# S U M M A R Y  R E P O R T

on

# B R E T T O N  W O O D S  M O N E T A R Y  C O N F E R E N C E

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CONTENTS

SUMMARY REPORT ON BRETTON WOODS CONFERENCE ..... 1

International Economic Relations Between Two Wars ..... 1

The Job Ahead ..... 2

Resolutions of the Genoa Conference ..... 2

Link Between Money and Trade ..... 7

PART I

INTERNATIONAL MONETARY FUND 8

1. Quotas and Subscriptions to the Fund ..... 9
2. Monetary Exchange Adjustments ..... 10
   (a) Gold Transactions ..... 10
   (b) Par Values of Member Currency ..... 10
   (c) Foreign Exchange Dealings ..... 12
3. Transactions With the Fund ..... 12
4. Scarce Currencies ..... 14
5. Management of the Fund and Voting Rights ..... 15
   (a) Board of Governors ..... 16
   (b) Voting ..... 16
   (c) Executive Directors ..... 18
   (d) Offices and Depositories ..... 18
   (e) Observations on Management of the Fund ..... 19
6. Relation of the Fund to International Economic Relations ... 20
   (a) Exchange Controls ..... 21
   (b) The Gold Standard ..... 21
   (c) Capital Transfers ..... 22
   (d) General Obligations of Members ..... 22
7. Alternatives Offered ..... 23
   (a) Pre-War Gold or Gold Exchange Standard ..... 23
   (b) Key Currency Stabilization ..... 24
   (c) Arguments Against Key Currency Stabilization ..... 24
   (d) Observations of Charles S. Dewey ..... 25
   (e) The Aldrich Proposals ..... 26
8. Miscellaneous Observations ..... 27
   (a) Effect on United States of International Money Management ..... 27
   (b) Significance to American Foreign Trade ..... 28
   (c) Transition Period ..... 28
   (d) Source of Criticisms of the Fund ..... 29
   (e) Treasury Opposition to A.B.A. Proposals ..... 29
   (f) Results Expected ..... 30

CONTENTS (Continued)

PART II

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT 31

Purposes ..... 31
Capital ..... 33
Loans ..... 33
Distribution of Income ..... 34
Interpretation of the Agreement ..... 34

PART III

OTHER BRETTON WOODS RECOMMENDATIONS 36

PART IV

CONCLUSIONS 37

National or International Solution? ..... 37

RECAPITULATION ..... 39

1. Historical Background ..... 39
2. International Monetary Fund ..... 39
3. International Bank for Reconstruction and Development ..... 40
4. Control ..... 41
5. International Cooperation ..... 41

CHARTS AND TABLES

Chart I -NATIONAL QUOTAS - INTERNATIONAL MONETARY FUND .... i

Chart II-NATIONAL SUBSCRIPTIONS - INTERNATIONAL BANK ..... i

Table I -VOTING POWER - INTERNATIONAL MONETARY FUND ..... 17

Table II-VOTING POWER - INTERNATIONAL BANK ..... 32

CHART I
NATIONAL QUOTAS - INTERNATIONAL MONETARY FUND
(Total of initial quotas: $8.8 billions)


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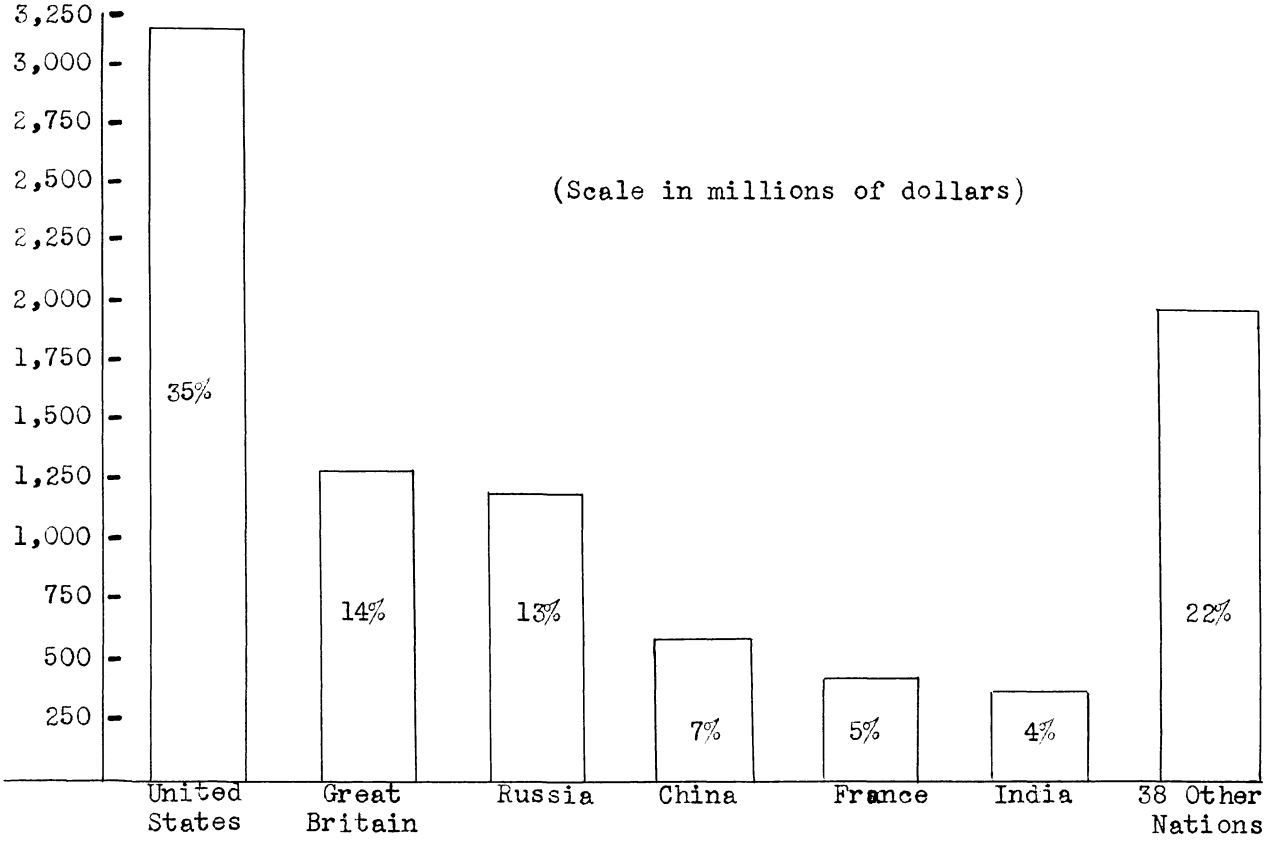
CHART II
NATIONAL SUBSCRIPTIONS - INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(Total capital: $10 billions, $9.1 billions initial subscription)



SUMMARY REPORT
ON
BRETTON WOODS MONETARY CONFERENCE

After a number of informal discussions by monetary experts, the delegates of 44 nations, including the United States, the United Kingdom and Russia, met in an International Monetary Conference at Bretton Woods from July 1 to July 22, 1944, and produced the following two proposed agreements:

1. Plan for an International Monetary Fund.

2. Plan for an International Bank for Reconstruction and Development.

These proposals were cast in the form of Agreements open for signature by the nations participating in the Conference. In passing upon the Final Agreements, many of the delegates entered reservations in the official minutes of the Conference. This, and the debatable character of the proposed plans, points to the conclusion that not all countries will sign the Agreements in their present form. Certainly Congress will insist upon a thorough study of the proposals and it will probably approve with slight changes, since the House and Currency Banking Committee adopted by 23 to 3 the Bretton Woods International Monetary Agreement.*

The following is an attempt to present the problems involved in summary, digest form.

While the problems arise in a world setting, they are also of vital concern to each individual nation. The focal point of the present offering is the interest of the United States in financial aspects of world economy.

International Economic Relations Between Two World Wars

Every country is profoundly affected by the World War. The internal economy of every nation, neutral and belligerent, has been radically altered. The character of exports and imports has been changed. Normal trade channels have been disorganized, and new ones have been cut throughout the globe. The same confusion is true of international shipping, freight and insurance services; of international travel, personal remittances, dividend and interest payments, intergovernmental dealings, and of all other transactions which enter into the balance of payments of one nation with all other nations.

International settlements - through the bill or exchange market, through gold transactions, and through the movement of short and long term capital - have been interrupted and distorted by the war.

*The New York Times, May 25, 1945.

Finally, the net effect of all these conditions has drastically altered monetary exchange rates - the relation of the currency of one country to that of other countries.

In the years between the two world wars, international economic relations were grossly distorted by reparations, inter-allied debts, indiscriminate American foreign lending, tariffs and other foreign trade controls, currency depreciation and fluctuating exchanges. These conditions and the concurrence in 1929 of a downswing in the business cycle led finally to the complete collapse of the fold exchange system. Thereafter, economic warfare was intensified and contributed to the political upheavals that finally ended in the second World War.

## The Job Ahead

During the present war lend-lease and other devices have taken the place of normal arrangements in international economic relations. As the war draws to a close, and immediately thereafter, new arrangements will have to be made to meet the following problems:

1. Re-establish and adjust the exchange rates between countries (stabilization).

2. Restore the internal economy of nations which have been disorganized by war.

3. Re-establish trade relations between nations, and encourage total trade expansion.

4. Encourage economic productivity and rising standards of living.

The problems involved in these objects fall generally into two broad classes: (1) those dealing mainly with current transactions; and (2) those concerning long-term capital operations. The problems in each class are different and require special methods of treatment, but there is always a close relation between them.

