that the appropriate time to set up the Fund would be when it wouldcease to be of major importance. The time to help stabilize exchanges is when they are not stable.

All other international undertakings for world recovery after the war would be greatly handicapped if their transactions were complicated by wide fluctuations in exchange rates. International investment and even the operations of the UNRRA, for example, would be much more difficult if it were not known from day to day what the currencies of the countries involved were worth. It is true that exchange stability cannot be achieved without economic stability, but in a disrupted world it is necessary to have a starting point from which to rebuild a stable world. And money, as the universal channel through which all transactions flow, is the appropriate point to attack first.

3. The Senator, in passing, gives his blessing to the so-called "key countries" approach. This is a proposal, sponsored by many but not adequately worked out, by which an exchange agreement would be reached between America and Britain, while other countries would be permitted to join, one by one, as their exchanges became sufficiently stable to make them eligible for this select company. This method would be contrary to the spirit of the United Nations which fight as a unit against the enemy and wish to act jointly in world rehabilitation. Individual arrangements between great countries, with little countries looking in and being permitted to join when, if, and as the great powers see fit to admit them, would not contribute to international goodwill.

But, beyond this, the key nation approach is completely unrealistic. It is not the problem of determining a dollar-sterling rate that presents any difficulty. That rate can be determined without trouble. But to determine a rate is one thing, and to keep it at the determined level is another. Would it be a part of the program to lend to Great Britain a sufficient amount to make it possible for her to pay off the balances other countries have accumulated with her during the war and at the same time to provide her with enough funds to pay for her inevitable excess of imports in the immediate post-war years? That would, indeed, be a colossal undertaking, and one far beyond the willingness of this country to shoulder. The proposed Fund approaches the problem in a much more modest and much more realistic manner. It proposes to help England and all the other countries that will join the Fund by giving them a common pool of resources to which they will all contribute and on which they can draw for their current needs while they work out their more fundamental problems. It would not be surprising to find that the United Kingdom will benefit by the Fund primarily through the help it will extend to the smaller countries throughout the world, which are Britain's customers, rather than through direct help to the United Kingdom itself. As already stated, the Fund is not to be used for the liquidation of pre-war indebtedness or for reconstruction. Consequently it would not be absorbed by serving purposes to which it is not adapted. There are provisions in the Fund that enable it to influence member countries to undertake measures that would help to bring their international accounts into balance. In the meantime, the Fund would offer these countries a breathing spell.

4. Senator Taft also makes the point that the United States will contribute nearly all the real assets in the Fund and will have only a minority vote as to their use. He predicts that it will not be long before all of our assets are gone and the Fund is entirely made up of weak and worthless currencies. It is correct that a large part of the gold and dollar assets of the Fund will be supplied by the United States. It is not correct, however, to state that none of the gold and currency contributions of foreign countries are real assets. Would the Senator be willing to say that Canadian dollars were not real assets? Would he claim that sterling had no value? Does he think that a claim on the U.S.S.R. is worthless? It would appear that in his eagerness the Senator has overstated his case.

It is also true that the United States will have only a minority vote in the Fund. This minority, however, will be close to a third of the total, and it is clear that a control of that much of the voting power is sufficient to prevent the adoption by the Fund of any course of action that would be prejudicial to the United States. Furthermore, some of the most vital provisions require for their adoption a vote larger than a majority, so that this country would have an effective veto power.

It should also be mentioned that the United States will have the privilege to withdraw from the Fund at any time. It is probably true that it would not wish to exercise that authority except under deplorable conditions, but the existence of the authority, together with the general economic strength of the country and the world's dependence on it for assistance, would unquestionably give the United States a predominant rôle in the councils of the Fund. It is, therefore, not an accurate statement that "the machinery of the Fund is designed to cover up the fact that our money is in fact to be loaned away by a Board in which we have only a minority interest". A correct statement of the matter is that our contribution to the Fund as well as those of other countries will be managed by a Board in which we will have a dominant role, to be used with the advice and assistance of all members in such a way as to bring about the greatest possible stability in the terms of world trade.

5. The Senator thinks there is little chance that we will ever recover any part of our contribution. It is not likely that we will want to recover it in the sense of withdrawing it from the Fund. The organization of the Fund and of its operations and the provisions for liquidation are such, however, that, if it ever should terminate, our chances of recovering a great part, if not all, of our contribution are very good. But the Fund is not set up with a view to what will happen when it ceases to exist. It is set up in the hope that it will last indefinitely and that our contribution to it will be a part of a revolving fund which will work for world prosperity for many years to come. So long as the Fund exists we are not likely to recover our contribution because we shall probably not wish to withdraw it. At the same time it is the belief of those who are proposing the Fund that the United States will gain by the recovery of world trade which the Fund will promote many times the amount of its contribution. If we contribute two and three-quarter billions to the Fund (that is, about ten days' cost of the war), if as a consequence our foreign trade increases by even a relatively small proportion, and the risks and losses to our importers and exporters are diminished, we shall receive an ample return on this investment in international well-being.

The Senator says that it is clear that the other nations will want to agree and that it is for the United States to hold out. It may be that in some respects the other countries will be in greater need than ourselves, but it is also true that the other countries are being asked, in exchange for such assistance as the Fund will provide them, to give up the right independently to make such adjustments in their exchange rates as may seem to them to be advantageous from time to time. For many countries that is a real dilemma. They are the ones that are asked to give up some of their sovereign rights to a Fund in which they will have a small minority representation. If they are willing to do it, it is because they believe that they have more to gain from the restoration of world trade than they are likely to lose by giving up the freedom of individual action on exchanges. It is important to remember that no action is completely barred; it is only that some actions will require approval.

6. In summarizing the matter, the Senator brings in a new point to the effect that the proposed Fund will require our Government to regulate, restrict, and regiment transactions in foreign exchange in this country and impose complete Government control of all international transfers of funds. This statement is at variance with the facts. There is nothing in the proposed Fund that would provide for inteference with

freedom of exchange transactions in this country, since this country is not a debtor on international account and has no occasion to prevent the outflow of dollars. Far from being a step in the direction of more controls, the Fund will endeavor and make it possible to have less. If the world returned to a system of chaotic competitive changes by all countries, it is probable that exchange controls and various restrictions in this country would be inevitable. By stabilizing and regularizing exchanges all over the world, the Fund will make a great contribution towards the reestablishment of unhampered world trade and exchange. It is one of its objectives to do away with restrictions on exchange transactions, multiple currency arrangements, and bilateral agreements. It is hoped that they would disappear all over the world. To be sure, this may take some time, but the impulse coming from the Fund would be in the direction of greater freedom from government control in international transactions, rather than in the direction of regimentation.

7. Finally, the Senator says that the Fund places power in a representative of the President, without approval of Congress, to change the gold value of the dollar. There is nothing in the Fund to indicate how the representative of the United States on the Fund will be selected, and there is nothing to prevent the requirement in the necessary enabling legislation that he be confirmed by the Senate. No change in the value of the dollar can be made without the approval of the American representative, and there is nothing to prevent a provision in the enabling law prescribing that the United States representative shall not approve a change in the value of the dollar without previously obtaining the consent of Congress.

In criticizing the Fund, Senator Taft has not considered the alternatives before this country and the world. Without cooperative action in this important field it is certain that exchange conditions would be so disorganized that all the countries in the world including the United States would suffer tremendous losses and disruptions in foreign trade, with serious consequences to their domestic economies. What the Fund proposes is to provide machinery for the establishment of as much exchange stability as can be reconstructed out of the chaos emerging from the war. On this stability will rest the hope for a gradual reestablishment of a fully functioning world economy.