

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

To Chairman Eccles

Date September 19, 1944

From Mr. Morrill

Subject: _____

You will find attached a copy of a brief comment on Mr. Aldrich's statement regarding the Bretton Woods Agreements which Dr. Goldenweiser has furnished me for distribution to those interested.



Attachment

September 16, 1944

MR. ALDRICH'S PROPOSAL

Mr. Aldrich does not like the Bretton Woods Agreements and he suggests that they be not adopted. The reason he gives for not liking them, aside from their complexity which he does not elaborate, is that he thinks they divert attention from more essential undertakings, such as a rational commercial policy. Mr. Aldrich mentions the fact that the Bretton Woods Agreements adopted a resolution stating the necessity of liberalizing commercial policies, and, as a matter of fact, the agreements specifically stated that they in themselves do not expect and could not solve the postwar economic problems. His approach, therefore, is not that the Agreements in themselves overlook the other things, but that we ought to do first things first, and economic policies are first.

It is somewhat interesting to enumerate the things that Mr. Aldrich actually proposes:

1. Agreement with England about the reduction of tariffs and other trade barriers.
2. A large grant-in-aid to England to help her back on her feet.
3. Forgiveness of World War I debts and generous treatment about lend-lease obligations.
4. Expansion of Export-Import Bank to enable it to make international loans.
5. Creation of a Stabilization Fund among central banks, the Fund being relatively small.
6. Adoption of domestic policies with regard to silver, gold, fiscal matters, etc. that would accord with Mr. Aldrich's ideas of sound public policy.

What is striking about this program is that it includes both the Fund and the Bank, but under different names. Consequently, what Mr. Aldrich really proposes is that the functions of the Bank and the Fund be adopted, but in accordance with a pattern that suits his preference better, and that this be coupled with the kind of domestic fiscal policy that he approves, and with a reduction of tariffs. There may be some difference of opinion about the details of his domestic program, but in general his proposal would be entirely in line with the Bretton Woods Agreements. It would, however, be very much less practical and effective for the following reasons:

Tariff reductions are a long-term and confusing subject with a great many vested interests involved, and the deferment of international investment and international currency stabilization until tariffs have been substantially reduced is certainly not a practical way of approaching the problem. On the contrary, it would seem that the chances of progressive tariff reduction would be greatly increased if in the meantime currency stability was established and reasonable channels for international investment for rehabilitation and reconstruction, as well as for the development of undeveloped countries, were in operation.

The other point at which one might differ with Mr. Aldrich is that he sees England and the United States as being the two countries that need to get agreement among themselves with all the rest of the world joining in or falling in line more or less in accordance with the tune adopted by these two great powers. This program is not in accord with the democratic process. It would certainly seem much more propitious and in line with the Atlantic Charter and other democratic pronouncements, which Mr. Aldrich quotes with approval, to have both currency stabilization and international lending handled in a cooperative way with joint responsibility of all nations and joint undertakings by all countries.

Still deeper than these differences is the definitely apparent desire by Mr. Aldrich that the lead in all these international agreements be in the hands of the great financial interests rather than of the Government. The crux of the matter is right there. On the basis of the manner in which the financial powers handled the situation in the Twenties, it would not appear to be very promising to entrust the postwar world to their management.