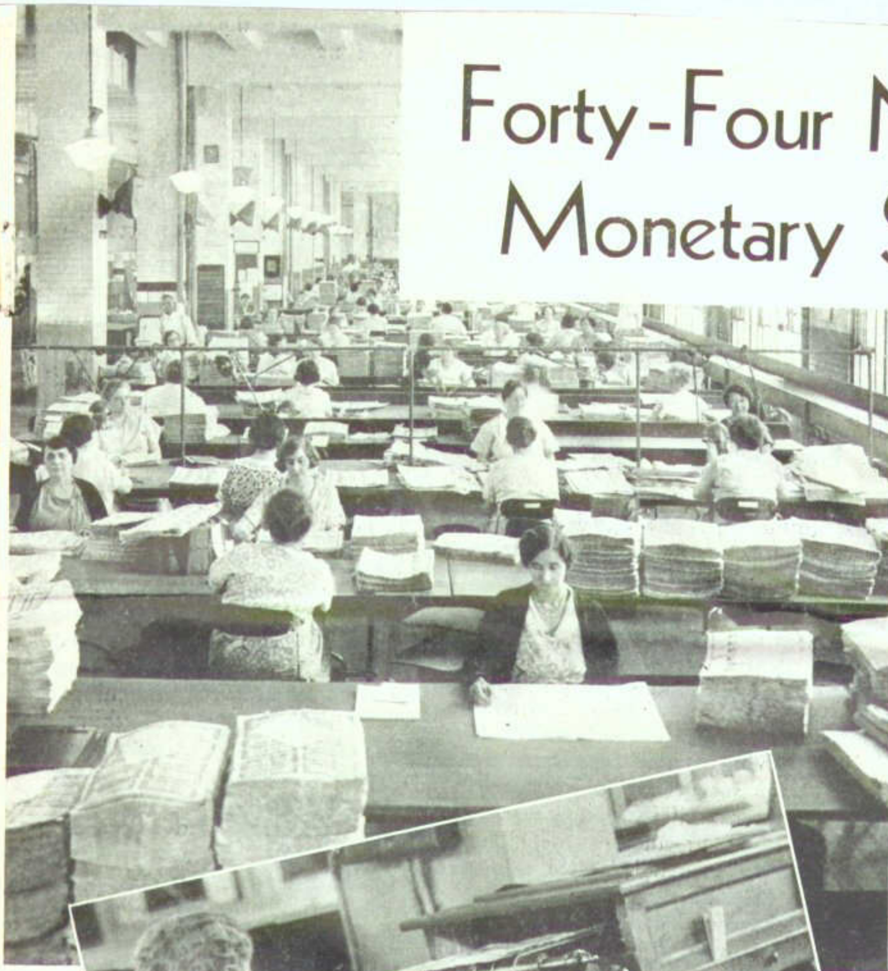
Forty-Four Nations Seek Monetary Stabilization



Printing the internationally prized dollar at the U. S. Treasury

By
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IN all the planning for peace that is taking place during this war, there is an effort to profit from the lessons of World War I. One evidence of this is the planning itself—the attempt to be prepared this time to cope with peace when it comes. Amid the talk of world blueprints, of international police forces, certain definite steps already have been taken. One was creation of the United Nations Relief and Rehabilitation Administration to help liberated, war-ravaged areas get back on their feet.

Now the delegates of 44 United and Associated Nations are meeting at Bretton Woods, New Hampshire, to draft another postwar program, this one dealing with international currency stabilization. Together the delegates represent 80 per cent of the financial strength of the world. There will be time enough later to think about the neutral and enemy countries that control the other 20 per cent. The American delegation, headed by Secretary of the Treasury Henry Morgenthau, Jr., was appointed by President Roosevelt.

The origins of the conference go back about two years, when fiscal experts in the United States and Great Britain began working independently on plans to prevent postwar chaos in international exchange. It was a year before their ideas reached the public. Then, in the Spring of 1943, two plans were made public.

Aims Same; Means Different

The British plan, worked out by Lord Keynes, and the American plan, authored by the U. S. Treasury's Harry Dexter White, both had the same objective but they utilized different means.

