Mr Eccles.

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Comments on John Williams
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John Williams has been writing against the monetary fund proposals ever since their inception. The line of his criticism has shifted as the plans evolved from the early drafts through various stages to the final act approved at Bretton Woods. At first he thought that exchange rates would be too rigid under the Fund, later he believed that they would be too flexible. One criticism, however, has persisted throughout his writings, namely, that the Fund is not adapted to the transition period after the war, that it would be wrecked in the first years, and that we should then be worse off than if no Fund had been established.

In his latest article Williams reiterates this belief. He realizes, however, that the matter has gone too far to be dropped now without serious loss to the United States, and proposes as a compromise that the plan for the Bank be adopted as soon as possible and that decision on the Fund be withheld. His doubts about the Fund persist but he has developed a growing appreciation of the possibilities of accomplishing through the Bank much of what is desired from the Fund.

Whether such a compromise would avoid the loss of prestige and leadership which Williams envisages as the result of dropping both plans, is a matter of opinion. It might be contended that the loss to this nation would be great and well nigh irreparable. Also there is grave doubt whether the countries, which were willing to accept both plans, would feel that the Bank alone would be an adequate substitute. Williams' statesmanlike purpose, to develop a helpful solution out of the plans, "whatever one's earlier preferences may have been," would hardly be accomplished by his proposal.

In his latest article Williams spells out in some detail the defects which he finds in the Fund proposal. Upon analysis the defects which trouble him do not appear to be valid criticisms of the plan. It is proposed here to take up seriatim the principal points he makes against the Fund. Williams' text flows smoothly and the points are not sharply delineated, but nevertheless they can be identified and listed in the order in which they are made.

1. Williams says: "the development of the discussion over the past year or more has pointed increasingly toward the conclusion that the Fund is intended primarily as a long-run agency of monetary regulation."

In this quotation the words which seem to be misleading have been underlined. There has been no increasing emphasis on the long-run functions of the Fund, which are no more primary than its immediate objectives. Also the Fund is hardly an agency of monetary regulation. It is an agency of cooperation in a mutual attempt to encourage exchange stability and for that purpose to provide assurance of temporary access to foreign means of payment to countries whose international accounts are temporarily out of balance. The sentence quoted from Williams gives an entirely erroneous impression.

The statement that the Fund is not expected to be used in connection with relief and reconstruction is a recognition of the truth that a great many other means besides the Fund will have to be developed to accomplish postwar reconstruction. There will be plenty for the Fund to do in the immediate postwar period in trying to help balance trade accounts, over and above grants for relief and loans for reconstruction. Devastated countries will need a numberless amount and variety of goods, other than relief supplies, during the time when they will strive to regain a normal life. Exclusion of relief and reconstruction payments from the field of the Fund's activities is a recognition of the fact that the Fund would be overloaded if it attempted to handle such payments, and not a relegation of the Fund's activities to a time when reconstruction will have been completed and relief no longer necessary. Other new provisions in the Agreement in regard to the transition period represent the difference between preliminary drafts of principles and a detailed elaboration of a plan that is intended to be workable both immediately after the war and over the years. In this as in other criticisms of the Fund Williams makes the mistake of assuming that elaborations of provisions represent changes in viewpoints.

2. Williams objects to the Fund because it provides for general needs for exchange resources, whereas it is clear to him that need for these resources will be specific rather than general. The fact of the matter is that the Fund provides to each member country a certain quota, or line of credit, on which it can count in making its plans, always provided that the need for the funds arises out of transactions consistent with the purposes of the Fund, that is, out of unavoidable temporary shortages of foreign exchange for current payments. There is nothing "general" about this, the transactions are specific, but all member countries are given assurance of equal treatment, which would certainly seem to be in accordance with the purposes of international cooperation.

3. Williams says that the Fund "would supply these balances <u>indiscriminately</u> to all the United Nations and would make them available on a time schedule and as a matter of <u>automatic</u> right." This sentence is incorrect. In order to draw on the Fund a member must indicate that it needs the foreign exchange for certain specified

purposes. It has no automatic rights. All it is assured of is that, if a country's needs are of a kind that the Fund is intended to meet, the country will have drawing rights up to a certain maximum amount. In banking language, what the member countries have is a line of credit -- not a drawing account. It is true that there were pressures from some countries to make the Fund's resources available almost automatically, but these pressures were resisted and there are numerous safeguards against indiscriminate use or abuse of the Fund's resources. What emerges is very far from an automatic right to draw on the Fund. The provisions in which these limitations are incorporated are given in Attachment I.

