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Bretton Woods— and Foreign Trade

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THE MONETARY CONFERENCE at Bretton Woods had only one fundamental purpose—to devise monetary and financial measures which would facilitate the steady and balanced expansion of international trade. Among the subsidiary purposes—all means to this end—were the promotion of exchange stability, the elimination of restrictive exchange controls, the creation of permanent machinery for international consultation and cooperation on monetary problems, and the stimulation of a renewed international flow of long-term capital.

In a more immediate sense, the Conference was called to find ways of easing the transition from war to peace in international trade and finance. It attempted to deal with the inevitable disturbances and distortions of the postwar period on the basis of mutual assistance as contrasted with the purely nationalistic measures of foreign-trade restriction and economic aggression so prevalent after the last war and during the 'thirties.

What Was Accomplished

The Conference prepared articles of agreement for the establishment of an International Monetary Fund and an International Bank for Reconstruction and Development.

Stripped of all their technical features, the operations of the proposed Monetary Fund would consist in essence of the sale of foreign currencies to member countries, in limited amounts and under adequate safeguards, to meet temporary shortages of exchange for conducting regular business transactions among themselves. Such assistance in time of need should make it easier for countries maintaining restrictive exchange controls to remove them and to keep their other obligations as members of the Fund. Likewise, countries having difficulty in balancing their international accounts should find it less necessary to institute measures which disrupt and destroy trade. The Fund Agreement prohibits competitive exchange depreciation but provides for the orderly adjustment of exchange rates by international consultation and agreement. It is designed to bring about the elimination of exchange controls which burden trade, after a period of transition to allow for their gradual relaxation.

The proposed Bank for Reconstruction and Development is primarily a device for facilitating the flotation of foreign loans in the private capital markets of members by giving them an international guarantee. The Bank may also provide long-term capital through direct loans out of its own resources of paid-in capital or out of the proceeds of the sale to the public of its own obligations. In either case the loans, except in special circumstances, must be for specific projects of reconstruction and development.

Direct Trade Effects

The operations of the proposed International Bank for Reconstruction and Development will increase exports from the United States. This follows from the fact that most of the loans made or guaranteed by the Bank in the first years of its operations will be dollar loans and will serve, therefore, to make dollars available to the rest of the world for the purchase of American goods. Furthermore, since the Bank is not designed to guarantee or make loans which can be obtained on reasonable terms without its assistance, the dollars made available through its facilities will represent an *additional* supply of dollars and the exports which they finance will be additional exports.

The statutes of the Bank permit it to make, participate in, or guarantee loans up to the amount of its subscribed capital of $9,100,000,000 plus the amount of its reserves and surplus. For purposes of illustration, it may be assumed, however, that the Bank will actually make or guarantee, over a period of years, total loans of $8,000,000,000, the difference between this and the maximum permissible amount representing what the management might consider a prudent margin. The rate at which its resources are used will be determined by the demand for loans by foreign countries for reconstruction and development, the character of the management of the Bank, and other factors. If the loans are made at the rate of $1,000,000,000 a year and if these are very largely dollar loans, the result would be to increase United States exports by approximately the same amount annually. However, the increase in exports may lag behind the loans somewhat, especially during the early period of the Bank's operations.

The effect of the operations of the proposed Monetary Fund on United States exports will be fundamentally different from that of the operations of the Bank. The Fund is designed to provide purely short-term financial aid to countries experiencing temporary balance-of-payments difficulties. Thus, the operations of the Fund will not provide a continuing direct stimulus to the foreign demand for American goods, although this demand will be stimulated indirectly if the Fund succeeds in improving the general climate in which international trade is carried on.

Since, then, the increase in United States exports will come primarily from the operations of the Bank, and since the Bank is to make loans only for reconstruction and developmental projects, it is clear that it will be chiefly capital goods and to a large extent the products of heavy industry which will be directly benefited. On the other hand, the larger amounts of dollar exchange made available for capital goods through loans by the Bank will free dollar exchange from other sources for use by foreigners in purchasing the whole range of American exports. All exporters therefore have a stake in the operations of the Bank, as well as of the Fund.

