THE WALL STREET JOURNAL

APR 30 1945

Bretton Woods

As it has figured in the news from day to day this newspaper has expressed its opposition to various aspects of the Bretton Woods program now being considered by the Banking and Currency Committee of the House of Representatives. We now propose to summarize the position we have taken.

The Bretton Woods program proposes two new financial institutions, one an International Bank for Reconstruction and Development and the other an International Monetary Fund. Each will be discussed separately.

Discussions of the Bank have developed two things worth noting.

First, its name—International Bank for Reconstruction and Development—is in itself a brief and adequate description of the intent and purpose of the proposed institution. It would do what its name implies, that is, make loans of long term for post-war reconstruction and development.

Second, there has arisen no difference between the Bank's sponsors and opponents as to what it is and how it is to operate. The opponents do not raise questions as to the machinery and methods proposed. Where questions are raised they touch the advisability and necessity of the institution.

The opponents of the Bank—and they are not numerous—base their case on the assertion that loans in large amounts are not the prime need of most war devastated countries; that so far as international investment can be helpful, it should take a form other than direct loans in most instances and that in the few instances where loans are called for, they can be made privately rather than under sponsorship of governments.

The sponsors of the Bank deride such assertions as antediluvian, in fact, they seem to welcome an opportunity for rather generous government lending. A great many proponents of the bank are less extreme, but they do foresee a post-war situation in which private finance cannot marshal the necessary assistance with either adequate speed or volume.

This newspaper believes that loans in which governments are participants, and particularly government loans to another government, are dangerous; that they are likely to be permeated with political purposes and become breeders of trouble. We believe that before such loans are made it should be clearly demonstrated that the alternative is something worse than the risk which the loans involve. We are not now satisfied that such a thing has been demonstrated. Neither are we satisfied that this country will be in a position to make loans on the scale sometimes projected. It has seemed to us that before the Bank is accepted these points should be cleared up.

It is fair to say that the position we have taken is not shared by a preponderant majority of those either in official or financial life.

Unlike the Bank, there is no short way to describe The Monetary Fund. Very often its proponents differ among themselves on what it is and what it would do. Similarly its opponents attack from different angles. Each friend or critic seems able to support his point of view by citations from the so-called articles of agreement promulgated at Bretton Woods.

However, the various shades of opinion approach agreement on one point. That point is that any government adhering to the Monetary Fund must be prepared to exercise over its citizens economic and financial controls but little short of those that have heretofore been the hallmark of the totalitarian governments. Discussing Bretton Woods, Secretary of the Treasury Morgenthau has made the outright statement that the government henceforth intends to control foreign exchange. The measure before Congress providing American adherence gives the government ample powers to effectuate that control. With the Monetary Fund in its present form, it is difficult to see how any government could discharge its obligations of membership unless it possessed such powers.

If there were no other argument against the Fund, if there could be removed all questions as to its workability, it seems to this newspaper that the control mechanisms which it necessitates would be sufficient ground for its rejection.

But there are other arguments and they seem to us weighty arguments.

There is proposed here an international pool of currencies, totaling—if

THE WALL STREET JOURNAL

APR 30 1945

the 44 nations which were participants in the tentative discussions adhere to the Fund—the sum of $8.8 billion. There will be in this pool the currency of countries whose resources are still great even after the ravages of war and some whose resources have been strengthened by the war. There will be others impoverished and struggling under a heavy burden of debt. Within certain limits each of these countries has the *automatic* right to draw on this fund. It seems to us that even though all the governments likely to be members of the fund were composed of men of the utmost experience and probity, there would be there offered them a temptation almost impossible to resist. When one considers that the war is likely to leave in its wake a succession of governments composed of opportunists, if not outright adventurers, it seems to us that the prospect becomes something rather ghastly.

Another essential aspect of this discussion concerns the character of the support for the Monetary Fund; also the character of the arguments that are marshaled in its behalf.

When one hears the same song sung by several different singers and when each of the vocalists sings in the same style and when each produces the same sour notes, one is certainly not unjustified in concluding that all have been instructed by the same master. Similarly when one hears speeches in behalf of Bretton Woods before noonday luncheon clubs or any other audience that can be gathered and when each of the speakers says much the same thing in much the same words and when each indulges in actual misrepresentation or half-truth on the same points, one would have to be a little naive not to think that an organized propaganda campaign was in progress. The impression is not lessened by the fact that a good many of the speakers have been rather speedily graduated into the realm of international financial experts.

It is interesting to look at some of the assertions made in these speeches—more accurately perhaps, in this speech.

One of the statements is that the Bretton Woods plan has been agreed to by 44 nations.

That one is a downright falsehood. No nation has agreed. The financial experts of 44 nations met at Bretton Woods and drew up the details of a piece of financial machinery. There was not present one delegate with any plenary powers to commit his country. At the end of the conference Lord Keynes put in a reservation in behalf of the British delegation and all other delegations which said that the "proceedings are *ad referendum* to our governments who are at the present stage in no way committed to anything" and "we do not even recommend our governments to adopt the result."

Another assertion is to the effect that failure of Congress to take early action on Bretton Woods will militate against the success of the conference at San Francisco.

It seems to us that the statement would be nearer an approach to the actual fact, if it were said that a successful agreement at San Francisco would help clear the way for Bretton Woods. It seems obvious that until there is some promise of political stability, there can be no hope of financial stability; thus the financial strength of Poland can be appraised only when we learn what is Poland and what kind of a government Poland is to have. Of course, when one says that political settlements should precede financial settlements or vice versa, one gets into something akin to the chicken and the egg argument, the insolubility of which is only rivaled by its futility. What we do know about chickens and eggs, however, is that a fowl chased here and there has not the contentment necessary to any egg production.

Another assertion by supporters of the Fund is that it is essential to stabilization of currencies. We will see about that, too.

In the tentative discussions preceding Bretton Woods, the Monetary Fund was called the stabilization fund. The word stabilization was dropped. It was dropped because its use was slightly ludicrous. It was ludicrous because the Fund made provisions for currency devaluations and under certain circumstances the imposition of quota arrangements. In short, it legalized a good many of the practices which grew up in the hectic period preceding the war.

As to the necessity of Bretton Woods to currency stabilization, one has only to read the newspapers to learn that Great Britain already is making agreements with her European neighbors which fix a relationship between their currencies and the British pound. This may not be an ideal long-term arrangement, but it certainly disposes of the argument that we have the choice between currency chaos and Bretton Woods as written and in a hurry.

Opposition to Bretton Woods does not, as its proponents assert, mean opposition to any international financial cooperation or any attempt to bring about currency stability. It does mean opposition to a proposal which goes far beyond the immediate occasions and in doing so is likely to fasten on world trade a good many of the evils from which it should be freed.