The International Monetary Fund is designed to assist the various countries of the world in settling balances due on current matters, to promote exchange stability, and thus to facilitate the extension of a balanced growth of international trade. The International Bank for Reconstruction and Development is designed to encourage the exportation of capital for productive purposes to countries which need such capital either because they have been devastated by the war or because they are economically undeveloped; but in the main its major utility looks toward long-term economic developments.

## Resolutions Passed at the Genoa Conference

The experts of the Bretton Woods Conference drew a great number of suggestions from the Genoa Conference of 1922, the object of which was to establish stability of international prices. These resolutions are listed on the following pages.

Resolution 1.

"The essential requisite for the economic reconstruction of Europe is the achievement by each country of stability in the value of its currency."

Resolutions 2 and 3 concern central banks.

2. "Banks, and especially banks of issue, should be free from political pressure, and should be conducted solely on lines of prudent finance. In countries where there is no central bank of issue, one should be established."

3. "Measures of currency reform will be facilitated if the practice of continuous cooperation among central banks of issue, or banks regulating credit policy in the several countries can be developed. Such cooperation of central banks, not necessarily confined to Europe would provide opportunities of co-ordinating their policy, without hampering the freedom of the several banks. It is suggested that an early meeting of representatives of central banks should be held with a view to considering how best to give effect to his recommendation."

Resolution 4.

"It is desirable that all European currencies should be based upon a common standard."

Resolution 5.

"Gold is the only common standard which all European countries could at present agree to adopt."

N.B. The Bretton Woods Conference proposed no tying of any country's currency to the gold standard:

(a) Its proposals make changes of par value of currency more difficult and insure that they will not be undertaken lightly because every country must consult with the Fund before making a change. Furthermore, it must make up any reduction in the gold value of its currency held by the Fund. If essential, a country may, with the approval of the Fund, change the par value of the currency not more than 10 per cent.

(b) The Fund would make gold the index of the value of a currency and would maintain the use of gold for the settlement of international balances. In doing this, it would exercise a strong psychological influence on all countries to maintain the gold value of their currencies.

Resolution 6.

"It is to the general interest that all European Governments should declare now that the establishment of a gold standard is their ultimate object, and should agree on the program by way of which they intend to achieve it."

Resolution 7.

"So long as there is a deficiency in the annual budget of the State which is met by the creation of fiduciary money or bank credits, no currency reform is possible, and no approach to the establishment of the gold standard can be made. The most important reform of all must therefore be the balancing of the annual expenditure of the State without the creation of fresh credits unrepresented by new assets. The balancing of the budget requires adequate taxation, but if Government expenditure is so high as to drive taxation to a point beyond what can be paid out of the income of the country, the taxation itself may still lead to inflation. Reduction of Government expenditure is the true remedy. The balancing of the budget will go far to remedy an adverse balance of external payment, by reducing internal consumption. But it is recognized that in the case of some countries the adverse balance is such as to render the attainment of equilibrium in the budget difficult without the assistance in addition of external loan. Without such a loan, that comparative stability in the currency upon which balancing of the budget by the means indicated above largely depends may be unattainable."

N.B. The Bretton Woods Conference requested no internal budgeting in contrast to the Genoa Conference which suggested balancing budgets of each country for financial stability.

Resolution 8.

"The next step will be to determine and fix the gold value of the monetary unit. This step can only be taken in each country when the economic circumstances permit: for the country will then have to decide the question, whether to adopt the old gold parity or a new parity approximating to the exchange value of the monetary unit at the time."

Resolution 9.

"These steps might by themselves suffice to establish a gold standard, but its successful maintenance would be materially promoted not only by the proposed collaboration of central banks, but by an international convention to be adopted at a suitable time....."

Resolution 10.

"This resolution concerns the future international convention which should be universal. And it specifies that, if the United States is to use the same monetary standard, 'no scheme for stabilizing the purchasing power of the monetary unit can be fully effective without coordination of policy between Europe and the United States.'"

Resolution 11.

1. "Restoration of a gold standard by:

(a) balanced budget without resorting to the creation of fiduciary money or credits for the purpose;

(b) determination and fixation of the gold value of the monetary unit;

(c) free exchange market is necessary to an effective gold standard;

(d) adequate reserve of approved assets, not necessarily gold, condition of the maintenance of the currency at its gold value.

2. Establishment of a free market in gold and gold centres.

3. A participating country, beside any gold reserve at home, may maintain in any other participating country reserves of approved assets in the form of bank balances, bills, short term securities or other suitable liquid resources.

4. A participating country will buy and sell exchange on other participating countries within a prescribed fraction of parity, in exchange for its own currency on demand.

5. The convention will be based on a gold exchange standard. Each participating country will maintain the national currency unit at the prescribed value.

6. Each country will be responsible for the necessary legislative and other measures required to maintain an international value of its currency at par.

7. Credit will be also regulated with a view to preventing undue fluctuations in the purchasing power of gold."

Resolution 12.

"The report proposes that the Bank of England be requested to call a meeting of central banks and banks regulating credit policy to consider the proposals adopted by the Conference. This meeting was never called."

Resolution 13. - The Flight of Capital.

"The experts condemned all measures interfering with the freedom of the foreign exchange market, or violating the secrecy of bankers' relations with their customers."

Resolution 14.

"All artificial control of operations in exchange.. ...should be abolished at the earliest possible date."

Resolution 15.

"It is desirable that where no adequately organized market in forward exchange exists such a market should be established."

Resolution 16.

"The reconstruction of Europe depends on the restoration of conditions under which private credits, and in particular investible capital, will flow freely from countries where there is surplus lending capacity to countries which are in need of external assistance."

Resolution 17.

"It is essential that countries in need of credits should undertake to give effect to the best of their ability to the resolutions regarding currency and exchanges already adopted by improving their public finances. After balancing their budgets, these countries must concentrate on the following points:

(a) Ordinary revenue and expenditure should be equalized by reducing expenditure and, insofar as this is not possible, by increasing revenue.

(b) Progressive reduction of all expenditure of an extraordinary character until it is entirely abolished..... borrowed money just for productive purposes.....Long term loans are preferable to short terms.....avoiding all methods leading, directly or indirectly, to inflation."

N.B. The points indicated in Resolution 17 were omitted in the recommendations of the Bretton Woods Conference.

Resolution 18.

"Full information is essential to the creation and maintenance of confidence. Each country should undertake the publication of frequent and complete statements of the condition of its public finances."

Resolution 19.

".....the Governments represented at the Genoa Conference should agree to support the establishment and facilitate the operations of an International Corporation and of national corporations affiliated to it in countries where adequate security offers, whether by the provision of private loans or credits or, where necessary, in the form of loans to Governments, whose main object would be to examine the opportunities for undertaking work in connection with European reconstruction, to assist in the financing of such undertakings and to cooperate with other agencies and undertakings, without attempting to create any monopoly."

Link Between Money and Trade

The proponents of a money accord say that trade thrives only when exchange rates are stables. Their opponents say it is foolish to try to stabilize exchange rates until the conditions of trade have been restored. At Bretton Woods, the Conference recognized the link between money and trade accords by recommending an early commercial conference.

## PART I

## INTERNATIONAL MONETARY FUND

The Fund is an international agency - something like an international corporation with nations as members - having general and specific powers affecting international monetary conditions. It creates a pool of gold and foreign currencies as one of the main devices for carrying out the following purposes:

1. Assist in stabilizing exchange rates.

2. Provide a multilateral system for international payments in current transactions.

3. Assist in maintaining equilibrium in the international balance of payments of all members.

4. To provide for monetary cooperation.

5. To facilitate expansion and balanced growth of international trade.

The Fund would work something like this: Nations would trade and conduct other economic transactions through normal channels. Exporters and importers would deal with each other as usual. Familiar exchange markets would resume operation. The banking systems of all countries would perform their usual functions with respect to international transactions. All these operations would be influenced, of course, by many operations and regulations set in motion by the Fund.

But the Fund would come into operation chiefly as a last resort in maintaining equilibrium in the exchanges and in international economic transactions. Managed Fund operations would serve as a balancing factor. This is not exactly a dual monetary system, but there are many features in the Fund plan that may lead to that result.

The questions most likely to be of interest to Congress center around the following topics:

1. Quotas and subscriptions to the Fund.

2. Monetary exchange adjustments:

   (a) Gold transactions.

   (b) Par value of currencies.

   (c) Foreign exchange dealings.

3. Transactions with the Fund.

4. Scarce currencies.

5. Management of the Fund and voting rights.

6. Relation of the Fund to international economic relations.

7. Alternatives offered.

8. Miscellaneous observations.

1. Quotas and Subscriptions to the Fund

The initial Fund or pool is $8.8 billion, with quotas as shown in Chart I. Quotas may be adjusted from time to time but only on 4/5 majority vote and with the consent of the member concerned.

The Fund consists of gold and national currencies, but may also include member securities, non-negotiable, non-interest bearing, and payable on demand. Members contribute only 25 per cent gold, or 10 per cent of their net gold holdings and U.S. dollars, whichever is smaller; but even this provision may be waived in favor of currencies or securities. These provisions, combined with those which allow a member to borrow other currencies at least as high as 200 per cent of its quota (100 per cent over quotas is the effective amount), mean that the amount of gold is likely to be very small compared to the volume of member paper.