What More Is Needed

Whatever their merits or deficiencies, the proposed Fund and the Bank are not panaceas, and they will not of themselves solve the fundamental problems of United States foreign trade. To the importer and manufacturer dependent on foreign materials, as well as to the country at large, the purpose of foreign trade is to secure from other countries things that cannot be produced at home with equal advantage or at all. But because of the peculiar position of the United States in the world economy there has not been in the recent past, and will not be in the foreseeable future, any real difficulty in finding external purchasing power to pay for imports into the United States.

To the American exporter, the immediate purpose of foreign trade is to provide markets for goods, and the bigger the markets the better. What he wants is to make a high and stable volume of dollars available to foreigners in order that export trade may flourish. This means either a high and sustained vol-

ume of imports or of new foreign investment, or some combination of the two. From another point of view, an important purpose of foreign trade in the broad sense is to provide an outlet for capital and in this way to counteract the deflationary influences on the domestic economy of underinvestment at home.

These problems of foreign trade—obtaining needed imports, finding markets for domestic products, and providing an outlet for surplus capital—are all of vital importance; but the fundamental problem of United States foreign trade goes beyond these narrow conceptions. It grows out of the enormous economic influence of the United States in the world economy and the resulting extraordinary relationship of economic activity in the United States to the prosperity of the world. Recent Department of Commerce studies have shown the crucial importance of making dollars available to foreigners in adequate amounts as a means both of maintaining a high level of international transactions generally and of preserving conditions of trading which are congenial to a free-enterprise economy.

Whether narrowly or broadly conceived, the problems of United States foreign trade will find only a partial answer in the proposed Fund and Bank. A full solution of these problems requires, as both immediate and long-term programs, (1) a high and stable level of economic activity in the United States to induce a high and stable level of imports, (2) further reduction of import duties and other barriers to trade, and (3) conservation of certain wasting natural resources, in favor of imports; and, as a program for both the immediate and indefinite future, (4) new foreign investment on a large scale apart from the Bank. If the United States wishes to be paid promptly and in full for its exports and ultimately to realize on its investments abroad, it must look forward to an eventual excess of imports in its foreign trade. The only important alternatives are a continuing and progressively increasing volume of American foreign investment on a large scale or a steady influx of gold.

The operations of the Fund, by promoting exchange stabilization, by securing the gradual elimination of exchange controls which restrict trade, and, most of all, by minimizing recourse to measures destructive of trade by countries experiencing temporary balance-of-payments difficulties, will help greatly to create conditions under which these desirable United States programs can be carried out. To the extent that the Fund contributes to a sustained high level of international trade it will help maintain employment and weaken resistance to necessary tariff reduction; to the extent that it stabilizes currencies it will increase the attraction of foreign investment.

The operations of the Bank will contribute directly to a solution of the foreign-trade problem of the United States and might go far to provide a partial solution for the indefinite future if it were equipped (as it manifestly is not) to carry a large part of the burden of international lending. The resources of the Bank must be supplemented by new foreign investment without its assistance, on a substantial scale, if the total volume of post-war international investment is to be adequate for both reconstruction and developmental purposes. The Bank itself can contribute significantly to such a development by restoring foreign investment to public favor and confidence.

Thus, the Fund is restricted to short-term accommodation for meeting temporary exchange stringencies and is designed to improve the climate of international trade and finance rather than to contribute directly to their expansion. The Bank can at best meet only a part of the need for long-term international investment. For these reasons alone, it would be foolish indeed to rely solely on these instruments to solve the foreign-trade problems of the United States. But it would be equally foolhardy to minimize their importance because they are not cure-alls.

What the situation demands is (1) the utilization of American productive capacities on a basis that provides high peacetime employment and consumption, as well as safeguards against either a sharp boom or slump; and (2) a large and expanding volume of United States foreign trade, induced by a sustained high level of domestic economic activity and by a substantial reduction of tariff and other trade barriers. These are indispensable conditions not only to the success of the monetary agreements but also to the attainment of general world prosperity and world peace.

