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COMPROMISE PLAN TO INCREASE POWERS OF INTERNATIONAL BANK

A formula is developing that promises to win the consent of Congress to a world currency program. The heart of this formula is what appears to be a minor change in the Bretton Woods program advocated by the Treasury. This change simply would authorize the proposed World Bank, which is widely favored, to make currency-stabilization loans.

Originally, this proposal was suggested by the Committee for Economic Development and offered by Ralph Flanders, chairman of the CED Research Committee. Now, it has been tacitly accepted by Under Secretary of the Treasury Daniel W. Bell and by officials of the American Bankers Association, which has been the leading opponent of the Bretton Woods proposals.

Essentially, the amendment would limit the International Monetary Fund to making ordinary short-term currency transactions. To the Bank would be transferred the function of making long-term stabilization loans, as well as the function of underwriting loans for specific development projects. Under this plan, here is how the two institutions would function:

The Fund would be a pool of world currencies and gold aggregating $8,800,000,000. In this pool would be gold estimated at $1,643,000,000, and $2,062,500,000 in U.S. dollars—roughly $3,700,000,000 in gold and dollars. Member countries would use this pool when they temporarily ran short of foreign exchange to pay their bills to other countries. Cuba, for example, might have a poor sugar crop, and thus be unable to realize the dollars on this crop that were expected to pay bills for food and clothing from the United States. In that case, dollars could be taken from the Fund and repaid when future sugar crops were harvested.

Basically, the Fund is designed to keep currency values stable through periods of temporary shortages in any member country of foreign money. The Fund admittedly could not correct a situation where a country consistently buys more from foreign countries than it sells to foreign countries. The CED proposal would restrict Fund operations to treat these temporary periods of unbalance.

After the war, however, many countries, particularly Great Britain and Central European countries, are expected to be desperately short of dollars and other foreign currencies, and greatly in need of products from these countries. The fear is that the Fund would be used in this period to try to correct a basic problem of financial recovery. Needy countries, laden with debt, might raid the Fund for dollars. In that event, the Fund might be drained of dollars in four or five years and become "frozen" with unwanted currencies.

Critics of the Bretton Woods proposal contend that the U.S. then would be called upon either to supply more dollars to the Fund or be blamed for a breakdown in its operations. They recommend rejection of the Fund or postponing it until the postwar adjustment has been made.

—Harris & Ewing

RALPH E. FLANDERS
. . . pointed to a new formula

The Bank, under the CED suggestion, would protect the Fund against this development. This would be done by authorizing the Bank to make stabilization loans, as well as loans for other specific purposes. Great Britain or Russia, for example, might be given a long-term dollar credit through the Bank, which would enable those countries to refrain from tapping the Fund too much and too consistently. This credit could be used to bolster ordinary commercial transactions until the borrower achieves postwar recovery. The Fund would remain as a world agency directed exclusively to maintaining relatively stable currency values.

Important changes in the Bretton Woods program could be expected to result from this amendment. Members of the Fund would be more limited in using its currencies. They could not resort to this agency if what they really needed was a long-term credit, just as a businessman cannot get a bank loan to buy inventory when what he actually needs is more capital.

Stabilization loans through the Bank also could be expected to be stricter than if the Fund were used for this purpose. Under the Fund setup, member countries have a right to use its resources with only a few restrictions. Under the Bank, however, loans must be made on a sound basis. Before a stabilization loan would be granted, the Bank managers probably would insist on definite commercial and financial practices that would insure repayment.

Furthermore, under the Bank plan, loans could not be made unless the country that is to supply the credit consented to the loan. The Bank could not grant a dollar credit to Great Britain, Russia or Greece for stabilization purposes unless the U.S. Government gave its consent. Thus, if the postwar world needs long-term dollar stabilization loans, the CED plan would appear to allow for a U.S. veto over any specific credit. The Fund, as now proposed, permits no such control.

In addition, all members of the Bank share the risk of loans. The Bank is to have total resources of $9,100,000,000, but no more than $1,820,000,000 can be used for direct loans. The remainder of Bank resources is to be used to guarantee loans advanced by private banks or other Governments, and any defaults would be assessed against member countries in proportion to their subscriptions.

World Bank loans for currency stabilization also might tend to reduce the importance of the Fund in the postwar financial picture. If Poland or Greece should get a stabilization credit through the Bank, those countries would be less likely to resort to the Fund to meet their obligations in dollars or other currencies.

CED makes the point that this would be proper procedure. Supporters of this amendment contend that the Fund should not be expected to operate under conditions that require fundamental adjustments. The urgent postwar need for credit is expected to come from those countries that will need general rehabilitation and will have no financial resources of their own. Greece and Poland, for example, are likely to have to install entirely new currency systems. Austria and Italy are in a similar situation, and Germany will need currency loans if there is to be any reconstruction with outside aid. Great Britain faces a special problem with a huge sterling debt run up by war expenses. In none of these cases could the Fund be expected to provide more than temporary assistance in any event.

This prospect strengthens the opinion that the Fund will need outside support, and members of the House Banking and Currency Committee view the CED compromise as a means of providing that support.