The size of the quota not only determines what a nation puts into the Fund, but, more important, what it may take out in the form of international purchasing power. Members have the right to purchase (borrow) other currencies with their own. This makes the Fund a lending agency with considerable possibilities of expansion (see below).

What is the position of the United States in these circumstances? In effect, the United States quota would be the soundest contribution to the Fund. It consists of gold and dollar currency readily convertible to gold, goods or services, making the United States quota full and unlimited means of international purchasing power. The situation is almost, but not quite, the same for Great Britain and Russia. In this respect, the currencies of other nations would be graduated downward in value, depending upon a number of factors, until some currencies would merely represent printing press money.

The United States would take very little out of the Fund simply because there would be no occasion for it. The United States has large gold stocks; it would have a large export volume. These, and other items in the United States balance would enable the United States to pay for all its own imports, which are highly sensitive to our national income, and other needs without recourse to the Fund. The effect is to make the United States an international lender through the Fund to the extent of its quota, and beyond its quota in some cases. What is more, by the mechanics of the plan, the United States agrees in advance to lend to forty or more countries a fixed amount of dollars with precarious possibilities of repayment.

A similar situation would be true of other persistent creditor countries. Two explanations are most frequently given in answer to this feature of the plan. One is that the plan is intended to add a new means of international payment to the stock of gold and to all normally acceptable means of payment. An important feature of the plan is its expansionist provisions which are held to be necessary if economic progress (capacity production, full employment and increased foreign trade) is to be made. In other words, this is the thesis that if the United States wishes to have prosperity at home, it must be prepared to lend abroad, or to open its doors to much larger imports. The second explanation is that loans to debtor countries are intended to be temporary - only to make up a deficiency in their balances until more fundamental measures can be devised. This would make for stability in international exchange and prevent resort to exchange, trade and other controls which would again disrupt international economic relations.

2. Monetary Exchange Adjustments

(a) Gold Transactions. The Fund will prescribe the gold points (par value with plus or minus margins) at which member gold purchases or sales may be made. Members desiring to buy the currency of another member for gold shall do so through the Fund, if they can do so with equal advantage. Newly mined gold may be sold in any market.

(b) Par Values of Member Currencies. The par value of members' currencies shall be expressed in gold or in terms of the United States dollar (weight and fineness, July 1, 1944).

Rates of exchange prevailing on the sixtieth day before the entry into force of the Agreement shall be the par value of each member's currency. Where the rate is unknown (as in enemy occupied areas) or unsatisfactory to the members or to the Fund, adjustments for a different rate may be made between the members and the Fund.

Provisions are made for changes in par values of member currencies to correct a "fundamental disequilibrium." Where international transactions are not affected, or where the cumulative changes do not exceed ten per cent of the initial par value, the proposed change may be made without objection. In all other cases, limits are placed upon the freedom of a member to change the par values of its currency without concurrence of the Fund. Unauthorized changes may result in denying the use of Fund resources to the member or compel the member to withdraw from the Fund altogether.

Uniform proportionate changes in par values of the currencies of all members may be made on approval of every member having ten per cent or more of the total of the quotas; but no par value can be altered over a member's objection expressed within 72 hours of the Fund's action.

There is enough in these provisions to give a member considerable leeway in setting its own exchange values on an arbitrary basis. When taken against the background of the plan as a whole, these provisions point toward periodic exchange depreciation. This, and the fact that some currencies would have exceptionally sound support while others may be no more than printing paper, has called forth the objection that good currencies might be pulled down to the bad. Such criticism is hardly intelligent. So long as they have gold and exportable goods, the countries with the good currencies are not going to default on redemption.

What is more likely to happen is that the Fund will increasingly lose dollars and other strong currencies and acquire weak currencies. Its assets may progressively deteriorate. Drastic controls may have to be set up in order to appreciate the weak currencies. Failing that, the Fund must then either accept the insolvency of its collection of weak currencies, or permit periodic currency depreciation. This would place the creditor countries in the position of lenders who periodically permit partial cancellation of the debt.

The chief counter-argument to this is that by such a device creditors are able to keep export industries flourishing as one means of maintaining full employment at home. No export (creditor) country would persistently and frankly give away the goods produced by its people; but it may be persuaded to do the same thing if a psychologically acceptable mechanism like the Fund is used for that purpose. The only other solution for the United States is to increase greatly the distribution of goods at home, among its own people, and then work toward methods that will balance its exportable surplus by imports or other credits beneficial to the American people.

Internationally, the remedy suggested is outright gifts to help start the weakest countries, productive type loans through the International Bank, and carefully planned stabilization loans of modest amount only to those countries in obvious need of them, instead of blanket credits through the Fund to all countries.

(c) Foreign Exchange Dealings. Foreign exchange dealings within member territories shall be based on margins acceptable to the Fund except that spot exchange transactions shall not differ from parity by more than one per cent.

In exchange dealings, as in gold transactions, another market outside of the Fund is contemplated. The Fund enjoins countries to control exchange operations within acceptable margins. This implies indefinite exchange control - something that was intended to be abolished by the Fund. Exchange controls are almost certain to imply government planned trade and other transactions as countries seek to keep within prescribed margins. Advocates of the Fund do not say this, but it seems to be the inevitable consequence.

3. Transactions With the Fund

Members deal with the Fund only through official agencies - no private fiscal transactions contemplated.

The chief feature of the Fund appears to be its provisions for making international purchasing power available to members.

When countries run low in their balances of payments (owe on balance more than they have available credits to discharge) or find themselves in exchange difficulties, they may purchase (in effect borrow) the currency of any other nation with their own currency or securities.

Does this power to borrow, together with discretion in the Fund under Article V, Section 4, to waive borrowing limits, give a debtor country unlimited credit? Can a member, as has been charged, just put in enough gold to cover service charges, and then extend its debits indefinitely?

Several limitations restrict a member in this operation, as follows:

1. The outside limit in any 12-month period is 25 per cent of its quota.

2. The maximum (over-all) shall not exceed 200 per cent of its quota.

3. A flat service charge of 3/4 per cent (which the Fund may decrease to 1/2 or increase to 1 per cent) shall be payable by the member purchasing (borrowing) the currencies of other members.

4. Further (interest) charges graduated in brackets according to the amount of currency purchased in excess of quota and according to the time so held, until the ultimate charge reaches 4 per cent whereupon the Fund and the member shall consult. Thereafter, further borrowing up to a 5 per cent charge is permissible whereupon the Fund may impose other charges. Charges are payable in gold, but in certain circumstances may be payable in member currency.

5. Members must be eligible to use resources of the Fund (in good standing relative to the rules and operations of the Fund).

6. The currency to be purchased (borrowed) has not been declared scarce.

The Fund seeks to keep members as nearly as possible in their initial relation to the Fund and to prevent excesses either above or below the quotas plus permissible margins. The plan contains provisions for adjustments working toward that end.

Among the more important of these are the "repurchase provisions" (Article V, Section 7 and Schedule B) intended to keep a reasonable balance between the supply of key currencies and the demand for them by other countries utilizing their borrowing capacity as set by the quotas. These repurchase provisions and other provisions (such as interest charges on borrowed currencies) attracting gold to the Fund are intended to work in two directions: (1) replenish the Fund's supply of key currencies; and (2) reduce the Fund's holdings of excess domestic (multiple) currencies for which there is obviously no demand. How effective these provisions will be depends to a large extent on the amount of gold and convertible foreign currencies a heavy debtor to the Fund may acquire in transactions outside the Fund. But how, if the Fund is to correct a debit position of a country arising from that country's transactions outside the Fund, can that country have any credit resources with which to redeem its excess currencies in the Fund? This is not made clear.

It is the intention of the Fund, of course, not to permit debtor countries to borrow indefinitely; and creditor countries will be persuaded to alter such economic conditions as may be responsible for the excessive demand for their currencies.

The power to buy (borrow) member currencies is one of the most controversial features of the plan.

Objection is made that this turns the Fund away from its stabilizing function and makes it another lending institution; and that the international bank is a better device for such purposes.

In answer it is declared that the lending is temporary only; that it is controlled; and that it is for stabilizing purposes.

Moreover, it is said, that the United States will give credit to importing countries anyway. If it does not, its export markets will be limited to the value of its imports. Export industries will be disorganized, commercial export houses will be affected, and the effort toward full employment at home will be endangered. Importing countries, on the other hand, will seek credits, or else will resort to internal deflation, currency depreciation, and trade controls. Such measures will once more confuse and restrict foreign trade to the disadvantage of all nations.

The United States, runs another objection, will supply gold, goods, and dollars, and in return accumulate irredeemable paper. This could happen to the extent of the United States quota obligations. In certain circumstances the United States might provide credits considerably beyond its quota. But conditions are not likely to be as bad as that. Foreigners are apt to be wary of United States credits after experiences of the 1920's when American credits first produced a boom and than a collapse when credits ceased.

It is pointed out that the Fund increases the probability that repayments of credit will be made because the United States has resort to a pool created by many governments. The United States could increase its imports from any part of the world and would not have to look to one debtor country alone. To benefit by this, however, it would seem that the United States would have to enter upon a very large import trade (and greatly increase its other debit items in the balance) because its normal transactions furnish a heavy creditor balance wholly aside from the Fund. In other words, the United States would have to increase its imports sufficiently to offset its regular exports and its quota position in the Fund.

