

Mr. Brenner (B)

Publicity

NEA Leaders



Letter NO.38

NATIONAL EDUCATION ASSOCIATION OF THE UNITED STATES

1201 SIXTEENTH STREET NORTHWEST, WASHINGTON 6, D. C.

This letter is made possible by War and Peace Fund

F. L. Schlegle
PRESIDENT

Willard E. Givens
EXECUTIVE SECRETARY

May 28, 1945

Dear Fellow-Worker:

Most persons agree that if future global wars are to be prevented there must be definite plans and machinery for cooperation among nations. The basis for political cooperation was drawn up in the Dumbarton Oaks conference (see Leaders Letter No. 28, December 7, 1944) and is being perfected at San Francisco. A parallel and supplemental plan for economic cooperation was tentatively agreed upon at the Bretton Woods meeting.

It is recognized by many that political and economic cooperation are inseparable. Political cooperation assumes that each nation is capable of performing certain cooperative acts—has the economic and physical resources to operate as a member of the family of nations. Political cooperation also assumes the willingness of each nation member to abide by the rules of the game—not to agree to political peace while at the same time engaging in economic warfare.

The Bretton Woods agreements seek to meet these two political situations by two new economic organizations:

First, a plan for an International Monetary Fund to which all nations would contribute and from which all might benefit by temporary loans. These loans would be designed to keep exchange rates stable.

Second, the Bretton Woods plan calls for the establishment of an International Bank for Reconstruction and Development. Under this arrangement the citizens of each member country could have their borrowings from abroad guaranteed by the Bank and, if necessary, the citizens or the member country itself could borrow from the Bank.

Not only are the Bretton Woods agreements of significance in supporting arrangements for political cooperation but they will be of great importance to the individual citizen. International economic warfare results in disturbances of trade which ultimately result in unemployment, fluctuating wages, high prices, and losses of profit. These conditions affect all citizens as producers and consumers. But chaos in the economic life also affects public budgets and tax revenues which in turn impedes the steady improvement of public education and other services of government.

The Bretton Woods proposals are now before Congress. Immediate action is needed: (a) to promote among all citizens widespread discussion and understanding of the proposals, and (b) to convey to members of both houses of Congress the point of view of representative groups of citizens. Please study the Bretton Woods proposals and do your part in getting them discussed. Encourage citizens to send their recommendations to Congress.

Most cordially yours

Willard E. Givens
Willard E. Givens
Executive Secretary

F. L. Schlegle
F. L. Schlegle
President

THE INTERNATIONAL MONETARY FUND

[1] *What is the International Monetary Fund?*—This is one of two proposed institutions for which detailed plans were drafted at the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, in July 1944. All the 44 countries that participated in the conference subscribed to the view that because international monetary problems concern all countries, they can be dealt with satisfactorily only thru a cooperatively supported international agency.

[2] *What is the Fund intended to do?*—*First*, it will stabilize the value of currencies in terms of each other.

Second, the Fund will hasten the removal of artificial barriers against the making of payments across boundary lines.

Third, the Fund will provide a supplementary source of foreign exchange to which a member, embarrassed because its international out-payments exceed its international in-payments, may apply for temporary assistance.

[3] *How will the Fund operate?*—*First*, the fund will be an international organization thru which all member countries will cooperate to bring about stable currencies, freedom in exchange transactions, and elimination of discriminatory currency practices.

Second, the Fund will be a financial institution. In this capacity, it will make available to a member the particular currency, whether dollars, pounds, francs, or Mexican pesos, that may be required to keep the member's current international payments in balance.

[4] *How will the Fund get its working capital?*—The Fund's working capital will be subscribed by the 44 member countries. Its total resources in gold and member currencies will be equal in value to \$8,800,000,000. Of this amount, the United States will subscribe \$2,750,000,000, the largest single share, or quota. Other members having large quotas are the United Kingdom, Russia, China, and France.