4. Technically perhaps Williams' key objection to the Fund is that the mechanics of the Fund plan will tend to cause a shortage of dollars in the Fund. The fact is that a demand on the Fund for dollars and dollar scarcity could develop only to the extent that other countries actually needed dollars to pay for purchases in America, in excess of sales to this country, plus the extent to which countries having all around favorable balances of payments wanted to hoard dollars. Williams' statement that "even though this country had an even balance of payments position, the Fund's holding of dollars would be rapidly exhausted" is, therefore, erroneous. Whether dollars are acquired for the purpose of paying for American goods or for the purpose of hoarding - they are a drain on the supply of dollars, so that this country's payment position would not be even.

It is true that some countries have been in the habit of settling accounts among themselves in terms of dollars or sterling. But why? Primarily because all these countries had unfavorable balances with the United States and with England, or with other countries that were willing to accept dollars or sterling because they had unfavorable balances of payments with the United States or with England. They wanted dollars or sterling because they all owed dollars or sterling, or owed other countries which wanted them. In so far as the practice merely meant the passing of claims on the United States or on England by one country which at the moment did not need them to another country which did, this was a triangular settlement of accounts. It would not be feasible, unless the key country had a favorable balance with the countries in question. In so far as dollar or sterling bills were a kind of international currency which circulated from country to country without representing any actual transactions with the United States or England, this circulation could continue to take place, with the Fund as well as without it. Under the Fund agreement, furthermore, dollars accumulated by one country in dealing with another country (not the United States) would have to be turned over to the Fund at the end of a year if the country accumulating the dollars has made drafts on the resources of the Fund. So that an accumulation of dollar accounts that does not arise out of transactions with the United States would be discouraged under the terms of the Agreement.

As a practical matter, there is little likelihood of hoarding of dollars on any considerable scale in the postwar world when goods will be desperately in demand, but if there will be dollar hoarding it will not be caused or enhanced by the Fund, but would be one of the unhappy consequences of disruption of other currencies. The Fund would be set up for the very purpose of diminishing the causes that would otherwise lead to dollar hoarding and dollar hunting on an unprecedented scale. There is nothing in the Fund agreement to stimulate such hoarding.

5. The fact that the amount of dollars and pounds that the Fund is prepared to supply is limited is in Williams' opinion another fatal defect. It would seem that at this point he feels that the Fund is not liberal enough, though at other points he criticizes it for being too liberal, in fact, automatic. The fact that the amount of dollars that the United States is pledged to turn over to the Fund is limited to a specific figure is not only a feature essential for the adoption of the proposal by American public opinion, but is also an indication of the determination of the proponents of the Fund to work toward balanced accounts for all member countries rather than for an unlimited and continuous excess of purchases by many countries from the United States.

6. Williams says that the aggregate potential claims for dollars in the Fund will be $6.05 billions, while the American contribution to the Fund will be only $2-3/4 billions. This he says is a great gap. This ignores the $1 billion dollars in gold, which is convertible into dollars, that countries other than the United States will pay into the Fund and as a result of which they get claims on dollars in excess of their quotas. In all, the Fund will have approximately $3-3/4 billions of dollars or dollar equivalents against a potential maximum demand of $7 billions, not a bad ratio as the world goes. For it is not probable that all the countries will want to use all their drawing power on the Fund to obtain dollars and dollars alone.

More fundamentally, the point once more ascribes to the Fund a condition of dollar scarcity which is likely to arise in the postwar world but will not be caused by anything the Fund would do. It is a probable condition that the world will have to face owing to our general economic strength and the war-caused weakness of most of the rest of the world. The Bank and the Fund and other undertakings are attempts in part to mitigate this condition and to give the world a chance to counteract it in time. It is difficult to see how the Fund, by contributing 2-3/4 billions of dollars to the world supply, can increase the likelihood of dollar scarcity. To blame the Fund for its existence is a complete misrepresentation of the situation. Williams, of course, knows better. But his statement lends itself to use by those who do not.

7. Williams discerns in the history of the Fund proposals "a growing anxiety about a possible scarcity of key currencies and this means especially the dollar." This anxiety unquestionably existed; it was not growing, it was a fundamental basic probability recognized from the beginning. That the means proposed for coping with this scarcity have now been made public in more detail than earlier is the result of the fact that they have now been sufficiently perfected by hard work and consultation to make it possible to include them in the proposal.

The Agreement includes a whole array of devices, which had been under consideration right along. Progressive interest charges, provisions for suspension of borrowing privileges, requirements for clear indication of purposes for which drafts on the Fund are made, repurchase of currencies, and many other methods are spelled out and presented either for the first time or in much more complete detail in the Agreement than in earlier drafts.

Provisions dealing with this point are cited in Attachment II.

