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THE CED ON BRETTON WOODS

The research committee ~~of the~~ group of outstanding business men known as the Committee for Economic Development has published a statement on the Bretton Woods proposals. This statement reads like a compromise arrived at in order to obtain agreement from all fourteen members of the committee. As often happens with such compromises, the position taken lacks clarity and embodies some inner contradictions.

The committee fears, quite properly, that as the agreements stand at present the principal demands upon the International Monetary Fund will come, not from temporary imbalances of trade, "but from the very serious distortions in production and international trade relations caused by the war." It fears that great pressure will be put upon the management of the Fund to make what will be in effect long-term loans, to do it whether these loans are likely to be repaid or not, and to do it without having the power even to lay down the conditions under which the loans are made. It suggests, therefore, that establishment of the Fund be postponed unless the International Bank is given the express power, which it does not have at present, to make "loans for long-term and short-term stabilization purposes." If the Bank were granted this power, the committee argues, the managers of the Fund would be relieved of this pressure, because they could then "refer to the Bank those transactions for which the Fund is not intended," and the Bank would be able to require a country to correct unsound policies in return for the loan.

The committee is right in wishing to give the Bank this power to make stabilization loans. The American Bankers Association also made this recommendation. But the ABA report, as well as that of the New York State Bankers Association, pointed out that if the proposed International Bank were granted this power, the Fund would then become unnecessary. It is difficult to understand why the CED committee recommends retaining the Fund, particularly as it is now drawn up, once the International Bank has been granted this new power. There would be no important function left for the Fund to perform, ~~and it is~~ not drawn up to perform its proposed functions well.

The first requirement of any International Monetary Fund, if it is to be adopted, is that it should be drawn up on the same basic principle as the proposed International Bank. The managers of the Fund should retain the right of discretion at all times. They should be able to insist, whenever they think it necessary, that a nation having access to the resources of the Fund should put and keep its own financial house in order—that it should, for example, refrain from discriminatory trade practices, or the imposition of unreasonable barriers on trade, that it stop an inflationary expansion of bank credit or the printing of paper money, or take steps to balance its budget. Unless the Fund has the clear authority to insist upon such conditions in return for its loans, its resources will be dissipated to no purpose or to harmful purposes, and it will never accomplish the objects that its advocates hope for from it.

The CED committee itself lays it down as one of "five basic principles" that "loans should be truly loans; currency transations should be currency transactions; and gifts should be gifts. Lack of clarity as between intent and method at this point will produce * * * misunderstanding and bitterness between countries. If a gift cannot be made as a gift, it should not mask behind the facade of a loan." On this principle alone the Fund as it is at present drawn is unsatisfactory. But if the proposed International Bank is granted the power to make discretionary long-term or short-term stabilization loans, as the CED committee recommends, the Fund will not be necessary.