[5] *What will the Fund mean to the United States?*—It has been estimated that our exports, which were only three billion dollars in 1938, will have to be

more than tripled in the postwar period if we are to achieve full employment of manpower and full utilization of our enormously expanded industrial capacity. But the American businessman is fully aware that no threefold expansion of our foreign trade is possible unless currency systems the world over are stabilized, unless current exchange transactions are freed from petty bureaucratic control.

Exchange control is not the only obstacle the American exporter has had to fight. Again and again he has had his foreign markets for automobiles, radios, tools, tobacco, lard, cotton, and grain cut from under him by currency devaluation and the manipulation of exchange rates.

As exchange controls and competitive currency depreciation spread from country to country, not only do they distort and depress trade; they breed vicious economic warfare that may end in an outbreak of actual hostilities. By solving cooperatively some of the problems that lead to that sort of competition, the Fund will not only promote world trade but will also improve the chances for lasting peace.

[6] *To what extent will the United States participate in the management of the Fund?*—The voting power of each member country will be closely related to its subscription to the Fund, and most decisions will be by straight majority vote. The United States, however, will be the largest subscriber and will thus have the largest vote—28 percent of the total. This will be larger than the vote of any other country, and larger than the combined vote of all British Empire countries taken together.

[7] *How will the Fund be managed?*—Every member country will be represented on the Board of Governors, which will meet at least once a year as the overall policy-making body of the Fund. Reporting to the Board of Governors and responsible for the general operations of the Fund will be 12 Executive Directors, five of whom will be appointed by the countries having the largest quotas. The Executive Directors will select a Managing Director, who will

organize a staff and manage the daily affairs of the Fund.

[8] *How can we be sure that the interests of the United States in the Fund will be fully protected?*—First, there will be the great weight of our voting power. Second, the vigilance of other member countries, concerned as much as we in the Fund's success, may be relied upon to assure the wise use of the Fund's resources. A third protection is afforded by other strong safeguards written in the Fund Agreement. A member country may purchase from the Fund (with its own currency) only a limited amount of dollars, or any other currency, in any given year.

[9] *In joining the Fund, will the United States surrender control over the value of the American dollar?*—No. The American dollar will be defined in terms of gold and backed exactly as it is today. No other nation can alter or, under the proposed Agreement, even propose to alter the gold value of the dollar. That is a matter over which the Congress of the United States alone has jurisdiction.

[10] *Why is an international organization needed to maintain currency stability?*—The economic problems of the postwar period will be complex and difficult. They will not be solved by handouts from the United States or Great Britain. A permanent institution is needed for international monetary cooperation, in good years and in bad, to study world economic conditions and take such precautionary measures as may be required to prevent disruption of world trade.

The United States alone could not assume the full responsibility for dealing with international monetary problems. Nor is there any reason why it should. Stability, and the increased trade that stability makes possible, will enhance the wellbeing of all countries. Hence, all should share the responsibility for maintaining stability in proportion to their wealth and their participation in world trade.

[This article and the one on the next page consist of material taken from the U. S. Treasury report, *The Bretton Woods Proposals: Questions and Answers on the Fund and Bank*, March 15, 1945.]

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

[1] *What is the International Bank for Reconstruction and Development?*—Its nature is suggested by its title. Its purpose is to facilitate the movement of capital both to the countries that have been devastated by war and to those that have long needed assistance in developing their industries and improving their living standards. In performing these functions the Bank will stimulate the growth of foreign trade and at the same time provide a way thru which countries with capital to lend may find wider opportunities for profitable investment.

[2] *How will the Bank function?*—The International Bank for Reconstruction and Development will not function as a commercial bank. It will accept no deposits. And altho it will make some direct loans, it will supplement rather than supplant the established institutions in the investment and banking business.

The Bank's main function will be to guarantee loans made by private investors. The object of the guarantee is to encourage a substantial volume of private international investment.