4. Scarce Currencies

It is quite possible that the Fund may run short of a particular member's currency from time to time. This would create a scarce currency situation. In such cases:

1. The Fund reports the fact, states the causes and makes recommendations for correction, with the scarce currency member participating.

2. The Fund may replenish the scarce currency by loans from the member or from other sources, but the member is under no obligation to lend currency or approve other borrowings.

3. The Fund may require the member to sell its currency for gold.

4. The Fund shall ration its supply of scarce currency.

5. When a currency is declared scarce, and after consultation with the Fund, a member may impose temporary limitations on exchange operations in the scarce currency.

What position will the United States be in here? It is quite probable that shortly after the Fund is in operation, United States currency will become a scarce currency. The reason is that the dollar will be one of the principal means of international payment, owing to American resources and gold holdings. The large demand for American goods will also work toward the direct exhaustion of dollars in the Fund.

In such circumstances, the United States would be under several disadvantages. It might have to sell more of its currency to the Fund for gold. This would channel gold into the United States where it is not needed or wanted while useful resources and produced goods would continue to flow out of the country. This would sacrifice American foreign markets, cut down the volume of foreign trade, and result in unemployment in the export industries.

In cases of scarce currency, the Fund has the power to ration the supply. This may easily put it in the power of an outside agency to decide what particular foreign markets the United States should have.

To avoid such difficulties the United States might either have to sell dollars for gold without benefit, as above described, or lend dollars to the Fund in hopes of working off the excess credits over longer periods of time. If no methods were discovered for doing this, the United States would again be in the position of a creditor who does not collect. This was the case with reparations, with American loans to Germany, with many American loans to Latin America, and will be the real effect with a great part of the Lend-lease transactions.

5. Management of the Fund and Voting Rights.

The Fund is to have a status and organization very much like a corporation in the international sphere. The Fund and its officials are to have certain specified privileges and immunities (including certain exemptions from taxation.)

Elaborate arrangements provide for the election or appointment (as the case may be) of a Board of Governors, a body of Executive Directors, a Managing Director, and a staff.

(a) Board of Governors. Each member of the Fund appoints one Governor and an alternate to serve for five years. The Board may delegate any of its powers to the Executive Directors, except:

1. Admission of new members.

2. Revision of quotas.

3. Uniform changes in par values of member currencies.

4. Arrangements (other than temporary) with other international organizations.

5. Distribution of net income of the Fund.

6. Withdrawal of members.

7. Liquidation of the Fund.

8. Decide appeals on interpretation of this Agreement.

The Board is to meet annually and on special request. A quorum is a majority of the Board exercising not less than 2/3 of total voting power. By Board regulations the vote may be had on a question without calling a meeting. Each Governor casts the votes allotted to the member appointing him.

(b) Voting. Each member has 250 votes plus one additional vote for each part of its quota equivalent to $100,000. The distribution of voting power is shown in Table I. Except as otherwise provided, decisions shall be by a majority of the votes cast.

In waivers of conditions on use of the Fund's resources and other limitations or ineligibility of members to use Fund resources, the vote shall be increased by one vote for each $400,000. net sales of its currency or decreased by one vote for each $400,000. net purchases of the currencies of other members to the date of the vote, provided that neither net sales nor purchases shall be deemed to exceed an amount equal to the quota of the member involved.

TABLE I

VOTING POWER - INTERNATIONAL MONETARY FUND
(As set forth in Federal Reserve Bulletin, September, 1944, Table III, p. 862.)

| Country | No. of Votes | % of Total Votes[1] |
|---|---|---|
| Australia | 2,250 | 2.3 |
| Belgium | 2,500 | 2.5 |
| Bolivia | 350 | .3 |
| Brazil | 1,750 | 1.8 |
| Canada | 3,250 | 3.3 |
| Chile | 750 | .8 |
| China | 5,750 | 5.8 |
| Colombia | 750 | .8 |
| Costa Rica | 300 | .3 |
| Cuba | 750 | .8 |
| Czechoslovakia | 1,500 | 1.5 |
| Denmark | (2) | (2) |
| Dominican Republic | 300 | .3 |
| Ecuador | 300 | .3 |
| Egypt | 700 | .7 |
| El Salvador | 275 | .3 |
| Ethiopia | 310 | .3 |
| France | 4,750 | 4.8 |
| Greece | 650 | .6 |
| Guatemala | 300 | .3 |
| Haiti | 300 | .3 |
| Honduras | 275 | .3 |
| Iceland | 260 | .3 |
| India | 4,250 | 4.3 |
| Iran | 500 | .5 |
| Iraq | 330 | .3 |
| Liberia | 255 | .2 |
| Luxembourg | 350 | .3 |
| Mexico | 1,150 | 1.2 |
| Netherlands | 3,000 | 3.0 |
| New Zealand | 750 | .8 |
| Nicaragua | 270 | .3 |
| Norway | 750 | .8 |
| Panama | 255 | .2 |
| Paraguay | 270 | .3 |
| Peru | 500 | .5 |
| Philippine Commonwealth | 400 | .4 |
| Poland | 1,500 | 1.5 |
| Union of South Africa | 1,250 | 1.3 |
| Union of Soviet Socialist Republics | 12,250 | 12.4 |
| United Kingdom | 13,250 | 13.4 |
| United States | 27,750 | 28.0 |
| Uruguay | 400 | .4 |
| Venezuela | 400 | .4 |
| Yugoslavia | 850 | .8 |
| TOTAL | 99,000 | 100.0 |

[1]The percentage of total votes is calculated on the assumption that only those nations represented at the Conference will join the Fund. As other countries join the Fund, each individual country's share of the total votes will decline.

[2]To be determined when the Danish Government has declared its readiness to sign the Agreement.

Note: Of the total number of votes, the British Empire controls 25.3%, Continental Europe, excluding the U.S.S.R., 16.0%, and Latin America 9.7%.

(c) Executive Directors. Executive Directors are responsible for the general operations of the Fund, and may exercise delegated powers of the Board of Governors with certain exceptions. There shall not be less than 12 who need not be Governors, and of whom

1. Five shall be appointed by the five members having the largest quotas;

2. Not more than two shall be appointed in certain circumstances;

3. Five shall be elected by members not entitled to appoint Directors, other than the American Republics; and

4. Two shall be elected by the American Republics not entitled to appoint Directors.

Elaborate provisions for the election of Directors at intervals of two years are contained in Schedule C.

Executive Directors function in continuous session. A quorum shall be a majority of the Directors representing not less than half of the voting power.

Appointed Directors have the number of votes allotted to the members appointing them. Elected Directors have the number of votes counted toward their election. Votes are cast as a unit.

The Executive Director shall select a Managing Director who shall not be a Governor or Executive Director. He shall appoint the staff and conduct the ordinary business of the Fund.

(d) Offices and Depositories. The principal office of the Fund shall be located in the territory of the member having the largest quota (the United States at the start), with agencies or branches elsewhere as the Fund determines.

Each member may designate its central bank or other accepted institution as depository for the Fund's holdings of its currency.

Other assets of the Fund, including gold, shall be held in depositories designated by the five members having the largest quotas, or as the Fund may select. Initially, at least one-half of the Fund holdings shall be held in the depository designated by (the United States) and at least 40 per cent in depositories designated by the remaining four members. A member guarantees the Fund's assets against loss on the part of its designated depository.

(e) Observations on Management of the Fund. One of the outstanding criticisms of the Fund is its over-emphasis on machinery. The criticism is justified.

There is no reason, for example, why there should be two directing bodies such as the Board of Governors and the Executive Directors with vague lines of authority divided between them. A single, working executive head would suffice. If it is necessary to have a semi-political body to supervise the work of the Fund, (as seems to be the function of the Board of Governors) it could be done by correlation to a section of the general international organization to be set up by the United Nations. Such a body would include other economic matters too, and thus avoid an excess of international organizations.

Other parts of the plan for the Fund appear to be equally cumbersome. And it should be observed here that the International Bank has a similar structure to which the same criticism (above) applies. Yet it is perfectly understandable that if the plan did not offer these organizational details, it would be criticised for omitting them.

Some critics point out that while the United States puts up a substantial part of the soundest assets of the Fund, it will not have a large voice in the management. The aggregate voting power of those who are likely to be debtors to the Fund is greater than the creditor voting power. In other words, the fear is that the United States will be outvoted by those nations who will be most interested in voting themselves favors while the United States foots the bill.

Voting rights might be of some consequence if an international agency had the power to make and to enforce a decision detrimental to the United States. This is hardly the case here. The United States is part of the rule-making and enforcing mechanism. Execution of any such decision depends upon the good will and voluntary cooperation of the United States. In the monetary field, few decisions are likely to be made over the protest of the United States even if the American representative holds a minority vote in the international authority. Were the United States to be given a dominant or deciding voice, decisions of the international authority would be widely suspect as the dictation of powerful interests or the unwelcome largess of a rich uncle. In either case, the needed good will and cooperation of small countries may easily be lost. Quibbling over voting rights may be necessary in some matters of international organization, but the Fund is not one of them.

Perhaps the strongest criticism that can be made of the Fund plan, aside from its cumbersome mechanics, is that its terms are far too flexible - that is, flexible in an undesirable way. The plan is loaded down with so many qualifying, waiver, escape and other provisos attached to its positive statements that the greater part of the Fund's operations rest either in the outright discretion of its managers or in powers permitting member nations to nullify their obligations. Flexibility is necessary, of course, but if too many

positive commitments can be avoided, the plan has little utility. Why have a plan at all if it is to be filled with "escalator" clauses? As a matter of fact, the super-flexibility of the plan is proof of its novelty. When it is not known for certain what may transpire or what effects may flow from the experiment, everyone wishes to be safeguarded. This, in effect, is a strong argument for a simpler, more modest, and more familiar approach to the whole problem than the Fund provides.