Alternatives

The alternatives to the establishment of the Fund and the Bank are (1) a do-nothing policy, (2) reestablishment of the gold standard, and (3) the so-called key-currency approach.

A do-nothing policy with respect to international monetary problems opens the way to a repetition of the currency chaos and currency wars of the thirties. In the absence of international cooperation, each country must solve the problem of its position in the world economy by unilateral measures. Many countries will have no reasonable choice but to restrict payments for imports and to expand exports by any available means, including exchange depreciation and multiple-currency practices. Other countries will have no incentive to relax their existing restrictions on trade and may be forced to retaliate by imposing new restrictions. The hope of freeing international trade in general and of removing the special barriers to United States exports will be gone. With it will go the hope of carrying our own and world trade to a high peacetime level.

This conclusion is not altered by the fact that foreign countries now hold gold and dollar balances which are not only considerably greater in amount than before the war but also more widely distributed. While these external reserves are large in the aggregate, they are by no means completely disposable. Furthermore, the holdings of many countries are absolutely small, and those of others are small in comparison with immediately prospective post-war needs. Besides, who can say, in view of the uncertainties ahead, what countries will lose gold and foreign exchange and what countries will not? In any case, would the United States want to rely primarily upon a surrender of dollar balances by foreigners and a steady influx of gold from abroad to balance its international accounts?

What will be the result of a do-nothing policy with respect to international investment? It is a foregone conclusion that the United States will lend some assistance in the form of gifts or credits to the reconstruction of the war-torn countries and will provide some capital for the development of industrially backward countries. But will these contributions be adequate? Dependence on gifts is hazardous, both because they are uncertain and likely to continue over relatively short periods of time and because international charity is often not entirely welcomed by its intended recipients. If government - to - government loans are arranged, all of the risks involved in what are or will become political loans, whatever their form, will be assumed. If reliance is on private investment, what assurances are there that United States investors will be receptive to new foreign loans in substantial volume or that loans in adequate amounts will not be forthcoming except on terms so burdensome as seriously to prejudice repayment? In any case, why should the United States Government and United States investors take all risks as contrasted with the wide distribution of risks under the statutes proposed for the Bank?

The reestablishment of the gold standard, whatever its possible theoretical advantages, must be ruled out as a practical alternative, for a very simple reason. There is probably no country in the world today which would be willing to suffer the rigidities of the gold standard or follow its rules, among them the implicit requirement that a country on gold must deflate its own economy if the rest of the world or the countries with which it does business are undergoing depressions. The gold standard is, after all, an international standard and could not be restored by the United States alone even if this Nation should be so disposed. In fact, therefore, the rigid gold-standard approach is closely akin to the do-nothing approach.

The key-currency approach, as set forth by its principal advocates, envisages an initial agreement between the United States and the United Kingdom on the sterling-dollar rate. Other currencies would be linked to either the dollar or the pound. There would be consultation and collaboration between the United States and the United Kingdom and other major financial powers and between such powers and their respective satellites. This approach is frequently accompanied by a proposal for a loan or gift of large amount (say $5,000,000,000) by the United States to the United Kingdom and similar aid to other countries requiring it, as a means of assisting them in liquidating debts incurred during the war and in rehabilitating

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their international positions generally. For strictly stabilization purposes, however, a relatively small revolving fund of perhaps a few hundred millions of dollars would be considered adequate by its proponents.

Now, there are many common elements in this approach to the problem of currency stabilization and the approach embodied in the proposed Monetary Fund. The fixing of the dollar-sterling rate would be a prerequisite under either approach to the establishment of a general system of exchange rates. Both would give chief responsibility and authority to the major powers. Both provide for stabilization credits, and both are conditioned upon a substantial reduction of trade barriers generally and upon sound internal financial and economic policies. Indeed, it is a fair guess that a full development of the key-currency approach would result in a plan not dissimilar to the Monetary Fund proposal.

