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World Monetary Conference Has Some Hurdles to Bestride

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Now that an international money conference in the United States is assured, with acceptances already coming in from some of the 34 nations, the gathering of financial experts at Bretton Woods, N. H., on July 1 for possibly a month's discussion promises to be one of the world's outstanding monetary events. The purpose of the meeting is to reach some agreement on how to stabilize exchange rates after the war.

Central to any action to be taken at this conference is an $8 billion stabilization fund already agreed upon in principle by representatives of the interested nations. This fund is to consist of gold and local currency, subscribed by the signatory countries according to a formula which takes into consideration the proportions of a country's trade to world trade, its gold holdings and its gold production. The Fund's resources up to a point would be available to any member country to help maintain exchange stability while maladjustments were being corrected in that country's balance of payments.

Parley of World-Wide Significance

It is not the purpose of this article to recount the various provisions of the proposed International Stabilization Fund. These were published in April and represent careful analysis of the financial problems expected to be encountered. Rather is this an endeavor to call attention to a meeting in which every citizen should have an interest, because of its international repercussions and its relation to the problems of peace. Also, there should be noted such criticisms in advance of the conference, so that the conferees, in the light of adverse comment or analysis, may defend or modify the plan, as the case may be.

The present plan, it is generally agreed, is superior to the two much publicized plans, one by Lord Keynes, the other by Harry White of the U. S. Treasury, that preceded it. The names, Bankor and Unitas, for the international unit were dropped, the sum agreed upon was taken from the Canadian plan, and the amount United States as a creditor nation might pay into the Fund was sharply cut, since the new plan calls for only 25 per cent of a country's quota or 10 per cent of its gold holdings and gold convertible exchange, whichever is smaller. Moreover, gold gets a firmer place, with par value to be expressed in gold, and voting power is to be "closely related to quotas."

Criticism of New Plan

One of the most trenchant critics of the new plan is Dr. Benjamin M. Anderson, professor of economics at the University of California, Los Angeles. He says that the new plan is fundamentally a Keynes plan, that it, like the Britisher's first plan, provides for a world inflation, and that it would give the President power to change the gold content of the dollar without the consent of Congress, since it provides that "an agreed uniform change may be made in the gold value of member currencies, provided every member country having 10 per cent or more of the aggregate quotas approves." This, says the critic, allows for repudiation in part of old obligations.

Moreover, says Dr. Anderson in his article in the Commercial and Financial Chronicle of May 4, the new plan seeks to achieve exchange stabilization without doing anything about currency stabilization. A weak country would continue uneconomic policies and postpone reform until it had exhausted double its quota in the Fund. The creditor countries would put up the real assets of the Fund which would become the pot at the end of the rainbow for the debtor countries. There would have to be an apportionment of scarce currencies, the rationing of dollars, the old cycle of blocked currencies and then new credits to permit new exports.

The new plan drops the blocked balance problem and so gives up trying to set foreign exchanges free; it ties foreign exchange transactions to the domestic money market, thus interfering with proper money market control in each country, and, finally, it creates a bank the majority of whose board of directors are debtors to the bank, anxious to borrow more.

The Fundamental Factors

It is of course recognized that stabilization of exchange rates is merely the tail to the kite of international trade and that a sound trade position is not achieved by manipulation of exchange but by such things as a sound currency within each country, a balanced budget or policies looking to a balanced budget, a reduction in tariffs, quotas and other restrictions, the erection of barriers to currency and credit inflation, and the maintenance of full employment.

The mere enumeration of such broad economic principles indicate that a money conference cannot attack the roots of current disequilibrium. It seems as if it is beginning at the wrong end and expecting the tail to wag the dog. But a beginning must be made somewhere. And it is entirely likely that the discussions at Bretton Woods will depart from narrow financial considerations and embrace the fundamentals.

Such a conference is a tacit acknowledgement that this nation has put behind it its one-time isolationist viewpoint, that this is "one world," and that no nation may let others "stew in their own juice." Future international trade, along with international exchange, is a most complex problem. Unless some thoroughgoing agreements are framed which will eliminate the necessity for currency depreciation, restrictions and trade curbs, and provide a freer flow of commerce, the world will fall back again to the level of self-containment policies which have bred wars in the past and can do so again.