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THE WEEK IN FINANCE

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Mr. Fraser on Bretton Woods II

[On March 22 last, the late Leon Fraser testified for a full day before the House Banking and Currency Committee on the Keynes-White Plan for post-war exchange control. As an authority on international exchange—measured by the combined tests of scholarship and practical experience—the former president of the Bank for International Settlements was unexcelled by any contemporary. Only such notables of our own times as Walter Stewart, former American adviser to the Bank of England; the late S. Parker Gilbert, Agent General for Reparations in the '20's, and the late Benjamin Strong, who led the world back to sound currency in that same decade, come to mind as possessing comparable all-around equipment. Because of this fact; because of Mr. Fraser's ability to handle the subject in simple, non-technical and trenchant language, and because of his forthright treatment of the problem (which may make the more politically minded wince at times), the substance of his testimony is being reproduced in a series of consecutive instalments here, of which this is the second.]

Mr. Fraser (continuing his opening statement):

This fund, sir, says that it has, as an objective, the elimination of exchange controls, and yet, as you study it, you find that it permits exchange controls to continue for a number of years. Personally, I think that is necessary.

It goes on, however, with certain clauses which rather suggest new exchange controls. For example, it says the export of capital shall be controlled and supervised. That is an expansion of exchange control. It says that certain things happen when a money gets scarce, and that suggests new exchange controls.

"Forty-four Nations"

We are told that forty-four nations agreed to this. I think a more exact statement would be that three or four groups of very expert chaps got together and wrote a plan, and then took it up with some forty other technicians, saying in effect: "This is what the United States and Great Britain are willing to stand for with you."

Of course, in the condition of the world as it was at the time of those negotiations, these fellows said: "Why not?" They had everythings to gain and nothing to lose. For that very same reason, I believe that they will accept readily any reasonable changes proposed.

This plan has some ambiguities in it, as I said. I think one of the ambiguities that is going to cause us trouble in the future is this terrific disparity between the British interpretation of the plan and our own. To me, as I look at it, it breathes the true spirit of British patriotism. That is, it contains the three provisions which Lord Keynes stated a couple of years ago as his objectives.

One was that a fluctuating currency is an honorable and desirable thing to have. This is a doctrine which America has never accepted. We shall be giving it our official recognition if we sign this thing as it stands.

Basically the Keynes Plan

This plan provides for the shifting of rates after consultation with the fund. Yet we just had a recent statement from Great Britain that after they consult the fund, if the fund disagrees with their desire or intent or feeling about the need for altering the value of sterling, they will go ahead and do it anyway. Of course they would. That is a very blunt and frank statement in advance of what they intend to do.

The next project of Lord Keynes was to have what he called "impersonal borrowing," a place where people could go to borrow from a common pool without feeling that they were indebted to France, the United States or any other country. Well, of course, the essence of this pool idea is that we put up most of the good money, that we are the minority in the fund, that the debtors (and practically every one else in the funds is a debtor) are entitled, as the fund says, subject to restrictions which do not restrict, to draw upon this fund.

The next objective of Lord Keynes was to secure a fund which would stimulate international trade, because Great Britain sorely needs an export market in the post-war years. He said: "If we can get a fund from which small countries which cannot now buy from Britain can draw dollars they can then use the dollars to buy our goods."

The Russian Anomaly

Then there is, of course, the glaring exception (and it illustrates again the difficulty of making a global approach) by which Russia, which does not need any stabilization fund, is a participant in this pool. Complete control over her own exchange, including capital movements, is a basic part of Russia's political and economic philosophy. Here is a nation which boasts that it does not need exchange stabilization. Yet it is in the fund for twelve hundred million dollars, and we are told that it may draw on the fund to balance its payments. Of course, the way you do that is by first unbalancing your payments. You then turn to the fund and say: "Dear me, I have endangered my currency. Therefore I must draw on the fund to balance my payments."

I do not wish to take up too much time on this matter, but it does seem to me that you have a very theoretical scheme here, taking, for example, this question of quotas. Here is a quota fixed without regard to whether a country really needs anything or not. She has it. Perhaps she does not need a cent, perhaps she needs three times that much. But there is the quota; it is fixed.

She may draw on the quotas only in certain proportions. That, of course, is so unrealistic that they had to put in an exception and say "unless the fund waives this particular exception." You will find that a great many of the restrictions are immediately countered by an "exception" in order to attempt to make the thing work.

Credits Are Debts

I am afraid, sir, that this is going to lead to the creation of a lot of new debt in the world. We talk a good deal about granting a credit. Is there not enough debt in the world?

It is true that the bank creates debt, but it does so selectively. Under the fund there is no such discrimination. Every country is given its quota tomorrow morning, if this plan should be ratified in its present form, and from that moment forward, subject to these loose restrictions, there is no statement as to how or when it will be paid back, and there is no proof that it will be put to good use. It is required only to certify