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# Bretton Woods Proposals

## A Statement To Foreign Traders From the Bureau of Foreign and Domestic Commerce

THE BUREAU OF FOREIGN AND DOMESTIC COMMERCE, like other proponents of the Bretton Woods proposals, has welcomed the active public discussion of these plans and their national counterparts previously advanced.[1] The Bureau believes that the major areas of agreement and disagreement can now be identified and the essential issues made clear from the standpoint of the foreign trade community which it serves.

As of the moment, there is little or no opposition to the proposed Bank. There are, however, several remaining issues with respect to the Monetary Fund. Doubt has been expressed (1) whether a multilateral agreement on the stabilization of currencies is essential; (2) whether short-term stabilization credits within predetermined limits and under predetermined conditions can be justified; (3) whether so large a fund is required, especially in view of the accumulation during the war by some foreign countries of substantial reserves of gold and foreign exchange; and (4) whether a separate institution for exchange stabilization is needed as against an extension of the powers of the Bank.

(1) Whatever the ultimate policy of the United States may be as determined by the action of Congress, it is clear that probably no other country in the world today would be willing to commit itself to a fixed and rigid exchange value for its currency. This is so because the maintenance of full employment is becoming accepted as the primary consideration of national economic policy and because the pursuit of this objective may under some circumstances require adjustments in the exchange values of currencies. In the absence of an international agreement to consult on such adjustments and to carry them out only under certain conditions, there is every probability that exchange rates will be subject to continuing fluctuations and disturbances. This also involves great risk of the reappearance of exchange depreciation as a competitive weapon in international trade. The American foreign trader is defenseless against such competition, for the United States neither wishes to engage in such practices nor is it in a favorable position to do so.

The depressing effects of competitive exchange depreciation upon our exports and the disruptive effects upon our imports, which exporters and importers who lived through the thirties will well remember, can thus be avoided by the United States only through participation in an international stabilization agreement. The Monetary Fund embodies such an agreement. It does not call for rigid rates of exchange to be supported at any cost; it does not permit, save within narrow limits, the alteration of rates at will by individual countries. It does give explicit recognition to the interest of all countries in the exchange values of the currencies of all other countries; it does lay down a procedure for the fixing of initial par values which can be maintained; and it does provide for the orderly adjustment of exchange values in the interest of national and international stability.

The provision in the Monetary Fund for temporary accommodation to countries experiencing short-run pressures on their exchanges will also promote exchange stability by giving them time and by giving the Fund time to apply suitable corrective measures. The assigned quotas, by adding to the monetary reserves potentially at the disposal of countries faced with temporary difficulties in making payments to other countries on ordinary business transactions, will make it less necessary for them to restrict such payments through exchange controls, as foreign traders who recall the thirties will again testify, are even more formidable obstacles to trade than fluctuating exchanges.

(2) But why must the amount of the allowable short-term accommodation and the conditions under which it may be extended be predetermined instead of being decided on the merits of each case under the circumstances in which it presents itself? Simply because foreign countries will not agree to dismantle their present controls (which in many instances are deeply imbedded in their entire economic structure) and forego restrictive controls in the future without fairly definite assurance that financial assistance will be forthcoming should they, while pursuing policies consistent with the purposes of the Fund Agreement, encounter difficulty in balancing their international income and outgo.

Thus, from the point of view of the American foreign trader, there is implicit in the Bretton Woods proposals an agreement of transcendent importance. On the one hand, the world agrees to play the game of international trade according to the free-enterprise rules the foreign trader prefers and in conformity with the established commercial policy of the United States. On the other hand, the United States agrees to join with other countries in relieving short-term shortages of exchange and, jointly with other countries in the Bank, to make available long-term credits for reconstruction and development. No such agreement could be made on the basis of considering needs for stabilization credits as they arise and attempting solutions on the basis of financial expediency.

It should be clearly understood, however, that the Fund Agreement involves for a member country no absolute guaranty of financial resources. The quota allotted a member country is not a checking account. Rather, it determines the amount of foreign currencies which the Fund authorities, so long as they are convinced that the country is abiding by the purposes of the Fund Agreement, may normally sell to the applying member.