## 6. Relation of the Fund to International Economic Relations

One of the most serious criticisms of the Fund is that obsession with technical machinery pushed fundamental matters of international economic policy to the background. Stabilization deals with symptoms while it overlooks the disease. The plan, it is further said, does not strike at the causes of instability.

Exchanges, it is held, will take care of themselves if nations first agree on some principles of sound internal economy. There can be no stability without balanced budgets, sound financial and credit policies, moderate tariffs and agreement on cooperative efforts for better distribution of raw materials, for sound international investment, for expansion of production and trade, and upon other elements of commercial policy. Critics declare that if sound economic policies are followed, no fund will be needed, if they are not followed, the Fund would merely produce an artificial stability that will break down.

There is much truth in these views. Sound internal policies and cooperative international economic relations are absolutely essential to stabilization. Delegates to the Monetary Conference recognized the validity of this view. They do not offer monetary stabilization as the main tool of economic progress, but merely as a facilitating means. The Fund and the Bank, they intimated, are merely parts in a broader program which is to be set in motion as time and occasion permits. Meanwhile, they say, the monetary aspects of international economic relations can be fully discussed and brought to fruition.

Further criticisms hold that the Fund actually promotes instability. Its managers are expressly precluded from interference with the internal policies of members. This means that the Fund will have little influence over the real causes of instability. The expansionist features of the Fund may promote world wide inflation. And the very thing the Fund is supposed to achieve - the abolition of exchange restrictions - is permitted under the Fund.

In answer to these criticisms, it can be said that it is not wholly true that the managers of the Fund will be unable to influence the internal policies of members. The prime restrictions on the Fund are that in publishing reports, making decisions, or taking other actions, it is not to interfere with the economic, political or social policies of any member. The reason for this is obvious when it is realized that many national economic systems (like Russia and the United States) differ widely. Moreover, in this period when nations are yielding so reluctantly to the need for international action, progress has to be made slowly, if it is

to be made at all.

But in many provisions of the plan there are expectations looking toward cooperative action between the Fund and its members. Member states have direct representation in the Fund management. There are provisions for adjustments in many phases of member economies, for consultations, and for public reports by the Fund when undesirable conditions exist. Members expressly agree to cooperate with the Fund, to keep the Fund informed on a wide variety of national conditions, and to refrain from actions inconsistent with Fund operations. In cases of flagrant disregard of the Fund's purposes and operations, the Fund may declare a member ineligible to use the Fund's resources; and may even ask a member to withdraw. Even though lacking arbitrary coercive power, the Fund thus has many channels through which to influence the conduct of members. Moreover, the United States and other creditor countries have the power and are almost certain to call a halt to practices abusive of their credit or destructive of the purposes of the Fund.

(a) Exchange Controls. Exchange restrictions are permitted under the Fund for several reasons. They are held necessary in the transition period until experience and adjustment overcome the economic disruption wrought by the war and make international stability possible. Time and interim controls will be needed until national currencies find working levels with each other. Controls will also be needed from time to time when a disequilibrium occurs in the balance of one or more countries. In this case, restrictions will be permitted to avoid breakdowns until more fundamental correctives have a chance to work.

(b) The Gold Standard. It is said that the Fund does not adopt the gold standard. This is true; it does not. The plan finds a place for gold, but the emphasis is on a managed system rather than upon the regulation formally exercised by gold.

Gold was not entirely eliminated for several reasons. Traditional thought on the usefulness of gold as a money metal still runs strong. To eliminate gold might produce such a reaction as to endanger the acceptability of the new plan. Equally important is the fact that the United States possesses so large a stock of gold that it would not willingly stand by and see gold reduced from monetary to commercial (commodity) value. A third reason for the retention of gold is that such gold producing countries as Great Britain, Russia, the United States, and others would be unwilling to give up the extra international purchasing power which gold as a money medium gives them. Another, and by no means unimportant reason, is that gold still possesses utility as a universal currency. In the absence of some internationally acceptable unit of money, gold remains sovereign.

Few countries, it is said, will be willing to accept the severe regulation over their affairs which a rigid gold standard imposes. One of the chief goals of economic life in every country will be full employment, an objective that many economists believe would be hampered by any automatic controls exercised by gold over national monetary affairs.

Through the use of managed currencies the plan of the Fund permits discretionary expansion. This need not be undesirable inflation. To some extent the Fund looks toward periodic adjustments through controlled currency depreciation. This, it is believed, provides the flexibility needed to make greater use of international resources and thus contribute toward greater employment in each nation. Currency depreciation, with a multi-lateral system like the Fund, will distribute adjustments (possible losses) over many countries rather than only upon those countries having major dealings with the depreciating country. These losses will undoubtedly be considered the price that has to be paid for more widespread economic progress. Moreover, currency depreciation is probably considered more psychologically acceptable than outright defaults and other devices open to debtors under the gold standard.

(c) Capital Transfers. Since it is the function of the Fund to deal mainly with the current transactions, members may not use the Fund's resources to meet large capital transfers. Controls, at the reguest of the Fund or by members, may be exercised over such transfers provided they are in accord with Fund operations.

(d) General Obligations of Members. In addition to all other obligations,

(1) Members shall not impose restrictions on payments or transfers affecting current transactions without approval of Fund.

(2) Exchange contracts in member currency contrary to the exchange controls imposed by the member in accord with this Agreement shall be unenforceable. Where consistent with this Agreement members may cooperate to make controls more effective.

(3) Members shall not permit discriminatory or multiple currency practices, except as authorized by the Fund.

(4) Members shall buy balances of their currencies held by others in certain conditions.

(5) The Fund may require members to furnish it with national data and information necessary to the Fund's operations.

(6) Members are not to deal with non-members in any way contrary to the functions or operations of the Fund.

7. Alternatives Offered

Many alternatives have been offered to the plans drawn up at Bretton Woods. Space and discretion prevent any complete discussion here, but a few typical and authoritative views follow.

(a) Pre-war Gold or Gold Exchange Standard. There are many qualified persons who propose a return to these standards. They point out with considerable force and logic the great utility of gold as a universally acceptable means of payment.* The advisability of doing so is highly debatable and the chances for success are questionable. Gold maladjustment has been pronounced ever since 1914.** Complete convertibility has become increasingly impracticable. And there is little dispute but that the gold standard collapsed under the pressure of economic distress after 1929. There has been growing objection to the rigidity of the automatic gold standard in any of its pre-war forms. In the face of domestic distress, few countries have been willing to allow external standards to control internal conditions. So much so, in fact, that monetary management gradually came to displace automatic operation. With full employment as a postwar goal in every country, currency and credit management will be even more heavily brought into play.

To these weighty objections to a return to the older forms of the gold standard, there is the very practical one that the United States now holds over 75 per cent of the world's gold supply. Insuperable problems present themselves when the distribution of this gold is considered. Gold, it seems, will have to play a part in international monetary stabilization for some time to come, but it is apparent that it will have to be greatly subordinated to managed currency and credit. For more than a generation the world has been groping toward some more workable variant than the old gold standard system. Both the British and American plans (Keynes and White) offered such variants; and the Bretton Woods plan is the outcome.

The main trouble with all these plans is that they place too much emphasis on the monetary aspects of the problem. Machinery and ready cash are not certain guarantors of productive projects wisely planned and soundly executed. Money, alone, does not affect nature's uneven distribution of wealth, resources and human energy and talent. These are the things in need of deep thought. Specific methods to make progress in these fields are needed far more than mechanicisms for making cash and credit available without assurances that the funds will be wisely employed.

*There is the view, for example, of an outstanding expert such as Dr. Benjamin M. Anderson, Professor of Economics, University of California, and member of the Executive Committee of the Economists National Committee on Monetary Policy. His argument in behalf of gold (Address before the Chamber of Commerce of the State of New York, February 3, 1944) is reprinted in Hearing before the Committee on Foreign Affairs, House of Representatives; 78th Congress, 2d Session, on H.J.Res. 226 (April-May, 1944), p. 114 ff.

**"International Currency Experience," Economic, Financial and Transit Department, League of Nations, Princeton University Press, 1944.

(b) Key Currency Stabilization. Briefly, this is a proposal to arrange acceptable ratios between those countries whose economic activities are internationally significant or which exert predominant influences in particular trade areas. If this is done, the currencies of all other countries are likely to find their proper relation to the key currencies and also to each other.

The basis of this suggestion, advanced in several quarters and quite strongly by the well-known economist John H. Williams,* is that the economic behavior of key countries largely determines conditions in other countries. If stabilization is achieved between the key countries, others will make workable adjustments to them.** This approach is held to be more modest and realistic than those plans which introduce "novel" and "dubious" changes in traditional economic patterns. Something of the key country principle was tried, with reasonable success, in the Tripartite Agreement of 1936 (United States, Britain, France). There would be nothing basically inconsistent in a proposal to incorporate the key countries' principle into the framework of the Bretton Woods proposals; and it may even work toward the simplification of the proposed plan for the Fund.

