1946

World Bank and Fund

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The author, a Washington correspondent and a regular contributor to BANKING, *gives an interesting on-the-scene report of the organization meeting of the International Monetary Fund and the International Bank for Reconstruction and Development, at Savannah, Georgia.*

AT the Ides of March, while this issue of BANKING was going through the stages of physical manufacture, important decisions affecting international exchange and investment were taking place at Savannah, Georgia.

The purpose of the Savannah Conference, of course, is well known: to set up the Fund and Bank called for in the Bretton Woods program. Thus have been brought into being two more United Nations organizations, hoping they are for the common good of the world. Their formal titles are the International Monetary Fund and the International Bank for Reconstruction and Development. In the daily working literature of the Savannah gathering these ponderous names were fortunately shortened to Fund and Bank.

The process of organizing and waging peace is slow. About 20 months elapsed between the signing of the agreements at Bretton Woods, New Hampshire, in July 1944 and the formal creation now of Fund and Bank. Indeed, although the American Congress voted approval of the BW plan in the early Summer of last year, ratifications of other members were not deposited with the State Department until December 1945. The delay was attributed to the desire of most countries to see what the United Kingdom would do, and the U.K. in turn was awaiting the results of the Anglo-American loan negotiations. Britain's continued membership, so vital to the success of the Fund, is dependent on American granting of the loan, as has been made clear to Washington.

At Bretton Woods 44 countries were represented, plus Denmark, which participated as an observer. Of these, 35 formally ratified the agreements in time to send representatives to the Savannah Conference. The other nine countries, including the U.S.S.R., were invited to send observers and all of them but Haiti and Liberia were on hand for the opening meeting on March 9.

The Savannah Conference held its sessions at the General Oglethorpe Hotel, a pleasantly situated waterside hostelry on suburban Wilmington Island. Savannah did itself proud in welcoming the foreign delegates, most of whom arrived on the special State Department train from Washington. Southern hospitality proved lavish. The whole town seemed to be on hand to greet the arriving visitors. A large crowd, including a reception committee, was at the railroad station, and West Broad Street in front of the terminal was jammed with 100 cars and their owners, hospitably brought together to carry the visitors to their distant hotel. Led by an escort of motorcycle police, the mile-long caravan moved impressively through streets lined approvingly with Savannah's remaining populace, including particularly the thousands of children let out of school for the occasion. Around the city squares with their sub-tropical verdure and down the long avenues of palmetto trees and azalea bushes in gorgeous bloom the delegates'

Lord Keynes, economic adviser to chancellor of the Exchequer, England's governor of Bank and Fund, and Lady Keynes arrive at International Monetary Conference; *right*, George Bolton, Bank of England; the Hon. R. H. Brand, head of United Kingdom Treasury Delegation in Washington

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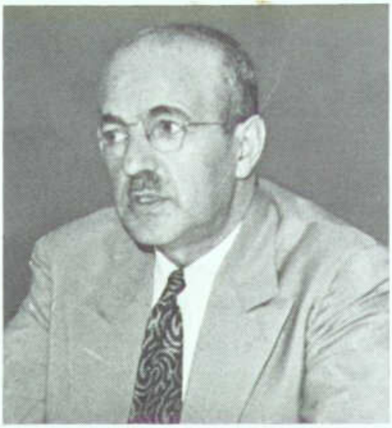
Mr. Vinson



Mr. White

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Mr. Collado

caravan continued under Savannah's smiling skies to the scene of their sojourn. So far as nature and hosts could provide, here indeed was "peace on earth, good will toward men."

Technically, the Savannah Conference was the first business meeting of the boards of governors of the Fund and the Bank. Each member country is represented by one governor on each of these two boards. Because of congressional desire to see the closest collaboration between the Fund and the Bank, the United States' governor of the Fund and the Bank is the same person, Secretary of the Treasury Fred M. Vinson. Our alternate governor of both institutions is Assistant Secretary of State William L. Clayton. A number of other countries have followed our example by appointing a single representative to both boards of governors. Although no member country has more than one representative on the board of governors, voting is approximately in proportion to the country's contribution to the Fund. That is, the votes of each member are determined by its "quota" in the Fund and its "subscription" to the Bank. There are some exceptions. Each country, no matter how small its quota or subscription, has 250 votes and in addition one vote for each part of its Fund quota equivalent to U. S. $100,000; and in the Bank one additional vote for each share of stock held by it.

