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POSTSCRIPT ON BRETTON WOODS

Why it is in the national interest for the U. S. to make the new world monetary proposals work.

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POSTSCRIPT ON BRETTON WOODS

THE U.S. NOW HAS BEFORE IT THE FIRST PROPOSAL FOR THE REESTABLISHMENT OF WORLD TRADE. IT IS IN THE NATIONAL INTEREST TO MAKE IT WORK

IT IS a quaint but perhaps not wholly irrational social custom that husbands and wives dine out and entertain together. At Bretton Woods, New Hampshire, scene of the recent monetary conference that proposed a new $8.8 billion world monetary fund and a new international bank, this custom was metaphorically observed by guest nations, who sent not only the cream of their government talent but men long respected in their banking and business communities.

It remained for the U.S., host at the party and reputed champion of free enterprise, to present a less happily united household. No one could doubt the devotion to duty of the American delegation, including Treasury's Harry D. White, Federal Reserve officials, and bearlike, pipe-champing Edward E. Brown, President of the First National of Chicago. But it was subject to remark even among the delegates that the very Americans who have earned a name for themselves in international finance, and who might have passed on some of their hard-won experience, were conspicuous by their absence.

Not only were these bankers ignored. They were insulted. In closing a great conference Secretary of the Treasury Morgenthau could find no more eloquent peroration than to repeat the old chestnut about "driving the usurious moneylenders from the temple." If Mr. Morgenthau had been going out of his way to do his country a disservice he could scarcely have used more mischievous and arrogant words. Any successful plans for postwar reconstruction must mean the closest collaboration between Washington and Wall Street. And long before negotiating with other nations the Treasury should have rallied competent opinion to its side.

On the other hand, some bankers, publishers, and economists (notably Dr. Benjamin Anderson, onetime of the Chase) have scarcely done better by implying that all current proposals are just a great plot for defrauding the U.S. of its wealth. Seeing that the U.S. is asked to put up at most $6 billion for both fund and bank, and that we are spending more than that per month to win the war, such talk should be put down to irresponsible partisanship. "If we could get expanding trade and investment for *that*," remarked one sober Wall Streeter recently, "it would be cheap at the price."

THE REAL ISSUE . . .

The remark, we believe, puts the issue precisely. The issue coming out of Bretton Woods is not whether the U.S. will have to risk some money. The issue is whether fund and bank will work in America's overwhelming interest to see healthy trade and investment reestablished between this country and other nations when the shooting ceases. The Bretton Woods proposals, in our judgment, represent the first tentative step in that direction by setting up a permanent agency for consultation on all international monetary problems. They are not panaceas for our troubles. But they are a beginning for meeting them—and a fruitful one.

Let us look at them in the light of our immediate postwar needs. In the first place no matter how much relief the U.S. grants to war-torn Europe there will be a period when we shall wish to export more abroad than other nations can immediately pay for through exports to us. This means, fund or no fund, bank or no bank, the granting of short- and long-term credit.

In the second place we shall need tolerably stable exchange rates so that American traders and investors can know what the dollar is worth in terms of other currencies. It was the essence of the old gold standard, to which most nations tried to repair after World War I, that internal price levels and fiscal policies should be adjusted to maintaining rigid exchange rates. After this war the reverse philosophy will prevail. All nations, including our own, will put domestic employment and freedom to expand or contract their own internal economies first on the agenda. If all nations can act in unison in this matter we may look forward to relatively stable price levels and hence exchange stability. If they act separately we may see exchange wars and currency manipulations that will make those of the thirties look like preliminary skirmishes.

. . . AND THE PROPOSALS

Under the fund all participating nations agree to price their currencies in terms of gold and hence in terms of each other. These rates can be altered but only after due consultation with the fund authorities—a provision that should avoid those cataclysmic changes in rates that occurred in the past when nations were forced off gold as was England in 1931. To implement the maintenance of stable rates each nation puts into the fund a certain amount of its own gold and its own currency according to a system of quotas. The U.S., as befits a nation of our economic importance, puts in the most, a total of nearly $2.8 billion. Britain is next with $1.3 billion and Russia third with $1.2 billion, and so on down the list of forty-four nations. Voting power in the management of the fund is roughly apportioned according to subscription. This would give the U.S. about 30 per cent of the votes.