Mr. Williams also suggests that the Bank of International Settlements might easily be adapted to postwar monetary needs without setting up elaborate new machinery. Stabilization, and the needs of countries for temporary loans, should not be approached in a wholesale manner as the Fund does, but with discrimination and modestly. Many countries (such as some neutrals and many of the Latin American nations) have accumulated purchasing power ample to last them for some time. This means that the need for exchange is likely to be specific rather than general. The Fund, on the other hand, treats the problem as a general one, thereby going beyond necessity into new and untried territory.

(c) Arguments Against Key Currency Stabilization:

1. The key countries' approach comes dangerously close to a system of monetary blocs or even to bilateralism. Postwar international currency stabilization should not be left to monetary blocs without the blocs being tied together by a strong multilateral framework. This point is discussed in a very stimulating paper, "The Problem of Exchange Systems in the Postwar World," by Professor H.S. Ellis.***

*"Postwar Monetary Plans," 1944 and his article, "International Monetary Plans," Foreign Affairs, October, 1944.
**The New York Times, June 7, 1945, Mr. Winthrop W. Aldrich in address before the Canadian Manufacturers Association in Toronto in his 4-Point Program. Point 4 reads: "That foreign exchange values of principal currencies of the world be stabilized."
***American Economic Review, March, 1942, Supplement, pp. 195-205.

2. The "nucleus" would be more than a first toehold in the setting-up of an international currency system. It would be a core of permanent leadership around which smaller countries would group themselves as monetary satellites.

3. An international agency would offer the advantages which a pooling of reserves implies, and would open up a direct and unequivocal approach to a multilateral system.

4. The key countries' approach is very similar to a monetary bloc proposal, whereby small countries or satellites, rather than independent members, could easily crack and fall apart into monetary blocs, which by definition, violate the idea of strict multilateralism.

5. Monetary blocs will be less inviting to many smaller countries than an international organization.

6. Blocs easily imply domination of the smaller countries' financial and economic life.

7. Smaller countries might not peg their exchanges to the dollar-sterling basis but rather to the dollar or the pound and might, therefore, serve as weights which could widen the rift between a dollar and a sterling bloc.

8. Money earned by trading within the bloc must be able to buy in other countries unless we want international trade to shrink to a fraction of its potential size.

9. Many advantages of key country approach already obtained in the preliminary United States-England discussions of the Fund.

(d) Observations of Charles S. Dewey.* Mr. Dewey rejects the Bretton Woods approach as too grandiose and would follow a more modest course by enabling the Export-Import Bank to make carefully considered loans on a 50-50 basis with a foreign government or enterprise needing loans for reconstruction. The Export-Import Bank should be assisted by an Advisory Board with representatives from Congress, from Government departments and from a variety of private interests concerned with foreign economic activities. Wherever possible, private capital should first be encouraged and assisted in undertaking foreign loans.

*Representative in Congress from Illinois. Formerly associated with the Treasury Department and assigned by the Federal Reserve Board to develop a rehabilitation plan for Poland 1928-1930. His observations on the Bretton Woods proposals are set forth in Congressional Record, 78th Congress, 2d Session, Volume 90, No. 172, p. 7000 ff., (August 14, 1944).

By House Joint Resolution 226 introduced by Mr. Dewey, February 1, 1944, it is proposed to set up a revolving fund of $500 million as a Central Reconstruction Fund for foreign loans under control of an American Advisory Board. The purpose of the Fund is to enable the United States to participate with other countries on a 50-50 basis in making loans in cash or kind to needy countries for productive operations and to stabilize currency. The bill pre-supposes UNRRA aid for relief and would be devoted mainly to economic reconstruction in foreign countries on a businesslike basis.

(d) The Aldrich Proposals.* Winthrop W. Aldrich, Chairman of the Board of the Chase National Bank, opposes the Bretton Woods plans as being "unrealistic and unnecessarily complex." They obscure rather than solve the fundamental problems in international economy.

In his substitute, Mr. Aldrich combines several features. He calls for immediate conversations between the United States, the United Kingdom and other members of the British Commonwealth of Nations on problems of tariff barriers, imperial preferences, export subsidies, bulk purchasing and regional currency arrangements. The purpose of such a conference would be to reduce trade barriers, increase trade by reciprocal exchange of real goods and services and provide for a stabilized dollar-pound rate.

If necessary the United States should give Great Britain a grant-in-aid to help stabilize the dollar-pound rate. Other countries should be encouraged to adopt sound internal policies. Many countries will not need aid to adjust to the dollar-pound rate. Those that do can be helped more simply by loans through the Export-Import Bank than through the unrealistic monetary approach of the Bretton Woods plans.

Powers of the Export-Import Bank can also be enlarged to permit it to make longer-term stabilization loans and also loans for reconstruction and development purposes where such loans cannot be obtained privately.

On the initiative of the Federal Reserve Banks a simple international institution could be set up where central bankers could meet to consider monetary and credit problems. A modest fund for international lending might be placed at its disposal.

Mr. Aldrich makes a number of recommendations aimed to put the dollar in a better position to function as international currency. He recommends that the debts of World War I should be canceled; and a liberal settlement made in the lend-lease obligations due to the United States in World War II. The Johnson Act of 1934 (prohibiting foreign countries in default to the United States from floating loans in the United States) should be repealed. Also silver legislation, the Thomas Amendment of 1933, and sections 8 and 9 of the Gold Reserve Act of 1934 should be repealed in the interests of sound monetary policies. Other

* The New York Times, September 16, 1944.

measures necessary to establish the dollar "as an international currency" are unblocking of dollar assets of foreigners, elimination of exchange controls on the dollar, balancing of the Federal budget, refinancing of the Federal floating debt, achievement of a high level of national income at home and avoiding the excesses of domestic boom or depression by sound governmental policies.

Mr. Aldrich's plan seems to incorporate, in part at least, the key country principle, and some of John H. Williams' and Representative Dewey's suggestions. It attacks the weakness of the Fund plan by emphasizing the need of creating sound internal economic conditions in each country as a condition precedent to stabilized exchange between countries.

This condition would leave the weaker countries, right after the war when they are most in need, without the help which the proposed monetary and financial institutions could render, thus forcing the deficit countries to employ measures destructive of international prosperity by cutting down imports through cumulative protectionism and exchange control, and by increasing their exports through competitive exchange depreciation.

8. Miscellaneous Observations.

A number of general questions and observations remain for consideration:

(a) Effect on United States of International Money Management. Although the Fund does not mention the matter directly, it is obvious that any managed monetary system requires highly disciplined planning and controls. Could some of these controls be exercised over the United States and would the United States be willing to accept them?

For example, it has been asserted that the Fund has power to block United States capital investments in foreign countries by interpretation derived from Article I, Section 5-6 and Article VI, Section 1 (b).*

By other provisions, it is held, the Fund has the power to compel the United States to buy gold, provide dollars, and thus take in gold and give up useful resources.** In certain conditions, the Fund may acquire assets (collateral such as goods) which are held not to be taxable and may be disposed in the United States free from American tariff restrictions.*** Through an anomalous institution, it is said, the United States may have to assist countries whose political policies are undesirable to us.

*Statement of Bronson Trevor, "The Bretton Woods Program and Its Effect on American Business and Labor," Congressional Record, 78th Congress, 2d Session, Volume 90, No. 123, p. 6833 ff.
**Ibid. The provisions referred to in the Fund plan are: Article IV, Section 1, para. (a), Article IV, Section 5, para. (a), and Article VII, Section 2, para. (2).
***Bronson Trevor statement.

Again, as in the case of scarce currencies, the Fund has the power to apportion the supply. This, it is said, may have the effect of indirectly determining the course of foreign trade conducted by the United States.

To all these and similar criticisms it is possible to say - not that the circumstances described cannot occur, because some of them may - but that if the Fund acted flagrantly contrary to America's interests or over the protest of American representatives the Fund would defeat its own purposes and probably collapse for want of American support. There is always the risk in a cooperative undertaking that some of the partners may act against the interests of other partners. If this risk were to be considered valid in all conditions, no international cooperation would be possible at all. The point to bear constantly in mind is that by the very nature of the Fund's operations, the United States is a part of the enforcing power. The Fund cannot succeed without America's voluntary cooperation. And the United States would not cooperate when the object was to coerce itself. It is more reasonable to take the view that the risk will not materialize because if it does, the whole enterprise would be doomed to the detriment of the very partners who sought to gain undue advantage.

(b) Significance to American Foreign Trade. If the United States is not to find itself a chronic creditor in the Fund with dubious chances for receiving payment, it is obvious that the United States will have to alter its tariffs to permit much larger imports.* One of the weaknesses of the Fund is that while other countries, in paying for United States exports would use the Fund supply of dollars, the United States payments for imports would not be replacing these dollars in the Fund - unless somehow, the United States contrives a large excess of imports.

(c) Transition Period. The Fund permits members to impose restrictions on payments and transfers for current international transactions during the transition to peace. The war has destroyed all trade and exchange relationships and it may require a period of trial and adjustment to establish new relationships. Restrictions may be continued for five years without compulsion to change, and longer if the Fund makes no objection. Where the Fund orders an end of restrictions and a member persists in maintaining them, the member may become ineligible to use the resources of the Fund.

The Fund is not to deal with relief, reconstruction or with international indebtedness arising out of the war.**

*The New York Times, June 7, 1945, "Aldrich submits world Trade Plan" calling on the United States to reduce tariff rates substantially to bring about a reduction in trade barriers.

