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Monetary Fund Held Not Answer to Credit Needs

Bank Warns on Use of Credit In Expanding Foreign Trade

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NEW YORK—"Too great a reliance upon credit as a means of swelling foreign markets for American products is certainly to be avoided," says the Guaranty Trust Co. of New York in its monthly review of business and financial conditions in this country and abroad. Declaring that exports have risen to levels far exceeding anything known in the past and that imports are the largest in the last 15 years, the bank staets that the volume of capital exports should be determined strictly from the long-term investment point of view.

"The unprecedented foreign-trade totals provide no indication of probable or postwar trends," says the survey. "There will be a strong temptation to use credit as it was used after the last war, as a means of stimulating merchandise exports without considering that in the end imports and services must pay for both the loans and our exports. If such practices should be adopted again, they would probably end, as they did before, in a general international collapse of credit and trade, with heavy losses to American investors.

"Most emphatically, we believe, the solution of the credit prbolem does not lie in the establishment of an International Monetary Fund of the sort contemplated in the Bretton Woods proposals. Much more effective as a means of providing such credit as may be needed to promote exchange availability and finance rehabilitation would be the proposed International Bank for Reconstruction and Development. Such a bank, under proper management, could be of real service in supplying credit of types not suitable for private investors.

"The Monetary Fund could perform no useful function that the International Bank could not perform as well or better; and it would expose the world, and the United States in particular, to a number of very serious dangers. Its methods of operation would be contrary to all accepted principles both of credit and foreign exchange. They would not prevent countries from adopting inflationary policies at home while continuing to exchange their currencies for others at fictitious parities. They would make possible credit abuses for exceeding those that occurred after the last war.

"If the proposal offered prospects of lasting currency stabilization, its costs, even though large, might be accepted as no more than a reasonable price to pay for such a desirable objective. But the plan would do little or nothing to promote true stabilization, and it might have exactly the opposite effect. Currency stability comes not from exchanging-pegging agreements or lavish extensions of credit but from sound economic, monetary and fiscal conditions in individual countries.

"Balanced budgets, sound money, stable domestic prices, active and prosperous industry—these are the factors that make for stability of currencies. When they exist, no elaborate international mechanisms are needed to stabilize exchange rates. When they do not, such mechanisms are worse than useless.