The purpose of the fund would be to smooth out temporary dislocations in a nation's balance of payments through what amounts to the granting of short-term credit. Some nations, such as the Netherlands and Britain, might make no use of the fund's facilities, and the fund does not attempt to regulate or clear all exchange transactions. This is left to private banks as formerly. But if, say, France, in the first years after the war, cannot cover her imports through exports and borrowing outside the fund, then she may sell to the fund additional amounts of her currency, getting in exchange a supply, say, of dollars to pay American exporters. This overdraft facility or

borrowing is, however, strictly limited. Nations can only sell the fund their currency up to 100 per cent of their quota plus an amount equal to what they originally paid in gold. Having a quota of $450 million, France would thus have total overdraft facilities of about $562 million. But nations can only borrow up to one-fourth of their quota per year so that France's yearly borrowing power would be only $112 million. And, as in the case of any central bank, such borrowing is subject to steeply rising interest charges.

Long-term lending is reserved to the international bank, which might in the immediate postwar and reconstruction years be much more active than the fund and give it powerful support. The bank would start with paid-in capital of some $2 billion in gold and currencies provided in accordance to quotas roughly approximating those of the fund. This initial $2 billion might be used for direct loans to governments facing immediate reconstruction needs. Total capitalization of the bank is, however, placed at roughly $9 billion and its chief operations would be of two kinds. (1) It might float its own bonds in the world security markets thus gaining additional money to lend out to various governments or government-guaranteed projects. (2) It might simply guarantee in full or in part loans that a government makes on the private money markets. The extent of these operations would be limited to 100 per cent of the bank's capital. The avowed objective would not be to interfere with private lending but to aid and abet it, especially where low interest rates are required. The bank would thus regularize loans to foreign governments, which in the twenties proved such a pain in the neck to American investors.

WHAT ARE THE OBJECTIONS?

Critics of the proposals have concentrated first on the danger that both institutions may soon be bankrupt by the demand of other nations for dollars. What good does it do, they say, to have an international bank underwrite and guarantee private loans most of which will probably have to be made in dollars? If, however, the bank is prudently managed, this objection can be answered. In the course of time Britain, Russia, and other nations, we hope, will all build up gold and dollar reserves that could be thrown in in case of defaults. Thus guaranty by other nations in effect takes some of the burden of financing the world off American shoulders.

But can this argument be applied to the fund, which as one witty Dutchman has said is just a bank in sheep's clothing? What is to prevent a general raid on the fund's supply of dollars, thus leaving the U.S. with a handful of utterly useless currencies? The first point to make is that the extent of this country's liability has been greatly exaggerated. The fund, as we have seen, starts out with some $2.8 billion, of which roughly $700 million is in gold. Other nations put in an ante of $6 billion, of which about $1 billion will be in gold, so that the fund starts with total gold and dollar holdings of $3.8 billion. If all nations drew on dollars the worst that could happen would be that the fund would pay out $1.5 billion per year (one-fourth of their total quotas). During the first two years the fund would thus have plenty of dollars and gold to meet such highly unlikely demands. In the third year the fund would indeed be in difficulties, and would be forced to declare a dollar shortage. Other nations reserve the right in that event to put on exchange controls against use of the short currency, i.e., against U.S. exports.

This would in fact mean the end of the whole plan, in which in fairness we must assume other nations have just as much at stake as has the U.S. But some of these assumptions border on fantasy. As we have noted, the fund *charges* for use of its facilities, so that instead of borrowing from the fund nations will be far more likely to pay in additional gold holdings, for which they can get dollars free of charge. Again, other currencies besides ours, notably the Canadian dollar, will be in strong demand. Finally, the fund could get into difficulties only if the U.S. refused to use other currencies, i.e., refused to buy wines from France, woolens from England, etc. *In other words, the money we invest is always secure if we import.*

To make good their case critics of the fund must argue that while drawing down the fund's supply of dollars, other nations are cleverly depreciating their own currencies through inflationary spending. This is to presume a degree of moral turpitude on the part of others—and moral rectitude on the part of the U.S.—that is quite unjustified. If we have reason to suspect other currencies, how much more reason have they to suspect the dollar, which is in fact at this very moment being depreciated through the growing American inflation.