**The last difficulty centers mainly around the large blocked sterling balances which Great Britain owes India and others. There was objection to working these off through the Fund.

These provisions were added to the final Agreement to meet earlier criticisms and in recognition of the fear that insuperable war problems may endanger the success of the stabilization plan. There is considerable question, however, about these provisions. Either they will delay the full operation of the Fund for at least five years or nations will come in at once and work out their adjustments at the Fund's expense. If there is delay, and the United States acquires a large amount of foreign currencies in the interim period, might it not have to keep them indefinitely under the provisions of Article VIII, Section 4(b), providing that the obligations of members to buy back their currencies need not operate in certain circumstances?

Nations, on the other hand, may decide to enter the Fund at once and work out adjustments as they go along. If the Fund is at work in this way during the transition period, it will not always be possible to say that a country's need for Fund exchange is or is not caused by relief, reconstruction, or even unsettled war indebtedness. It has always been difficult in practice, for example, to separate capital from current transactions in the exchange market. The Fund has no power to interfere in the internal policies of its members.

(d) Source of Criticisms of the Fund. It should be of interest that a number of large American banks - those most interested in international payments - are decidely critical of the Fund. Is this because of disinterested technical dissatisfaction with the Fund plan? Is it because these banks see a transfer of international monetary business to government and international agencies with a consequent loss of business to the private banks? If the Agreement brought these banks more directly into the plan, would it dispose of their objections and change their proposals? The problem here is one that might very well be pressed when Congress conducts hearings on the Bretton Woods proposals.

(e) Treasury Opposition to A.B.A. Proposals. Treasury opposition to these proposals has been mainly on three counts:

1. That the Bretton Woods "agreement," having been "adopted" by 44 countries, cannot be changed without calling another conference.

2. That adequate safeguards against the misuse of the Fund feared by the A.B.A. are already embodied in the Articles of Agreement. Thus Treasury officials point out that, apart from quantitative limitations restricting (except upon special permission by the Fund) a member's net borrowing to a maximum of 100 per cent of its quota, with no more than 25 per cent

in any one year, the Fund has authority both to postpone inauguration of exchange transactions with any member whose circumstances are such as might be considered likely to lead to improper use of the Fund, and to suspend exchange dealings at any time with a member deemed to be making improper use of the Fund. It is contended that these provisions refute the charge of easy and "automatic" lending, and were inserted with the purpose of insuring the same high standards of careful lending and liquidity emphasized in the A.B.A. proposals.

3. That merging the Fund with the Bank, in the manner proposed by the A.B.A., would "wreck the entire program" by doing away with the elaborately worked out formulas for dealing with changes in exchange rates and discriminatory exchange controls.

All the critics of the International Monetary Fund realize that the United States must, in its own interest, help the rest of the world get on its feet after this war is over, either by gifts or by furnishing credit and taking credit risks. No proponent of the Fund believes that it is a panacea or that it alone will be sufficient to solve the economic problems of the world.

Since the agreement is a kind of a test case, it would be a sorry anti-climax to the winning of the war if the whole effort toward international monetary cooperation should lead to nothing. On the other hand, "if such programs can be put into operation before the end of the war, we will save much time in the task of bringing about domestic and worldwide prosperity when hostilities cease and immeasurably strengthen the prospects for an enduring peace."*

(f) Results Expected. It is hoped that the Fund may accomplish the following desirable results:

1. Put an end to multiple currencies after the transition period.

2. Do away with competitive exchange depreciation.

3. Prevent the use of currency manipulation and depreciation for political and economic purposes.

*Secretary Hall, commenting on the Joint Statement, New York Times, April 23, 1944, p. 1.

## PART II

## THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Much less detailed analysis is called for in the case of the Bank than of the Fund. The purposes and structure of the Bank are simple and clear; its proposed methods and operations are familiar from precedents in international lending; and the plan as a whole is cast upon conservative lines.

Close simililarity exists between corresponding provisions of the Fund and of the Bank plan regarding structure and management; location and depositories; international status and privileges; admission, withdrawal and voting rights of members (Table II); distribution of income and assets, and other operating details.

All members of the Bank must also be members of the International Monetary Fund.

### Purposes

Stated succinctly, the Bank plans to assist its members in capital financing for productive purposes, for restoration of economies disrupted by war, for reconversion, and to encourage economic development in less developed countries. It seeks to encourage private foreign investment by guarantees and participation and to undertake financing when private capital is not available on reasonable terms. By its operations, it aims to promote long-range balanced growth of international trade and equilibrium in balances of payments of its members. Loans are to be coordinated with loans through other channels with a view toward dealing first with more useful and urgent projects. All its operations are to be pointed toward the ends of bringing about a smooth transition from war to peace economy, and toward raising productivity, standards of living, and conditions of labor in member territories.

TABLE II

VOTING POWER - INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
(As set forth in Federal Reserve Bulletin, September, 1944, Table V, p. 869.)

| Country | No. of Votes | % of Total Votes[1] |
|---|---|---|
| Australia | 2,250 | 2.2 |
| Belgium | 2,500 | 2.4 |
| Bolivia | 320 | .3 |
| Brazil | 1,300 | 1.3 |
| Canada | 3,500 | 3.4 |
| Chile | 600 | .6 |
| China | 6,250 | 6.1 |
| Colombia | 600 | .6 |
| Costa Rica | 270 | .3 |
| Cuba | 600 | .6 |
| Czechoslovakia | 1,500 | 1.5 |
| Denmark | (2) | (2) |
| Dominican Republic | 270 | .3 |
| Ecuador | 282 | .3 |
| Egypt | 650 | .6 |
| El Salvador | 260 | .3 |
| Ethiopia | 280 | .3 |
| France | 4,750 | 4.6 |
| Greece | 500 | .5 |
| Guatemala | 270 | .3 |
| Haiti | 270 | .3 |
| Honduras | 260 | .3 |
| Iceland | 260 | .3 |
| India | 4,250 | 4.2 |
| Iran | 490 | .5 |
| Iraq | 310 | .3 |
| Liberia | 255 | .2 |
| Luxembourg | 350 | .3 |
| Mexico | 900 | .9 |
| Netherlands | 3,000 | 2.9 |
| New Zealand | 750 | .7 |
| Nicaragua | 258 | .3 |
| Norway | 750 | .7 |
| Panama | 252 | .2 |
| Paraguay | 258 | .3 |
| Peru | 425 | .4 |
| Philippine Commonwealth | 400 | .4 |
| Poland | 1,500 | 1.5 |
| Union of South Africa | 1,250 | 1.2 |
| Union of Soviet Socialist Republics | 12,250 | 12.0 |
| United Kingdom | 13,250 | 13.0 |
| United States | 32,000 | 31.4 |
| Uruguay | 355 | .3 |
| Venezuela | 355 | .3 |
| Yugoslavia | 650 | .6 |
| TOTAL | 102,000 | 100.0 |

[1]The percentage of total votes is calculated on assumption that only those nations represented at the Conference will join the Bank. As other countries join the Bank, each individual country's share of the total votes will decline.

[2]To be determined when Danish Government accepts membership.

Note: Of total number of votes, British Empire controls 24.8%, Continental Europe, excluding the U.S.S.R., 15.2%, and Latin America 7.9%.

Capital

Authorized capital is fixed at $10 billion ($9.1 billion initially subscribed), distributed as shown in Chart II. Initial payments of each country are set at 20 per cent - 2 per cent in gold (deferred in certain cases) and 18 per cent in member currency (or acceptable notes in the Bank's discretion). The balance of 80 per cent would consist of unpaid subscriptions designed as a surety fund on securities marketed by the Bank itself or guaranteed by it.

The United States share of the Total capital is $3,175 million and its initial payment would be $635 million.

Loans

The over-all limit of loans, guarantees and participations the Bank can make is 100 per cent of its unimpaired capital, surplus and reserves. Under carefully guarded conditions the Bank "may guarantee, participate in, or make loans to any member, or a political subdivision thereof, and any business, industrial, and agricultural enterprise in the territories of a member."

A "competent committee" appointed by the Bank must recommend the project "after careful study." If a member is not itself the borrower, an official guarantee acceptable to the Bank will be required. Due regard must be paid to the prospect that the borrower will be in a position to meet the obligation. Loans are to be made chiefly for reconstruction and development.

The Bank may raise loans on its own debentures or participate in loans raised in member countries, but only with their approval.

The Bank will have some powers of supervision over the expenditure of the loans. The Bank cannot require a borrower to spend the proceeds of the loan in any particular country, but in certain cases its shortage of a particular currency may cause a borrower to direct purchases from one country to another.

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Several observations have been made on the loan features of the Bank. The initial capital is conservative and the limitation on its total lending capacity is wise. Administrative safeguards on the flotation of securities and upon expenditure of funds appear adequate.

The distribution of loans seems to be left to the discretion of the Bank. It may not be sound economically to include a provision limiting the proportion of the total lending capacity that can be employed in any one country, but it is quite possible that the pressures on the Bank for loans will reflect some dissatisfaction among countries over the allocation of loans. This may lead to considerable friction over the makeup of the loan committees which will have to pass upon projects.

The conflict likely to arise in this connection may well become intensified by the Bank's relation to private lending. The apparent intention is to have the Bank supplement and not displace private lending. But it may not work out this way in practice. The Bank will strongly influence private investment by its power to offer "reasonable terms," grant "suitable conditions," and make loans of a kind lacking commercial appeal. Such provisions point toward possible competition - on interest rates, time provisions and other features of large scale lending - between the Bank and private investors. In any such competition private investors would be at a disadvantage; and they may easily adopt the practice of channeling loans through the Bank, preferring the multiple-country guarantee of low, well-secured profits to operations of their own.