THE boards of governors of Fund and Bank are required to meet only once a year. The continuous responsibility for the operation of the BW institutions will rest on the executive directors, elected at Savannah, and on the managing director of the Fund and the president of the Bank, selected later by the executive directors. Election of the executive directors and determination of the terms and conditions of employment of the managing personnel therefore were among the main reason for the inaugural meeting in March. In addition the Savannah Conference had to consider the selection of sites for the Fund and Bank and the conditions under which new members may be admitted.

The Machinery

SECRETARY of the Treasury Vinson, who was chosen chairman of the Boards of Governors of the World Bank and Fund, said to BANKING *at the close of the Savannah Conference:*

"This meeting has demonstrated again that where there's a will to cooperate, there's always a way. Now that the Fund and the Bank are in being, I hope all Americans will give them every support."

The conference went a long way toward setting up the machinery for both institutions. Each of the Boards of Governors will have an executive committee of 12 members. Secretary Vinson is also chairman in each case and Lord Keynes of England is vice-chairman in each case. Seven candidates for the seven elected members of this executive committee of the Fund were nominated. They were: Dr. Rodrigo Gomez, Mexico; Dr. Francisco Alves dos Santosfilho, Brazil; G. W. J. Bruins, Netherlands; Louis Rasmisky, Canada; Camille Gutt, Belgium; Dr. J. V. Mladek, Czechoslovakia, and Ahmed Zaki Bey Saad, Egypt.

Seven nominations were made for the seven elected members of the executive committee of the Bank. They were: Professor Kyriakos Varvaressos, Greece; Victor Moller, Chile; Dr. Luis Machado y Ortega, Cuba; Camille Gutt, Belgium; J. W. Beyen, Netherlands; R. B. Brice, Canada, and Dr. Leon Baransky, Poland.

There are 12 executive directorships for each institution, the remaining five in each case would be appointed by the governments of the United States, Great Britain, France, China and India. President Truman has already named Harry D. White, Assistant Secretary of the Treasury, as director for the Fund and Emilio G. Collado of the State Department, for the Bank. The executive directors of the Fund will select a managing director and the executive directors of the Bank will select a president.

The Savannah meeting chose Washington as headquarters site for both Fund and the Bank. It postponed until December 31 the deadline for the time during which Russia, Australia and the other nations may come in as "original members."

The country and small town banker should inform himself as to what is good modern agricultural practice. He should understand that farming is becoming a science and a business in this country as it has been for a couple of centuries in countries like Denmark, Holland, Belgium and France where there are no such animals as "poor farmers." He should see that the American farmer who will not change his ways is doomed to economic liquidation and is already being liquidated. He should understand and preach the fact that a dairy farmer who pastures two head of cattle per acre rather than one head to five acres can sell his milk at a profit even when prices fall and will be a rich farmer when prices are good. He should understand and preach that the soil and its productivity are the very basis of the farmer's prosperity which is determined not by how much land he possesses *nor* how many head of cattle he owns to *process* the products of his fields but how much and how cheaply these products can be produced. It is in this factor, not in prices alone, that the solvency and prosperity of the farmer really lies.

SUPPOSE a farmer had 200 acres and because of artificially inflated war prices wanted to produce more. In 1918–1919 the farmer, instead of producing the 30 to 60 per cent more production *per acre* of which most American farms are capable if farmed *well*, he bought 200 acres more, farmed all 400 less well, got *less* production per acre of corn or 100 pounds of milk in terms of seed, fertilizer, labor, taxes, interest, etc. If he had remained on his 200 acres, increasing his production by 30 to 60 per cent on the base of 200 acres, as he could have done, the increase would have been very nearly *all* profit, since it was produced from the original economic base without expansion in terms of money or credit. The end of the sad story comes when deflation and falling prices arrive and the farmer, with low production and high production costs, could not meet his interest and mortgage payments. If he had expanded his production vertically on his original base rather than horizontally, he would have remained solvent and would have been able to make a profit even at low prices. He made the great error of dealing in *total* production rather than in production *per acre*.

One factor which has had little attention is the fact that when real wealth in the form of agricultural land or forests (and their productivity) have been destroyed upon such a scale as in this country, the loss reaches a point where neither individuals nor private capital can repair the damage and it becomes of necessity a government function. That is exactly what has happened in this country. The job of restoring our forests and much of our agricultural land (the Cotton South for one great area) has become too great to be done either by individuals or private capital. The Farm Security Administration and similar government agencies did not come into existence simply because someone thought them up and forced them through Washington: they came about because the productivity of some millions of farms fell below that point where the farms themselves would be either a safe or even a legal risk to any country or small town bank—if such institutions had not already disappeared from the scene.

