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Flaws in the Fund Plan

Most if not all man-made institutions can be used and can be abused. Credit in its many and varying forms is such an institution. Prudently used, it is simply indispensable in the modern world economy. Abused, either ignorantly or avariciously or dishonestly, it leads straight and soon to disaster.

These are dull truisms, but they throw some light on the wide cleavage of American opinion on the merits of the Bretton Woods plans. By and large, informed opinion here accepts the International Bank plan, though many persons would prefer to see it altered in certain details. A serious conflict of judgment exists over the merits of the Monetary Fund plan, at the heart of which lies the fear of its opponents that it would permit and even encourage a dangerous abuse of international credits.

In the foreword to a statement entitled *The Stakes of Bretton Woods*, issued by the National Planning Association, appears this rather surprising one-sentence paragraph:

"We believe that opposition to the proposals is based either upon a misunderstanding of their import, or upon a limited concept of the magnitude of the problem facing us, and a desire to apply the normal standards of *sound* banking *practice* to a situation altogether without precedent." (Italics as in the Association's statement).

What does this mean? That an unprecedented situation calls for abnormal standards of sound banking? Are there any such? Can sound banking practice be based on other than normal standards for judging the credit-worthiness of an applicant borrower?

In the statement itself occurs the following reference to currency valuations in terms of gold:

"It is true that the Fund is obligated to concur in changes of parity made necessary by 'fundamental disequilibria.' This term, however, is undefined. It will be a matter for agreement between the management of the Fund and the member concerned as to whether or not a disequilibrium is fundamental and how large a parity adjustment is necessary to meet the situation. The management has considerable discretionary powers in determining whether the member has used the Fund in the spirit of that institution or in violation of that spirit. In the latter case, the member may be disqualified from further use of the Fund's resources."

Actually, the question whether a particular "disequilibrium" is "fundamental" will be a matter for agreement *or disagreement* between the Fund management and the member country. That management is likely to be heavily weighted with representation of countries anxious to use the resources of the Fund to the utmost. Moreover, the Fund plan forbids the management to object to a proposed change in the gold par value of a currency "because of the domestic social or political policies of the member proposing the change." The Planning Association seems to think this provision is rendered innocent by the further provision that members obligate themselves to collaborate with the Fund in maintaining exchange stability. But note that the former provision is specific and positive in creating a defined right while the latter expresses only vaguely an undefined obligation.

Again, the Association says:

"Each member [of the Fund] is under obligation to maintain the gold value of the Fund's holdings of its currency, and the Fund has a right to demand that the currency be made available for purchases in the country of its origin."

If a member country whose currency was depreciating were unable or unwilling to alter the domestic policies causing the depreciation, it could hardly make good the gold value of the Fund's holdings otherwise than by depositing with the Fund more of its own depreciating currency. A country running a debit balance in merchandise would usually be willing enough to keep the Fund's holdings available for purchases in the country of its origin—that is, to export goods. Hence the last-quoted paragraph describes no reliable safeguard against abuse of the Fund's credit facilities.

The Association remarks that "While the sales by the Fund of foreign exchange to members in effect are extensions of short-term credits, these credit extensions *should be* incident to the main purpose of the Fund, which is to *normalize* and, broadly speaking, to stabilize international monetary relations." (Here the italics are our own.)