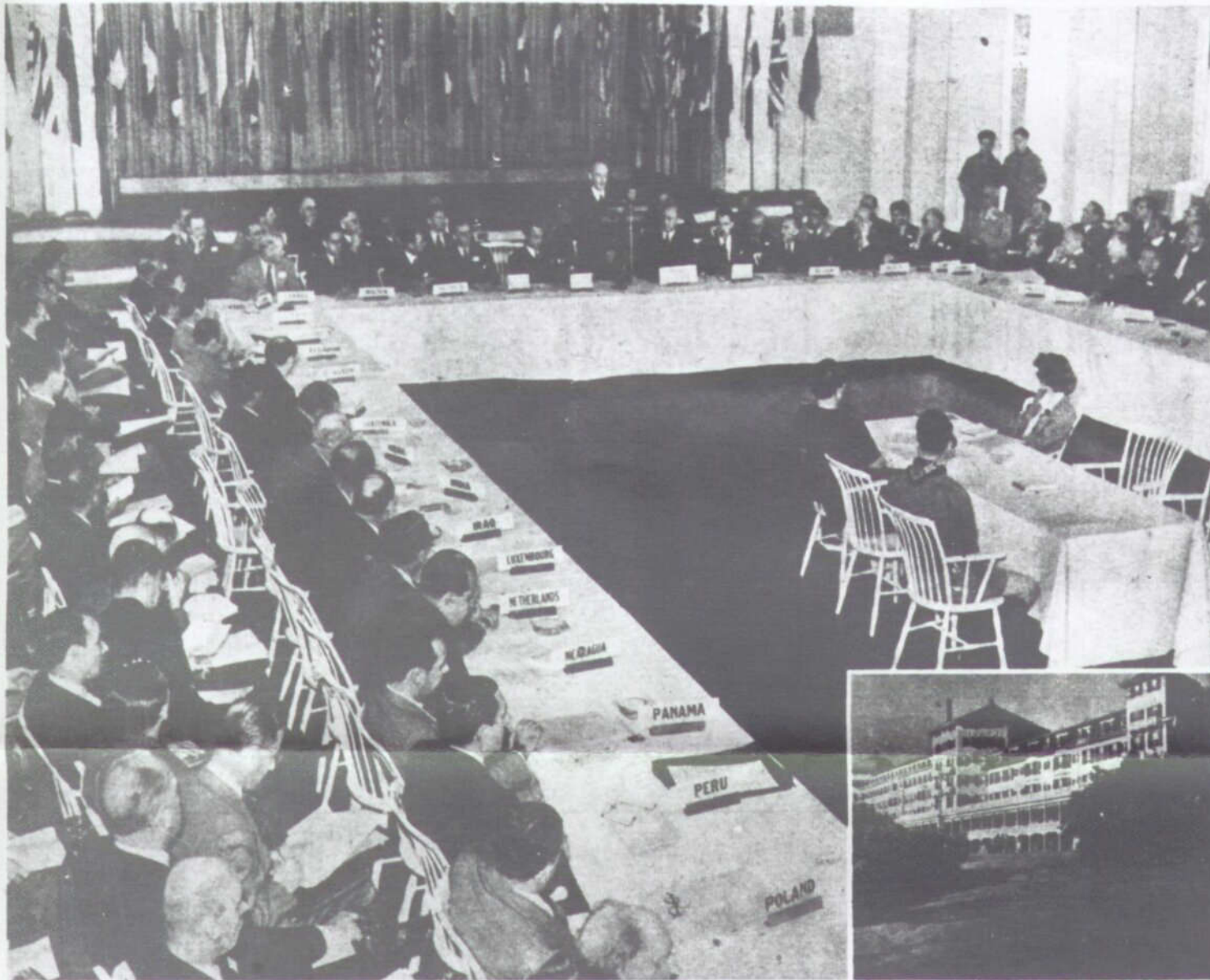


A Pillar of Peace?

Bretton Woods and Dumbarton Oaks

By Prof. Seymour E. Harris



Senator Charles W. Tobey of New Hampshire (Center of End Table) Addressing Session of United Nations Monetary Conference at Bretton Woods, Mt. Washington Hotel, Scene of the Conference, Lower Right

THIS country is now embarking on a program of political and economic collaboration with the rest of the world. We have plans for co-operation in the fields of relief, labor, agriculture, health, and the like. The first real test of how serious we are comes with the Bretton Woods program for monetary stabilization and the renewal of foreign loans now before Congress. If Congress approves these plans, this will be a signal to the rest of the world that blueprints made at Hot Springs, Mexico City, Montreal, Dumbarton Oaks and Bretton Woods are not merely bits of paper. And they will know that we intend to do our part toward re-establishing the relatively free conditions of trade and capital movements, and that we are ready to pay the price of co-operation and collaboration. If we fail to approve the recommendations adopted at Bretton Woods—if Congress embraces the recommendations of the American Bankers Association, that will be an announcement that we are on the road back to political and economic isolationism.