There are, however, crucial differences between the proposed Monetary Fund and the key-currency scheme in its present stage of development. Smaller nations have an important voice in the Fund which would be denied them under arrangements between key countries only. The multilateral provisions of the Fund plan discourage, while the other approach would seem to *encourage*, the perpetuation and formation of economic blocs, with all of the trade preferences and restrictive bilateral deals which go with them. The Fund approach recognizes that not a few but many currencies are key currencies with respect to trade in individual commodities. It provides also for the alignment with an international system of exchange rates of currencies which do not fall into either the dollar or sterling blocs. The small stabilization fund usually associated with the key-currency approach is based on the theory that currency stabilization is the product solely of sound internal policies and that, given such policies, external credits are not needed except possibly on a small scale to counteract temporary speculative pressures. By contrast, the Monetary Fund, while small in comparison with world-trade totals, would be in a position to meet the inevitable and frequently heavy pressures on currencies from external causes. Most important of all at this critical juncture in world affairs, the Monetary Fund proposal represents a carefully considered agreement among the representatives of forty-odd nations which awaits only their formal acceptance before becoming effective.

Commercial-Policy Goals

The proposed International Bank can, within the limits of its resources, help to increase export markets for American products; and the Monetary Fund, by promoting exchange stabilization and by providing short-term accommodations for temporary exchange stringencies, can create conditions favorable to the ultimate abolition of exchange restrictions on trade and the restoration of a multilateral settlement system. While they facilitate solution, they do not in themselves solve the international trade problem and cannot be completely successful even in their own fields unless parallel programs for the direct reduction of trade barriers and the expansion of world commerce are soon adopted. Conversely, the assurance which the Fund and the Bank afford for stability and orderly adjustments in the monetary relations of nations and for substantial international financial support in temporary difficulties should encourage greater readiness on the part of governments for bold action to liberalize the conditions of international trading.

However desirable, it is perhaps too much to hope that either the United States or any country would undertake any material reduction of its tariffs or other trade restrictions unless there is assurance of similar and simultaneous reduction of the barriers to the admission of its products into the principal other markets. Moreover, the need for the earliest possible restoration of peacetime production and trade everywhere does not allow the time necessary for carrying through a long series of negotiations between pairs of countries, even if they could be as effective for the purpose.

The only promising approach is through supplementing the Agreements reached at Bretton Woods with a similar collective convention for the concurrent substantial reduction of tariffs and other barriers to trade on the part of the largest possible number of countries. A cardinal feature of such a convention is that the participating countries shall move toward the progressive restoration of world commerce to a predominantly open and competitive basis.

Especially if the multilateral convention on post-war commercial policy should be brought into effect at about the same time as the monetary Agreements, the more specific provisions which it could embody regarding permitted practices in the application of all the various methods of regulating a country's trade should safeguard against exchange control's being used for unnecessarily restrictive or diversionary purposes. Alert and courageous administration of the monetary and the commercial-policy agreements taken together holds out high promise for the revival and expansion of international trade on stable and equitable foundations.

Tanganyika's Livestock Industry

The livestock industry of Tanganyika has developed rapidly in the war years, according to the African press.

The number of cattle marketed during the years 1938–42 rose from 99,612 to 238,683 and the value from £124,590 to £404,191. Complete figures for 1943 are not available, but in that year the Leibig factory in Kenya alone purchased 100,000 head of cattle against 8,258 head in 1939. The export of cattle to neighboring territories is almost entirely a wartime development.

There are about 6,000,000 cattle and almost the same number of sheep and goats in the Territory, according to a recent census of livestock. These totals exceed those of any other part of the British Colonial Empire. It is estimated, however, that about double that number would be necessary to provide adequate supplies of meat and milk to improve the diet of all the Africans in the territory.

The manufacture of clarified butter and ghee has also expanded. In 1939, exports of clarified butter amounted to 1,639 hundred-weight and ghee to 17,926 hundredweight, as compared with 6,237 and 27,699 hundredweight, respectively, in 1942.