In the long run displacement of private lending by an International Bank is likely to be an advantage, but only if the Bank's loans are confined to the field of international lending operations in which experience has proved the special need of an international agency. In this field, for example, loans for the development of independent but backward countries would be better administered by a Bank of international character than by the banks of separate countries. Too often in the past, such loans were made for political purposes and upon exploitive terms, creating international friction.* Loans for the development of certain raw materials might be placed in the same category if provisions of the Atlantic Charter are to be realized in the spirit of equal opportunity for all nations. Loans to particular governments for stabilization purposes form a third group in the field of operations best suited for an international banking agency to handle.

Studies should be set in motion to locate the limits of this field, and then the plan for the Bank should expressly confine the Bank's operations to the prescribed field. Private foreign investment can then function legitimately and without the irritations and superior competition that would come from a government-financed international bank.

## Distribution of Income

It would seem that some equitable reservation should be made (perhaps in Article V, Section 14 (b)) that where a member has contingent liabilities as guarantor of outstanding loans, its share of distributed income shall be held in escrow or shall be applied against the debt if the loan is in default. A provision such as this applies to the withdrawal of a member (Article VI, Section 4 (c)(i)) but why not on current account?

## Interpretation of the Agreement

Where there is a case of appeal by a member of the Bank against a decision of the Executive Directors, the Agreement permits the Bank to proceed notwithstanding the appeal. A proviso should be made to this that no action can be taken until the Board of Governors decides the appeal if the member declares that irreparable damage will be done to it.

*Herbert Feis, "Europe The World's Banker."

The provision for arbitration of disagreements appears to be limited to two cases: (1) between the Bank and a country which has ceased to be a member; and (2) between the Bank and any member during the permanent suspension of the Bank.

These limitations leave all other disagreements to be settled by the Executive Directors of the Bank with an appeal only to the Board of Governors of the Bank. The obvious intention is to avoid long-drawn-out legal proceedings in disputes while the Bank is operating. While the intention is fair and understandable, the provision is likely to become the cause of great friction and may even endanger the success of the Bank as a project.

Objection will certainly be made that decisions made by official bodies of the Bank will be self-interested, ex parte decisions, even though the Board of Governors is supposed to represent member countries.

It would seem to be much wiser, and more conducive to building a genuine body of international law, if provision were made for appeals to the Permanent Court of International Justice or to some other impartial, judicial or arbitral agency.

## PART III

## OTHER BRETTON WOODS RECOMMENDATIONS

The Bretton Woods Conference made certain supplementary recommendations as follows:

(a) a study by interested countries of the problems resulting from wide fluctuations in the value of silver;

(b) liquidation of the Bank for International Settlements;

(c) approval of steps being taken by the United Nations for the restoration to lawful owners of the property looted by enemy countries; and

(d) urging the governments represented at the Conference to reach agreements reducing obstacles to trade, securing orderly marketing of staple commodities, and promoting high levels of employment and rising standards of living.

## PART IV

## CONCLUSIONS

### National or International Solution?

The prime question facing Congress in the problem of monetary stabilization and international investment is: shall the solution be sought through a national or international approach? Should the United States do it alone or join with other nations in setting up international agencies to deal with monetary problems?

The answer to this question is inherent in the very nature of the problem. It is true that sound national economy and stability are a pre-requisite to international stabilization and economic progress. The parts must be consistent with and be coordinated in the whole. But world monetary stabilization and international investment is primarily an international problem and requires an international approach and international agencies.

No one nation can bring about coordination of different currencies. No nation has the power to coerce others into taking actions or refraining from actions in the monetary field. Stabilization is a cooperative effort if confusion and conflict are to be avoided. Many fields of foreign investment expressly demand an international rather than a national approach. This was true even in the period between the two World Wars. Foreign investments controlled by single nations have left an unsavory record in history. They have strongly contributed to international friction and wars.

Furthermore, private investment depends on profit anticipations. Profit anticipations fluctuate with the business cycle. During periods of depression private capital may not be available without the guarantee of the Bank. The Bank's activities may, therefore, increase when private investment tends to fall off, thus causing a beneficial countercycle effect which could contribute considerably toward more stable employment conditions throughout the world. Where the guarantee of the Bank would not suffice, the Bank could issue its own obligations to secure loanable funds for investment projects which, though in the eye of the private investor at the moment not profitable or secure enough, would nevertheless help to maintain a given employment and income level. The Bank could, in other words, act as a counter-weight to the swings of private international investment - if these swings are international; but if only United States cycles, then balancing our economy would unbalance others.

Technology and the spiritual forces now at work to bring the nations of the world closer together point in the same direction - that where problems by their very nature are essentially international, an international approach through international agencies is the best course to pursue.

The answer, therefore, is that international solutions of monetary stabilization and of certain kinds of international investment are preferable to national solutions. This conclusion rules out one of the alternatives that has been offered - the suggestions made by Representative Dewey. Mr. Dewey admits the need of American cooperation with other nations, and one of his proposals provides for it. But in the main he places far too heavy emphasis on American controls over the whole process. This is essentially a national approach and does not grasp the international character of the problems.

All other alternatives offered, and of course, the Bretton Woods plans themselves, follow the international approach in various forms. They indicate the correct course to follow.

RECAPITULATION
ON
BRETTON WOODS MONETARY CONFERENCE

1. Historical Background

(a) In 1941, work was begun on international monetary problems.

(b) Experts from many countries came successively to Washington for bilateral talks with American experts. Simultaneously, similar talks were held in London for a number of other countries.

(c) From July 1 to 22, 1944, representatives of 44 nations participated in the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire.

2. International Monetary Fund

(a) Purposes:

1. Consultation.

2. Reduce exchange risks through exchange stability.

3. Reduce incentive to or need for destructive trade balances.

(b) Concerned with short term foreign exchange requirements. Use limited to settling current trade balances.

(c) Machinery:

1. Capital:

a. Quotas set at $8,800,000,000. (U.S. $2,750,000,000., or 31.25%).

b. Part of quota subscribed in gold $1,650,000,000. (U.S. $700,000,000). This is 25% of quota, or 10% of own gold and dollar holdings, whichever is less.

c. Rest of quota in own currency.

2. Exchange rates can vary 10% from that initially fixed, more requires special approval.

3. Members not to impose restrictions such as:

   a. Discriminatory currency.

   b. Multiple currency.

   c. Bilateral trade agreements contrary to purpose of Fund.

   d. Competitive exchange depreciation.

4. Reserve for members who experience temporary shortage of foreign exchange. Charge made for use of loans 3/4 of 1%. Penalty rate up to 5% if excess of one currency accumulates in Fund.

5. Example - If U.S. local bankers short of sterling, F.R. System converts $ into sterling thru the Fund, or gives gold for sterling. U.S. Stabilization Fund has performed this function in past 11 years.

3. International Bank for Reconstruction and Development

(a) Purposes:

   1. Construction and reconversion of peacetime facilities.

   2. Development of facilities and resources in backward countries.

(b) Concerned with long-term international capital requirements.

(c) Machinery:

   1. Subscriptions:

      a. Quota set at $9,100,000,000. (U.S. $3,175,000,000., or 34.89%).

      b. Subscriptions:
         (1) Loan fund 20% of total in gold, dollars, and own currency for direct loans.
         (2) Guarantee fund 80% of total in demand notes.

2. Loans:

a. Conditions:
(1) All loans, direct and guaranteed, are backed 100%.
(2) Fund deals only with public agencies. Public agency can pass on funds to private enterprise.
(3) Only loan if borrower cannot get elsewhere on reasonable terms. Loans normally made to poor risks.
(4) If borrow dollars, pay back dollars.

b. Loans from own funds (20% of capital, plus the accumulated reserves, plus proceeds of loans made by banks, but countries must approve loans made from own currency.

3. Guarantees (80% of capital):

a. On loans made through usual private or public investment channels.

b. Interest charge of 1-1½% per year for first 10 years as insurance fund.

4. Control

(a) Each by Board of Governors for policy determination and Executive Directors (12) for current business.

(b) Voting power on Board of Governors.

(c) Principal offices of both Fund and Bank: Biggest subscriber - U.S.A.

5. International Cooperation

All nations are economically dependent upon one another, both as consumers and as producers. With stable and orderly exchanges, world trade can be increased. Productive foreign investments will make possible reconstruction of the war-torn areas of Europe and Asia, and the development of new countries.

Europe is dependent upon international trade because her import demands for foodstuffs and raw materials can only be met by exports of goods and services.

A contracting international trade would press Europe into self-sufficiency and a lower standard of living. A coordinated international trade and financial policy, with the purpose of attaining political security by permanent mutual cooperation and improvement in the standard of living, is the aim. The purpose of the Fund and other institutions that are being organized now is of a compromise character, to build a durable peace and to achieve the stable world economy and democratic procedures which make such a peace possible. To fail to back up the Fund proposals means to risk destruction of the last chance for a return to healthy multilateral trade. The Fund is the only practicable multilateral solution of the world's monetary problems.

Although the Monetary Fund and the International Bank do not furnish a complete solution to the international economic problems, they will contribute substantially toward solving the exchange and investment problems.