(3) The existence of substantial and widely distributed reserves of gold and foreign exchange in the hands of other countries is perhaps the most favorable circumstance that could be conceived for the successful operation of the proposed Monetary Fund. Under these conditions, it will be faced not with an early and general deficiency of dollars but only with the temporary and isolated deficiencies with which it is designed primarily to deal. The existence of these reserves also minimizes whatever risk of financial loss the United States might assume in subscribing gold and dollars to the Fund and minimizes the likelihood of any need for additional dollars.

Even a casual scrutiny of the national quotas in the Fund, considered as limitations upon the use of its resources, will indicate that they are not large in comparison with past and possible future national needs for balancing international payments. Thus, reliance by members upon their own resources is implicit in the Fund proposal, and the larger their reserves the better the chances of the successful operation of the Fund. Furthermore, although the external reserves of other countries are now large in the aggregate, the holdings of many individual countries are small; those of others are small in comparison with immediately prospective post-war needs, and, because of other claims against them, they cannot be used entirely in settling international balances.

[1] See "Bretton Woods and Foreign Trade" in FOREIGN COMMERCE WEEKLY for October 7, 1944.

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Besides, who can say, in view of the uncertainties ahead, what countries will have adequate reserves and what countries will not? Only a general formula, applicable to all countries under the same conditions, can meet the problem of providing emergency exchange reserves.

(4) The question of separate institutions as opposed to two departments in a single institution may not be important in itself. The draft agreements provide that both the Bank and Fund shall be located in the United States, and it is envisaged that their managements would work closely together. However, suggestions that the proposals drafted at Bretton Woods be modified are important, because 2 years were required to reach the present tentative agreements and new agreements would necessitate prolonged negotiations. Hence, a rejection of the proposals in their present form might mean that there would be no basis upon which to build a stable exchange mechanism during the critical transition period from war to peace and that any reasonable chance of freeing international trade of burdensome exchange restrictions would probably be lost. On the positive side of the question, it may be pointed out that the Fund and the Bank were designed to meet essentially different problems requiring different approaches, different techniques, and different tools for their solution.

It is not surprising that other countries are awaiting the ratification of the United States before themselves acting upon the Bretton Woods proposals. The key role of the United States in the world economy makes its participation in an international stabilization agreement indispensable. Without the participation of the United States, the countries of the world will inevitably seek other solutions to their exchange problems and other means of insulating their economies against the hitherto erratic fluctuations in the United States economy and the resulting rapid shifts in the amount of dollars made available to foreign countries. Such action—in the direction of self-sufficiency programs, bilateral and regional trade and exchange agreements, restrictive exchange controls, and fluctuating rates of exchange—will be as damaging to United States foreign trade and the interests of the American foreign trader as they have been in the past.

The United States is faced with a choice betwen aiding in the reestablishment of an international monetary system or attempting to deal with problems of foreign exchange on a catch-as-catch-can basis. There has been no international monetary system in the sense of a generally agreed-upon and workable set of rules since the old gold standard succumbed during the First World War. An acceptable substitute must embrace two essentials: (1) A relatively high degree of exchange stability so that foreign traders and investors may be reasonably assured against arbitrary, capricious, or competitive reductions in the exchange values of foreign currencies and (2) an adequate measure of international liquidity so that the proceeds of sales of goods and services and of ordinary investment transactions can be transferred from country to country on a multilateral basis, without restriction or discrimination. The proposed Monetary Fund embodies both essentials in a skillful compromise among divergent national points of view.

The Bureau of Foreign and Domestic Commerce believes that the Bretton Woods proposals should be acted upon favorably if the exchange problems of the transition period are to be successfully met. To argue that a better plan could be devised is to defeat by interminable debate a constructive proposal which itself provides for amendments in the light of actual experience with its operation. Whether action should wait upon the restoration of healthy national economies is a fruitless question. A healthy national economy requires a stable exchange system and a high and expanding level of international transactions. The Monetary Fund can help to create these necessary conditions. It should be given an opportunity to do so.


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