Moreover, this whole approach to the fund and the bank is purely from the creditor's standpoint. It supposes that foreign lending is an act of pure largess on the part of the U.S. and that other nations have no alternative but to come begging to us. Neither assumption is true. Other nations have an alternative—the alternative of bilateral trade deals and continued exchange controls that bedeviled the thirties. More important, other nations are by no means enamored of the prospect of going into debt to the U.S. in view of our record of the twenties when, having established ourselves as a creditor, we proceeded to shut out foreign goods from our markets. The price the U.S. may have to pay for extending credit is entrance into something like the fund, where creditor and debtor can sit down at the same table. The relation of creditor and debtor is the real nub of the issue.

ARE THERE ALTERNATIVES?

The second great question is whether there are any realistic alternatives. According to one school of thought there are. Instead of joining in a truly international scheme, this school (sometimes called the "key-country" school) would have us begin by underwriting other countries and currencies piecemeal. Thus sterling might be underwritten, according to banker Leon Fraser, by a direct $5 billion loan to England, or, according to others, by making full use of the U.S. $2 billion stabilization fund. "The value of this approach," one able banker has said, "is that instead of using our dollars to support a mixed cocktail of currencies, we would place our bets squarely behind a currency and a nation which we can trust."

The key-country approach is attractive because it underlines the fact that the U.S. faces not one kind of currency problem but many. At Bretton Woods discussions were again and again held up because the problems of England, the Netherlands, Norway, Denmark, France (the countries of the Atlantic community, which know how to play the international game) are are totally different from those of, say, China or Russia. In the case of China we face not only the salvaging of a defunct money system but the evolution of a whole mores of trading to take the place of our former policy of extraterritorial rights. In the case of Russia we are dealing with a frankly

socialist and totalitarian state that will want large credits from the U.S. but has no real interest in rebuilding a "market" for individual traders and entrepreneurs—which it is the whole purpose of the fund and bank to try to re-create.

But the key-country plan likewise runs into difficulties. Under it the economic world tends to split up into blocs—the Western nations, China, and Russia—the very thing that, at the political level, the Moscow Conference and indeed most peace plans seek to avoid. Again, as Canada's Rasminsky has ably pointed out, the definition of "key countries" becomes an increasingly difficult job. (For butter producers the New Zealand pound and the Danish crown are key currencies; for newsprint producers the Swedish crown and the Canadian dollar are key currencies.) Very rapidly, in other words, we are back at a broad multilateral approach. But finally, and determinatively in this connection, there is the attitude of the British themselves. It seems highly dubious whether, for instance, Britain would (in view of all the row about war debts last time) accept a $5 billion loan from this country even if Congress would pass it. Nor would the establishment of a straight creditor-debtor relationship between ourselves and Britain give the British that power and influence in world affairs which it is to the American interest to maintain. If critics of the plan proposed a complete political merger with the whole British Empire, their case for concentrating on sterling would be stronger.

NOT AN END BUT A BEGINNING

Alternatively, it seems to us that if the U.S. backs up the plan in the spirit of trying to make it work, we may serve ourselves as well as others. Nothing was more apparent at Bretton Woods than that the close teamwork between the U.S. and the British Empire delegations was what brought the conference off. Acceptance of the plan will mean not less collaboration with Britain and the empire but more. Some will put this down to nefarious British finesse. We prefer to believe that the British, like most nations represented, look on the plan as the most fruitful one put forward to date to get healthy multilateral trade back on its feet. We hope that Congress after due debate will vote the proposals in America's own interest.

That in the end is the real American criterion. Like most issues this one comes back to our own unity of purpose. Nothing in the plan will take certain hard responsibilities off our shoulders—the responsibility for gradually lowering our own tariffs and adopting a sense-making fiscal policy, discussed on page 157. But there are ways by which we may lighten the task of world reconstruction, and the Bretton Woods proposals fit the need. The one thing that could wreck these proposals is to allow the plan to become the football of politics, leading, at the worst, to a turndown by Congress for partisan reasons and a kind of Versailles of money.

To prevent such an outcome should be the aim of both Washington and the U.S. business community. This means the exhibition of horse sense on both sides. It is encouraging that the New York State Bankers Association proposes a thorough study of the plans. On their side, let Mr. Morgenthau and the Treasury put an end to their absurd allegations against the banking community and honestly take counsel with those men who know their way around the international money markets. It should be noted that the location of the new institutions may be in New York, where most of the country's foreign-exchange transactions are carried out anyway. That, for this Administration, represents quite a step.