8. Williams says that the provisions about gold "would probably result mainly in attracting gold, via the Fund, to the United States." Once more he blames the Fund for a condition that exists without it and that the Fund would tend to mitigate rather than accentuate. Foreign countries will emerge from the war stripped of goods -- but with more gold in the aggregate than they ever had before. This is due to the fact that we have exported largely on lend-lease, and that other goods were not available here for export. Without the Fund (and the Bank, and UNRRA) the gold would flow to this country in a mighty stream. It is hoped that by the various proposals and undertakings, including the Fund, the flow of gold will be delayed, and possibly diminished. The only conceivable circumstances under which the Fund could increase this flow would be if countries, relying on the Fund, failed to make efforts to balance their accounts. This could happen only if the Fund management completely failed of its purpose. Williams does not put it in these terms; he seems to think that gold will be attracted in some mysterious way via the Fund to the United States. But how? That is not indicated.

9. Williams says that "the great weakness of the Fund, from a mechanical standpoint, is that while other countries in paying for our exports would use up the Fund's supply of dollars, our own payments for imports would not replace these dollars." In other words, the Fund would have to meet the gross, not the net, demand for dollars. But why? What would be done with the dollars that we pay for goods we buy? Will countries that receive the dollars hoard them and go without the goods they will need so badly? Is this realistic? This is a reappearance of the point already discussed under 4 above. It does not stand up under analysis.

10. Finally, Williams states that "the successive drafts of the plan have watered down and finally left out altogether any reference to corrective economic measures essential to its operation." This is not true. The crucial provision aimed at the adoption of corrective measures is the one which says the Fund can refuse to lend to any country which is not using the Fund in accordance with its purposes. This provision was in the earlier drafts as well as in the Bretton Woods agreement. Among the Fund's stated purposes is "to give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with an opportunity to correct maladjustments in their balances of payments without resorting to measures destructive of national or international prosperity." There is also recognition that the Fund and the Bank alone cannot expect to meet the situation, that rational commercial and domestic economic policies will be necessary for reestablishing a functioning world economy.

To be sure, the extent that the Fund can use its influence to correct unsound domestic policies of members, in so far as they may result in an unbalanced trade position, is left vague in the Agreement. This was inevitable. It is obvious that this is the most delicate subject in negotiations with sovereign countries which have to reckon with public opinion at home. This is the most important instance in which the Fund will have to feel its way and to grow in influence as confidence in its judgment and its fairness becomes more firmly established. A rigid statement on this point at the outset would prevent acceptance of the agreement and would become, in case agreement were reached, a dead letter -- since countries are free to withdraw from the Fund at any time. It is in this field that constructive statesmanship should develop over the years. There is little profit in wishing for complete control of the world for a new and untried institution and one that is established by voluntary agreement. But cooperative action of a constructive kind to develop in time holds great promise for improvement in world trade conditions in the future.

Williams wants the proposed Bank to do the job designed for the Fund. He thinks that the Bank could be more selective, could impose conditions, and could serve in a practical way the purposes proposed for the Fund. Perhaps it could. But this plan would abandon the heart and core of the Fund proposal, namely, the reestablishment of greater confidence in making future plans because of the assurance that a great mutual institution is there to help out in case of need, and that all countries stand on a par before it, within the limits of an accepted amount. If countries must go hat in hand to a bank to help them out over temporary trade difficulties entirely at its discretion and on its own conditions, chances are that the countries will prefer to try to work out their own salvations by methods which proved to be so disastrous in the period between the two World Wars. It is doubtful whether the Williams compromise would meet the world's needs for constructive international cooperation.

Attachment I

Page 4 (first paragraph)

The precise provisions which are referred to in this paragraph are the following:

1) Art. XX, Sec. 4 (i). The Fund may postpone exchange transactions with any member if its circumstances are such that, in the opinion of the Fund, they would lead to use of the resources of the Fund in a manner contrary to the purposes of this Agreement or prejudicial to the Fund or the members.

2) Art. V, Sec. 3 (a) (i). A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions: (i) The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the purposes of this Agreement.

3) Art. V, Sec. 5. Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member's use of the Fund's resources or may, after giving reasonable notice to the member, declare it ineligible to use the resources of the Fund.

Attachment II

Pages 6-7

1) Art. V, Sec. 5 and Art. V, Sec. 3 (a) (i). See Attachment I.

2) Art. V, Sec. 8 which provides for progressively increasing charges as the amount borrowed and the time over which it is borrowed increase. The provision is too complicated and lengthy to repeat in full.

3) The repurchase provisions, Art. V, Sec. 7, which require a member to use its own reserves in excess of its quota at the same rate it uses the Fund and also require a member to use half of any increase in its reserves above its quota to repay borrowings from the Fund. These provisions also are too complex and lengthy to repeat in full.