[3] *Will the Bank also make direct loans?*—Yes. The Bank will make two kinds of direct loans. First, it will make direct loans in which it serves only as an intermediary between borrowers and lenders. The Bank will sell its own obligations in the market of a member country, and in turn lend directly to the ultimate borrower.

The Bank will also make direct loans out of its capital assets. Such loans may be made only with the consent of the country whose currency is being lent. Direct dollar loans, for example, can be made only with the approval of the United States. The total volume of this type of direct loans will be limited to 20 percent of the Bank's subscribed capital.

[4] *Where will the International Bank for Reconstruction and Development get its capital?*—The authorized capital of the International Bank for Reconstruction and Development will

be ten billion dollars. At the outset, however, its subscribed capital will be \$9,100,000,000. Of this amount, the United States, the largest single stockholder, will subscribe \$3,175,000,000. The United Kingdom will subscribe \$1,300,000,000, and all British Empire countries taken together, \$2,375,000,000. Russia, China, and France, in that order, will be the next largest subscribers.

[5] *Can any nation become a member of the Bank?*—Initially, membership will be open only to the countries that participated in the United Nations Monetary and Financial Conference at Bretton Woods and have become members of the International Monetary Fund. At a later date, other governments, when admitted to membership in the Fund, may also be admitted to membership in the Bank.

[6] *Where will the Bank be located?*—The head office of the Bank will be located in the United States, the largest single subscriber. The Bank may establish regional or branch offices in other countries.

[7] *How will the Bank be managed?*—The Bank will be under the overall direction of a Board of Governors, consisting of one representative from each member country. Reporting to the Board of Governors and responsible for the general operations of the Bank will be a board of 12 Executive Directors, of whom five will be appointed by the five countries having the largest number of shares—the United States, the United Kingdom, Russia, China, and France—and seven will be elected by the remaining members. The Executive Directors will select a President, who will organize a staff and, under the direction of the Executive Directors, serve as the operating head of the Bank.

The United States will control 32 percent of the total voting power. Its vote will be larger than that of any other single nation, and larger than that of the British Empire countries taken as a whole. In general, all decisions will be arrived at by straight majority vote. The

United States, however, will have veto power over any proposal to increase the capital of the Bank or the subscription of the United States.

[8] *Will membership in the Bank mean an expansion of government control over the banking system?*—No. The International Bank for Reconstruction and Development will have no dealings with our banking system except of a purely business character.

[9] *Will a member be able to withdraw from the Bank?*—Yes. Any member country may withdraw from the Bank by submitting notice of its intention to do so. The withdrawing country will not be liable for any portion of the obligations subsequently assumed by the Bank. No country, however, can by withdrawing divest itself of its share of liabilities assumed by the Bank when it was a member.

[10] *Instead of accepting the Bank proposal now, would it not be safer for the United States to wait until normal financial relationships have been reestablished?*—The need for reconstruction loans is urgent. Locomotives, bridges, port facilities, factories, and power plants in wartorn countries must be replaced or rebuilt. The sooner this is done, the sooner their economies will be pushed off dead center and restored to normal levels of productivity.

The need for developmental loans is perhaps less urgent, tho equally important from the standpoint of promoting trade expansion. The undeveloped countries offer immense stores of raw materials that the more advanced countries, including the United States, need to supplement their own exhaustible resources.

The immediate establishment of the proposed International Bank for Reconstruction and Development, therefore, will mean that we have taken a constructive step to close the gap between the war and peacetime economies, and that we are determined to do everything within our power to assure continued high levels of productive activity.