Lord Keynes proposed creation of an international clearing or credit union in which countries with favorable balances of trade would be given credits, and countries with adverse balances would be given debits, in terms of a new world monetary unit, the bancor, which could be spent in any of the participating countries. The union would have no assets in the usual sense of the word.

White advocated an international stabilization fund. Participating countries would contribute gold and other assets to the fund and would tie their currencies to a new gold unit, the unitas, equal in value to 137 1/7 grains of fine gold, or $10.

It was characteristic that the British plan should be based on world trade. It meant that the British Commonwealth of Nations would hold the dominating seats at the directors' table. It was also characteristic that the American plan should be based on gold, of which this nation has most of the world's supply. The White plan insured for the United States a strong veto power in management of the proposed fund.

For nearly a year the two plans were discussed by the financial experts of all the Allied nations, until finally they agreed on a joint statement of principles and policies for an International Stabilization Fund, and outlined the general conditions under which it should operate.

That statement provides the basis for

the current deliberations of the delegates at Bretton Woods. It is not official in the sense that any government is committed to it. The conference considering it will draft a definite set of recommendations which the various governments, including the U. S. Congress, will be asked to ratify.

It's noteworthy that what the experts of 44 countries got together on follows the basic pattern of the White Plan. This is significant because of an inflation potential in the Keynes proposal that was generally overlooked when that plan was first offered. Keynes provided that each of the participating nations should agree to buy bancor when they were offered by the clearing union. On the basis of trade quotas, theoretically the rest of the world would have been handed the right to demand a total of some $30,000,000,000 from the U. S. The effect on the U. S. price level of such purchasing power, combined with our own postwar buying potential could be fantastic.

In contrast, the White plan is rather conservative. The Fund would total about $8,000,000,000, and each nation would limit its contribution to the amount of its quota.

Unitas And Bancor Dropped

In the eventual joint statement by all the Allied experts, both bancor and unitas disappeared. Those terms were merely tags anyway — labels to make bookkeeping a little more convenient. Here is the outline that became the working basis for the monetary conference.

A Fund of about $8,000,000,000 in gold and foreign exchange would be created as a permanent international institution. The 44 nations would contribute to it in accordance with quotas to be agreed on, taking into account gold holdings, gold production, and trade. The quota formula—not detailed in the joint statement—would mean a U. S. contribution of about $2,500,000,000, some $1,125,000,000 by Britain, about $1,000,000,000 by Russia, perhaps $600,000,000 by China, and about $300,000,000 by Canada. Each country would be required to pay in gold 25 per cent of its quota, or 10 per cent of its holdings of gold and gold-convertible exchange, which ever is smaller.

The Fund would deal only with central banks or other government fiscal agencies. Its operations would be limited to supplying countries with the foreign exchange of other member countries, in return for the receiving nation's currency or for gold. The right to buy currency of members with a member's own currency would be conditioned on: (1) need for making payments consistent with the Fund's purposes; (2) scarcity of the currency wanted; and (3) the Fund's total holdings of the currency offered.

At its own option the Fund could buy a currency with gold or borrow it from a member, to prevent scarcity in the supply. When unbalanced exchange conditions developed the Fund could recommend methods of correcting them to the countries involved.

All currencies would be expressed in terms of gold, and their par values would be agreed on when the nations were admitted as members. Any change in par would involve consultation with the Fund.

Executive Committee Planned

Management of the Fund would be placed in the hands of a board comprised of representatives of each member country, with an executive committee of at least nine members including the five with the largest quotas—presumably the United States, Great Britain, Russia, China and France. Distribution of voting power would be closely related to quotas. A member country could withdraw by giving written notice, and the Fund could suspend a member from using its resources if the nation was not living up to its agreements.

Stripped of its detailed technicalities, this is the mechanism proposed for dealing with the complex problem of international exchange. The details are important, because they determine whether United States interests are adequately safeguarded. That's why our government has sent nearly 10 financial and legal advisers for every delegate to the conference.

The reason for trying to evolve an exchange stabilization program are set forth in the statement of policies and purposes: (1) to promote international monetary cooperation; (2) to facilitate the expansion and balanced growth of international trade; (3) to give confidence to member countries by making the Fund's resources available to them under adequate safeguards; (4) to promote exchange stability; (5) to eliminate foreign exchange restrictions hampering world trade; and (6) to shorten the periods and lessen the degree of disequilibrium in international balances of payment.