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As intended, the Savannah Conference was the occasion for the requesting by the American governor of clarification of the Bank's authority to make stabilization loans and of the Fund's powers with reference to the financing of other than seasonal and cyclical fluctuations or the financing of armament. There was never any doubt that the ultimate answers to these questions would be those given by Treasury witnesses during the BW hearings in Washington last year, and that therefore no modification of the language of the BW agreements would be necessary.

An interesting development since the BW conference has been the increasing importance attached by the American Government to the Bank, whereas in the early stages and even at BW the preponderant Washington emphasis was on the Fund. What with the growing requests from abroad for dollar loans even the U. S. Treasury has come to see in the Bank advantages which it rather overlooked before. A case in point is Italy. Not only the Italian Government but also the American Government, desiring to see Italy restored, looked to the Savannah Conference to open the way for this former co-belligerent to become a member of the Fund and the Bank. Thereby the way would be opened for Italy to obtain financial help from these two new international bodies, rather than to rely on purely American assistance.

THE pre-conference efforts to hold all delegations as small as possible, in view of the limited hotel accommodations, proved generally successful. However, the United States delegation comprised no less than 20, including advisors and not counting Americans in the conference secretariat.

The majority of the delegates and experts attending the Savannah Conference were also at the earlier BW conference. This was true of practically the whole American delegation, as well as many of the foreign delegations. The press delegation was smaller than that which attended the opening of the BW meetings. Business at Savannah was conducted without the pressure and anxiety which attended the drafting of the Fund

Secretary of the Treasury Vinson addressing delegates to the Savannah monetary conference

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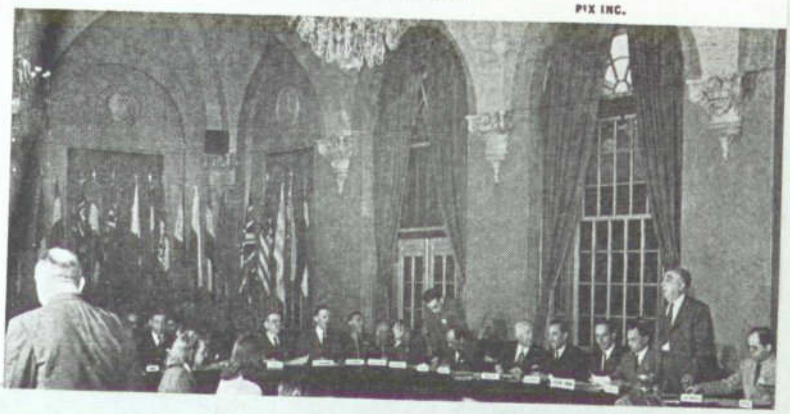

and Bank agreement. The problems at Savannah were less technical, and this fact was reflected in the press conferences and news stories.

In view of the informal consultation which had taken place between many of the BW countries prior to the Savannah meeting, the way had been cleared for the quick adoption of the Fund and Bank by-laws and various other decisions. As has been pointed out by others, the chief reliance of an international institution, however, is not in its statutes and regulations, but in the spirit in which it works. The writer has observed at Savannah and Bretton Woods benefits which come from prolonged and repeated personal contacts among the representatives of different countries. After you have a few meals or drinks with a man from a distant country, have shared a bus seat and a pleasant trip with him, and otherwise been thrown closely together for two or three weeks, you are apt to improve your understanding of his problems and his way of thought; and he is likely to be less distant and suspicious than might otherwise be the case.

The story of the Savannah Conference would not be complete without a word about the excellent impression made on all by Secretary Vinson. His speeches, delivered with great skill, gave a strong impression of the Judge's deep sincerity. If the United States is judged by the other countries by its chief representative at Savannah, the world must be convinced of our desire to be friends and good neighbors with all the world.

The original British desire at Bretton Woods, to have one of the two new organizations headquartered in London, never seemed to have much chance. As recorded in the BW conference records, this desire was supported by the assumption that the headquarters of UNO would be elsewhere than in the United States. And at Savannah the British were reluctant to see the Fund and Bank headquartered in Washington and favored the location of at least one of the institutions in New York, close to the financial community and removed, if ever so slightly, from Washington's political atmosphere. In urging Washington as the site for both headquarters, American officials argued that the intimate collaboration between Fund and Bank desired by Congress at the time the BW agreements were approved last year necessitates having both Fund and Bank located in the same city, if not in the same building. And they did not especially want that building to be on Wall Street.

