

BRETTON WOODS EXPLAINED

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What Is Right and Wrong With This Important Pact

When this war ends, one of the prime purposes of statesmen will be to restore the economic health of the world. They know that lasting peace is impossible unless men have jobs, a decent standard of living, a reasonably comfortable economic existence. Militarism thrives on economic discontent. Warmongers like Hitler use a nation's economic misery—mass unemployment, poor living, low and uncertain income of its citizens—as cause for promising them something better. The "something better," as in Hitler's case, is preparations for war. Whatever else it does, it provides jobs.

But peace, if properly organized, can provide not only more jobs but also lasting ones. And unlike those for war, they are productive. They furnish goods and services that people can enjoy, they raise standards of living, they enrich individual existence.

Our common experience tells us that the attainment of these economic satisfactions is not always easy for nations to provide in peacetime. Our own depression taught us that. But the first World War and its aftermath proved that it is a much tougher problem in such circumstances.

Each Nation Tried To Protect Itself

The severity of their postwar economic distress was so great that each nation tried to protect itself by keeping out foreign goods that it could produce itself even at greater cost because it provided jobs for its own people. It erected various kinds of trade barriers against unwanted imports. Retaliation by other nations followed. The result was that commerce between nations stood at a low level for years. It was a policy of intense nationalism that not only kept every nation poor but was widely regarded as responsible for bringing on the world depression and finally the present war itself.

No sensible person wants to see this chain of circumstances recur in the wake of this war. Statesmen realize that if international co-operation is to succeed, it must have solid economic as well as political foundations. It was to begin the laying of these economic foundations that the Bretton Woods conference was held.

What were the problems that faced the delegates at Bretton Woods? There were many problems. But, fundamentally, so far as the conference could deal with them, they fell into two groups. First, it was recognized that many nations after this war, especially the Axis-occupied countries, would need to rebuild many things—destroyed factories, ruined cities, crippled transportation systems. Some new industries might have to be started. Now such things require large amounts of capital. The war-impooverished countries must not only be able to borrow but they must have a long time to repay.

Delegates Draft The Bank Agreement

So the Bretton Woods delegates drafted an agreement, signed by all the representatives of 44 nations, that an international bank would be established. The capital would be furnished, in specified amounts, by each of the nations according to its financial ability. The bank would have an international board of

directors, a competent executive staff, and its operations would be conducted according to tested banking principles.

Except in unusual circumstances, however, it would not loan its own funds directly. Rather, much after the pattern our own Government follows in making FHA loans, it would merely guarantee the repayment of loans made directly by private groups of international bankers. But before it guaranteed the repayment of such loans, it would make careful investigation of the use to which the money was to be put and inquire into the necessity or wisdom of the undertaking. The American Bankers Association, which has a natural interest in the Bretton Woods agreements, especially so far as American interest is concerned, has endorsed this part of the work of the delegates.

The second proposition—the monetary fund—is for a different purpose. Basically, it is to promote international trade. In order to carry on trade successfully between nations, every country's currency unit—dollar, pound, franc, or whatnot—must have a closely constant value in gold. If the French franc, for example, is worth two cents today, and an American manufacturer contracts to deliver a certain amount of goods to a French importer three months hence for a certain number of francs, he must be reasonably sure that when he makes his delivery of goods the franc will still be worth two cents.

If meanwhile its value has fallen to less than two cents, he may find that when the francs are exchanged for dollars the profit he figured on his goods has been wiped out. This matter of the franc having a constant value of two cents (or whatever official value the French Government may give it) is called stability. Stabilization of international exchange means exactly that every nation's currency unit will have a fixed value for purposes of conducting international trade.

The Bretton Woods delegates knew that international exchange was not stabilized after the last war. And that failure accounted in large degree for the fact that commerce between nations did not thrive between the two wars. So they decided to create an international fund of several billion dollars that could be used by all the 44 nations, to keep their currency unit at a fixed value when used to pay for imports from another country. Like the international bank, the capital would be subscribed by the participating nations according to their ability.

The advocates of acceptance of the fund agreement as it now stands argue that its rejection would result in economic chaos in many countries. They maintain that this extremely soft cushion, which the fund represents, is necessary for the economic salvation of these nations. They contend that, if economic chaos prevails in war-torn countries after the present conflict ends, no one can reasonably expect stable political conditions. Peace and order, they say, would be unattainable.

Yet this argument ignores the truth that the war-devastated countries are more likely to regain their economic health and their political strength if the cushion is not made too soft. Aid? Of course. But aid that is given in such manner as to encourage self-recovery. The assistance must be soundly based and prudently administered to the end that it will encourage the nations to hasten their own rebuilding.