All of this financial lingo is necessary to express a very simple economic objective. That is the creation of an international monetary system under which a manufacturer or other exporter will know the value of the foreign money he accepts in payment for his goods and through which he will be able to convert that money into his own or any other currency he desires.

This freedom to sell his goods and convert currency without having endless and complicated exchange regulations to deal with is something that would benefit the business man in any member country. But to the United States, unravaged by war and in the dominant position to supply the world's need for postwar goods, it is particularly vital.

It is important to mention two things the Fund's framers particularly stipulate it is *not* intended for. It is not an instrument for relief and rehabilitation. It would begin operating only after UNRRA was through with a country. It makes special provision for retention of existing exchange controls during the transition period, and seeks to encourage their gradual relaxation. Nor is it an instrument for long term investments or for making developmental loans to foreign countries. The Treasury has a separate World Bank plan which it is proposing to fill that need.

The Fund is intended as a mechanism to centralize the job of meeting the normal peacetime need of every nation for the currency (in varying amounts) of every other nation. Charges that the United States would be "throwing money down a sewer" by joining it are born of suspicion that something more than normal exchange control and stabilization is intended.

Is it, however, the only mechanism for international stabilization? Obviously not. Besides the plan advanced by Lord Keynes, Canadian experts drafted a plan, somewhat similar to the American. Also, there have been suggestions that a dollar-sterling arrangement would be sufficient, or that the dollar alone could lead the world back to stabilization.

This article, designed to explain the pending proposal as a background for understanding the important decisions being shaped at Bretton Woods, makes no attempt to examine the value of other alternative plans. Except for the Keynes and Canadian plans, nothing has been worked out in as great detail or has been subjected to as critical examination. But there are certain immediate objections to the proposal of a dollar-sterling agreement, or to letting the rest of the world tie to the dollar.

To Eliminate Artificial Restriction

As to the former, one of the main ideas of the Fund is to get rid of blocked currencies and other controls that hamper world trade. Great Britain, while she has restrictions, is not the world's villain in this respect. Other countries are much more in need of conversion to the principle of freedom of exchange.

As for setting the pace with the dollar, such action would add nothing to the resources of foreign countries in the postwar period. There would be no incentive for them to remove their currency controls, and nothing to prevent them from engaging in another competitive race to devalue their currencies such as occurred and was joined in by the United States in the early nineteen thirties.

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It's nice to think that if we went back to a gold standard other countries would eventually come around to our reliance on a free functioning exchange system. As the experts see it, however, there is no practical reason for believing that they would. More likely they would continue worshipping their own monetary idols. Give the world another 10 years or more of peacetime operation with exchange restrictions and it's possible they would become so firmly rooted as to remain permanent. So, in the reasoning of those seeking to achieve exchange freedom now is the time to do it.

Common Management

The whole purpose of the Fund is to bring the handling of international exchange under common management and effect a balance in international payments through the policies created by the Fund. There was no such balance in the 1930s; in fact, there was a severe lack of balance. Capital flowed to the United States partly because some countries failed to take effective internal measures to stop its flight, partly because the dollar was undervalued and foreigners were buying goods too heavily here and partly because of Europe's more or less constant fear of war during that decade. It was a disorganized process; each country was acting by and for itself.

The Fund would substitute, in the 1940s and 1950s, some organized control. To the extent that foreign countries contributed to the fund it is felt they would voluntarily submit to its discipline, following the rules set up by common consent.

Such common action should strengthen the countries which are short of gold. The countries weak in gold would have to rely on the Fund anyway,—submit to its discipline—from the start.

In fact, if one were forced to reduce the six-point statement of policies and purposes to one word, it would be policing. It is not an exact description, nor comprehensive, and the backers of the plan would not like it. But it conveys the idea that what we want to do is get everybody to observe a set of fair trade practices in international exchange.

Comparatively, the United States is in good position to face the postwar world. For all our probable $250,000,000,000 to $300,000,000,000 postwar national debt, we will be incomparably better off financially than any other nation. But for some years after the war there is going to be a tremendous demand for dollars to pay for the goods we sell abroad. Eventually this demand must be balanced. If we can get it done in orderly fashion it is to our own self-interest to do so.