Last July, representatives of 44 nations met at Bretton Woods, New Hampshire, to consider proposals for an international monetary fund and an international bank. That 44 nations could agree on anything

is remarkable; that, despite their divergent interests, they could agree on the technical problems of a foreign exchange, international lending, and restrictions on trade to the extent that they have, is still more remarkable. The American people now must ask themselves whether they can afford to throw away this opportunity for international economic co-operation. If the present proposals are not ratified by the leading countries of the world, the outlook for genuine international collaboration in the economic field and even for world peace seems gloomy indeed.

Congress has begun consideration of these agreements. It is, therefore, appropriate that we consider briefly (1) the conditions which led to the consultations in Bretton Woods and (2) what these agreements propose to do.

We can perhaps start most appropriately by a survey of the economic conditions preceding World War II. We know that in the 30's the income of this nation was indeed low—on the average considerably less than \$60,000,000,000 per year. If this income had been \$80,000,000,000, the country would have been prosperous and employment would have been at a very satisfactory level. In this period we had also witnessed a marked decline

in American export trade. The total effect on national income of this decline of export trade is a multiple of the original decline of trade. Not only did our export trade decline, but it decreased in proportion to world trade. Under the horse-trading technique used at that period, our share of world trade declined drastically. Our tradition of equal treatment to all just did not stand up under the techniques, largely fascist-inspired, of the 30's.

This is, however, history. We are more interested in the future. We are all planning for a high employment economy or even for full employment. To help obtain this we must have exports.

All the world wants more trade, and it is obtainable under favorable conditions. To obtain these favorable conditions for a high level of postwar trade, the world must first have a reasonable degree of stability of the foreign exchanges, removal of other obstacles to trade, and resumption of international lending for reconstruction. And to stabilize exchanges and renew foreign trade were part of the objectives of Bretton Woods.

Two distinct programs are offered by Bretton Woods to facilitate and increase foreign trade. The first is an International Fund of \$8,800,000,000, of which the United States would provide \$2,300,000,-

000, paying around \$700,000,000 in gold. In its simplest terms, the functioning of the Fund is as follows: There are times when dollars—and other currencies—are scarce to would-be buying countries. By supplying these countries with currency, the Fund thereby enables the channels of trade to resume their flow. Or to change the metaphor, the Fund supplies a breathing spell for the country in question. In return for this help these countries agree to give up various barriers to trade.

A second proposal of Bretton Woods is an International Bank. In order to start the flow of capital across national borders once more, the Bretton Woods program proposes a bank of international reconstruction and development, the subscriptions to which will amount to \$9,100,000,000, our total subscription to be \$3,175,000,000. Of this amount 20 per cent is to be subscribed to the loan fund and 80 per cent may be called to cover losses made by others and guaranteed by the Bank. Of the \$635,000,000 to be subscribed for the loan fund by this country only \$63,000,000 is to be paid in gold.

These arrangements have important advantages over those of the inter-war period. Our commitments are relatively small and our probable losses even smaller. Compare our probable losses with those incurred by foreign investment in the inter-war period, or with the \$15,000,000,000 of gold imported in 1934-41 which is of little use to us and for which we gave in exchange goods and securities which are rights to future goods.

Formerly foreign loans were made haphazardly. Under the International Bank they will be scrutinized for their earning power and their potential contribution of foreign exchange.

Under the Bretton Woods proposals, loans are to be guaranteed by the foreign government. This is especially important. There are other advantages of the agreements. To take one: The responsibility for making loans is not to be borne exclusively by this country. The risk is shared by all the member-countries of the International Bank. The advantages of that are much like those offered by policyholders of an insurance company.

Like all conferences, the one at Bretton Woods necessitated many compromises. That was inevitable.

Against the very bad record of the inter-war period—the low volume of trade, obstacles to trade, perverse and badly planned capital movements, losses of capital, excessive imports of gold—the Bretton Woods program offers hope to those who would like to see world trade resume its upward trend; to see the nations with low incomes and standards of living once more receive the stimulus from the inflow of capital which in the nineteenth century, when we were on the receiving end, had contributed so importantly to our own economic advance. We cannot expect countries with an average per capita income of \$50 to \$100 to attain our average of \$1,200. But the world will be more peaceful if their incomes rise, even slowly. Bretton Woods is a step in the right direction toward economic co-operation without which political co-operation—and peace—will remain an empty dream. The Bretton Woods Agreement is one of the four pillars of Dumbarton Oaks. If this pillar falls, the agreements made there will indeed have hard sledding.