MATERIALS FOR DISCUSSION GROUPS

- [1] American Bankers Association. *Practical International Financial Organization Through Amendments to Bretton Woods Proposals*. New York: the Association, February 1, 1945. 47p. Free.
- [2] Chamber of Commerce of the U. S. A. *Bretton Woods Proposals*. Washington, D. C.: the Chamber, February 1945. 91p. Free.
- [3] Committee for Economic Development. *The Bretton Woods Proposals: A Statement on National Policy*. New York: the Committee (11 West 42nd Street), March 1945. 10p. Free.
- [4] Consumer Banking Institute. "Bretton Woods Plan Carries Import Vital to Consumer Credit Field." *Consumer Credit Bulletin*. Washington, D. C.: Morris Plan Bank, February 1945. 4p. Free.
- [5] Federal Reserve System. "Bretton Woods Agreements." *Federal Reserve Bulletin*, September 1944. Reprint available from the Board of Governors of the Federal Reserve System, Washington, D. C. 21p. Free.
- [6] Foreign Policy Association. *Bretton Woods Monetary Conference: Plans and Achievements*. Foreign Policy Reports, September 1, 1944. New York: the Association (22 East 38th Street). 10p.
- [7] Halasi, Albert. *Bretton Woods and Full Employment*. Occasional Papers, Monetary Series, No. 5. New York: American Labor Conference on International Affairs (9 East 46th Street), March 1945. 59p. \$1.
- [8] Morgenthau, Henry, Jr. "Bretton Woods and International Cooperation." *Foreign Affairs* 23: 182-94; January 1945.
- [9] National League of Women Voters. *Bretton Woods Monetary Proposals*. Washington, D. C.: the League (726 Jackson Place), January 1945. 5p. 10¢.
- [10] National League of Women Voters. *The Story of Bretton Woods*. Washington, D. C.: the League (726 Jackson Place), April 1945. 24p. 5¢.
- [11] Newcomer, Mabel. *Monetary Plans for the United Nations: A Layman's Guide to Proposals of the Bretton Woods Conference*. Washington, D. C.: American Association of University Women (1634 Eye Street, Northwest), 1944. 26p. 25¢.
- [12] New York State Bankers Association. *The Bretton Woods Proposals*. Report of the Committee on International Monetary Matters. New York: the Association (33 Liberty Street), 1945. 62p. Free.
- [13] United Nations Information Office. *Money and the Post-War World: The Story of the United Nations Monetary Conference*. New York: United Nations Information Office (610 Fifth Avenue), April 1945. 32p. 10¢.
- [14] U. S. Department of Commerce. "Bretton Woods and Foreign Trade." *Foreign Commerce Weekly*, October 7, 1944. p1-3.
- [15] U. S. Department of State. *United Nations Monetary and Financial Conference*. (Final act and related documents.) Publication 2187, Conference Series 55. Washington, D. C.: Superintendent of Documents, Government Printing Office, 1944. 122p. 25¢.
- [16] U. S. Department of State. *World Trade and World Peace*. Radio Series. Washington, D. C.: the Department, 1945. 18p. Free.
- [17] U. S. Treasury. *Articles of Agreement: International Monetary Fund and International Bank for Reconstruction and Development*. Washington, D. C.: Superintendent of Documents, Government Printing Office, 1944. 89p. Free.
- [18] U. S. Treasury. *The Bretton Woods Proposals*. Washington, D. C.: the Treasury. February 15, 1945. 13p. Free.
- [19] U. S. Treasury. *The President's Message to Congress—Bretton Woods*. Washington, D. C.: the Treasury. 1945. 8p. Free.
- [20] White, H. D. "The Monetary Fund: Some Criticisms Examined." *Foreign Affairs* 23: 195-210; January 1945.

At his first press conference on April 17 President Truman endorsed the Bretton Woods proposals just as they were sent to Congress. He said he would have supported the proposals if he had remained in the Senate.

According to the United States News "Critics of the plan say that borrowers would run the bank. Also they fear, the U. S. would have to put up most of the working cash, the economic conditions of most other countries being what it is. American bankers particularly object to what appears to be a bank requirement that no conditions can be fixed in a loan as to the particular member country in which the proceeds of the loan should be spent. British interests do not like the requirement that the bank could not lend a nation's currency without permission of that nation, a rule that appears to give a country control over investment of its funds. They think this would mean the U. S. could say where its dollars must be spent."