What Bretton Woods Means

By NEWTON AIKEN

THE Bretton Woods program, now before Congress for approval, was worked out in the hope of preventing after this war the monetary disturbances that occurred in the twenties and thirties. It is agreed on every hand that if foreign exchange values fluctuate again as they did in the twenties and thirties, it will be bad for trade, but some authorities have questioned the plans laid at Bretton Woods for preventing such fluctuations.

There are two parts to the Bretton Woods program. One agreement provides for an International Monetafy Fund for stabilizing currencies. Another calls for the creation of an International Bank for Reconstruction and Development to make and guarantee long-term ~~loans to~~ countries in need of credit.

Under the bank plan, loans would be made to governments or corporations that appear to be good risks; each loan would be scrutinized in the way bank loans usually are. The actual credits would be advanced in most cases by private lenders, with the bank guaranteeing them in much the same fashion as the FHA now guarantees mortgages. In case a loan guaranteed by the bank were to be floated in this country, the American representative on the bank's board would have a veto over any and all arrangements that might be made.

There is no objection in this country to the bank. Everyone regards it as a promising enterprise. It is around the fund that controversy rages. Committees of the American Bankers Association and the New York Bankers Association have said that the objectives of the fund are admirable, but they do not like some of the methods. To understand the criticisms, it is necessary, first of all, to see just what the fund does. It undertakes to effect its ends by three different techniques, as follows:

First, by arranging for the establishment of foreign exchange rates at the end of the war by consultation and agreement among the participating nations.

Second, by binding member nations not to change the values thus established by more than 10 per cent without the fund's consent, and not to devalue even 10 per cent without consulting the fund.

Third, by providing a reservoir of currency upon which ~~member~~ nations can draw for protection when their own currencies are subjected to strain.

Most of the criticism of the fund relates to the third undertaking, and much of the emphasis in current discussions relates to the management of the currency reservoir and the terms on which members may have access to it. The other matters, however, are of the utmost importance, for they constitute the initial bulwark against the sort of currency manipulation from which the world suffered between the wars.

The provision for fixing the value of currencies by agreement is in itself a great step forward in monetary co-operation. Heretofore, a nation has usually set the value of its currency by unilateral action. It was a law unto itself. Under the fund such values will be set at the end of the war in consultation with other nations and, as the ~~fund agreement~~ says, with regard to the ability of the members to maintain the rates that are fixed. That is to say, governments will work together to establish a system of relationships between the various currencies that will have some prospect of enduring.

For the United States, however, this procedure involves no foreign control of our currency. The Bretton Woods agreement provides that the value of all currencies shall be expressed in gold or "in terms of the United States dollar of the weight and fineness in effect on July 1, 1944." Whatever values may be assigned to other moneys, this provision permits the United States to retain the kind ~~of dollar it~~ now has, and, indeed, makes that dollar the measuring rod for all other currencies.

The second provision represents an equally important step away from the old practice of unilateral action on currency values. If they consult the fund in advance, members will be allowed to devalue their currencies up to 10 per cent, but no further devaluation will be permitted without the fund's approval. When it is recalled that the British devalued the pound by nearly 30 per cent in 1931, that we depreciated the dollar by more than 40 per cent in 1934, and that the French franc was devalued by 29 per cent in 1936, it will be seen that while the 10 per cent limitation allows the nations a certain amount of room for change, it does provide a bulwark against the extreme fluctuations which marked earlier periods of instability.

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The third provision deals with the highly technical processes by which the fund may be used to counteract exchange fluctuations. It sets up an international reservoir of currency to which every member must contribute. (The American quota is $2,750,000,000 and the total amount of the fund is $8,800,000,000.) Any member may borrow annually from the fund up to 25 per cent of its quota (the amount it contributed) until its quota is exhausted or until the fund calls a halt. That is to say, if France should find it had bought more goods from the United States than it could immediately pay for, it could get dollars from the fund's reservoir to tide it over, the use of the fund's resources would buttress France's currency and prevent a depreciation in the franc until things were worked ~~out~~.

Theoretically, nations can obtain credits from the reservoir only for stabilization purposes; they cannot use them as ordinary commercial credits would be used. A number of qualifications and safeguards are set up to prevent a member from accomplishing in fact what is prohibited in theory, and among these safeguards is a provision for service charges (or interest) which increase as a nation's borrowings from the fund grow in volume or as they may be extended from year to year.

The objections of the American Bankers Association and the New York Bankers Association to the fund are founded on the fear that the theory will not be adhered to. They think ~~that it will~~ be hard to keep members from using the fund's resources to overextend their foreign buying; they say that the stabilization loans ought to be made through the International Bank, where the loan will be subject to banking discretion and where there will be some control over borrowers. They also emphasize the fact that in the bank the United States will have a veto over dollar loans and say that this will give this country a needed safeguard that is not provided in the fund itself.

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This argument boils down to two questions. One is whether this country ought to seek the same veto over the short-term credits for currency stabilization out of an international fund as it will have over long-term loans floated in its own markets. The second question is whether the fund will be wisely administered in accordance with the intention of its framers.

In considering these questions it is well to remember that the committees of the A.B.A. and the New York Bankers Association do not reflect all banking opinion. Representatives of the Pennsylvania Bankers Association has indorsed the fund, while the Committee for Economic Development has done the same through a committee on which a number of highly placed bankers served. The C.E.D.'s approval was, to be sure, voted on condition that the bank be specifically empowered to make long-term loans for stabilization purposes. The point to be stressed, however, is that with this change the C.E.D. group believes that the management of the fund will be able to maintain in practice the theory that its loans ought to be used only for current stabilization operations.

A further consideration to be remembered in weighing the two questions is the possibility that if we insist on a veto in currency matters, we may be accused of seeking the financial dictatorship of the world. Such an accusation could easily poison all our international relations.

Finally there is the possibility that if, on the very threshold of the postwar era, we reject a monetary agreement worked out after two years of careful negotiation among 44 nations, and, after abundant public discussion here at home, we may administer a setback to the whole program of international co-operation, including the Dumbarton O plan for a world organization maintain the peace. The Ur States should be very careful fore taking any such risk.