French group, *l. to r.*, Christian Valensi, adviser; Mrs. Valensi; Mrs. Pierre Mendez; Mr. Mendez, governor of Fund and alternate governor of Bank

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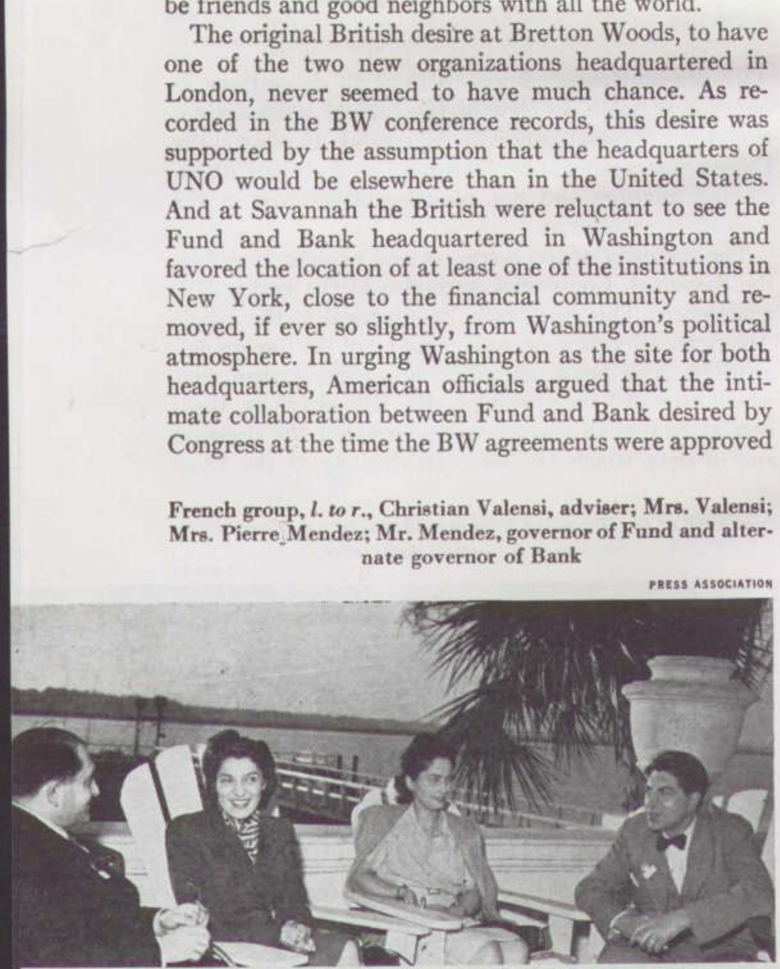

At the very first meeting of the Savannah Conference—the joint inaugural meeting of the governors of Fund and Bank—British concern over Washington domination of the two institutions was delicately reflected in the address of Lord Keynes. The eminent British economics professor and Treasury official, who with Russian-born Lady Keynes, a former ballet dancer, had just crossed the Atlantic with a shipload of GI brides and babies, in ostensibly humorous language expressed his satisfaction with being present at the birth of the lusty twins—the Fund and the Bank—"whether as governor or governess." Lord Keynes then drew on Tchaikovsky's ballet, "Sleeping Beauty," to suggest what gifts might be brought to "Master Fund and Miss Bank" by good and evil fairies and he expressed the hope that "no malicious fairy, no Carabosse," would pronounce curses on the Fund and Bank. "I am asking and hoping, you will see, a great deal," Keynes significantly added. "If these institutions are to win the full confidence of the suspicious world, it must not only be, but appear, that their approach to every problem is absolutely objective and ecumenical, without prejudice or favor."

In this short yet pregnant speech, unusual for a solemn international gathering yet still typically Keynsian, the British lord went on to express the hope that no bad fairy would doom the Fund and Bank to "grow up politicians," whose every thought and act "shall have an arrière-pensée" and whose every determination "shall not be for its own sake or on its own merits, but because of something else." If that should happen, Keynes observed, "then the best that could befall—and that is how it might turn out—would be for the children to fall into an eternal slumber, never to awaken or be heard of again in the courts and markets of mankind."

From impressions gained early during the conference, what Keynes seemed to be saying thus drolly was that the placing of the seats of the new institutions in Washington would be to leave them too greatly exposed to American diplomatic objectives. The British preferred to have international monetary policies decided and carried out where there exists a commercial tradition and working experience rather than in Washington's political atmosphere.

As is usually the case in large international conferences, Savannah again revealed the importance which many smaller countries attach to committee appointments. To others the prestige seems to be more apparent than real. Whoever invented the concept of "vice-chairman" was a wise man, for that post often confers distinction without power or responsibility.