

Mr Eccles  
11/22/44

BRETTON WOODS \*

(Dr. E. A. Goldenweiser, Director of Research and Statistics,  
Board of Governors of the Federal Reserve System, Washington, D. C.)

I don't know how much you know about the Bretton Woods Conference or how much you want to know about it. I myself was up there, and had participated in the year or two of preparations and in the negotiations at Bretton Woods. Before I go into the outline I have prepared, I might say that we had up in Bretton Woods representatives of the 44 United Nations, and in addition Denmark was represented by its Minister in the United States.

It represented an enormous undertaking to bring all these people together at this time, when there are so many things to do. Seventeen countries were represented by finance Ministers, and other countries by high ranking officials.

It was rather an amazing achievement. Without knowing too much about previous conferences, I think it did more in the way of hammering out detailed provisions and plans, and reaching an agreement on those plans, than has ever been done before at a meeting of that size and in so short a time. It was not merely an agreement in principle but an agreement in exact wording. It was a combination of settling various conflicting interests, and at the same time hammering out specific provisions. I am not too familiar myself with all of the provisions. They are inevitably complex because of the subject, and they are written in legal language, which I have always found it difficult to understand. But I do in most cases have some knowledge as to what was back of all these provisions and what purposes were intended to be served by them.

It was a picturesque conference. We had Lord Keynes from England, who as you know probably has the most brilliant economic mind in the world. He was one of the main sponsors of the proposals, though the proposals which were discussed and agreed on in Bretton Woods were quite different from the ones he had originally advanced. He was very effective in negotiations and in speeches, but he made rather a poor presiding officer. He was impatient, shuffled his papers around, declared actions approved before other people had a chance to find the material, and created quite a lot of feeling that way; but in the end everyone came out with a reasonably good meeting of minds.

The Chinese were represented by Dr. K'ung and his cohorts, and they were very much interested in having certain features of the plan adopted that made the proposals better adapted to their needs. They were anxious to have the plans adopted and to be full-fledged participants.

The French were rather a pathetic group, because the French inevitably at this time are suffering from a very bad case of inferiority complex, because of what they have gone through. The country had not yet been recognized, they had been used to being classed as one of the great powers, and they felt badly not to have the negotiations in their language. In the early days they were referred to as the

---

\* Remarks made at joint meeting of directors of Federal Reserve Bank of Cleveland and branches, November 2, 1944.

"Comité" and that bothered them. At the end of the meeting I noted that it became customary to refer to their country as "France" and they began to look a little happier. France was represented by Mendes-France, who was Finance Minister. He was a vigorous orator of the French school and insisted on speaking in his own language in spite of the fact that he knew English very well.

The Russians were an interesting group. I could not help feeling that they were struggling between the firing squad on the one hand and the English language on the other. They seemed to be very much afraid of the reactions in their own country, and didn't dare to make a step without consultation by 'phone or cable with their Government. At the same time they were anxious to be in on everything and wanted to play the game fairly with the outside world. They were represented by rather young men, high up in the Soviet hierarchy, who had their own stories and their own point of view. They were really seriously handicapped by language.

The Hindus were also an interesting group. They spoke Oxford English with a sort of oriental touch, and were very emphatic and passionate in their pleas. Most of them were in the direction of having the Fund help collect their frozen sterling balances, which the Fund was not prepared to undertake, so that they were disappointed.

The Australians were in a difficult situation because they had had a very serious experience in the thirties in trying to meet balance of payment deficits by adjusting their domestic economy, and they wanted to be very sure that they were not getting into any kind of a strait-jacket, where they couldn't change their exchange rate if the situation seemed to demand it. I have since heard that their representative has finally become a convert to the desirability of the plan from the Australian point of view, and is now trying to persuade his Government likewise. The representative I spoke to recently seemed to think the Australians will come through. This is a clear case of where a country which depends so largely on exports of wool and wheat does not want to give up the right to change the exchange rate, which would make it possible for them to meet a world decline in the price of these commodities without going through a serious deflation at home. They hesitate to give that right over to a new and untried institution in which they would have only a small minority vote. The fact that it would work toward greater world stability and make their markets more secure, and that they would have some borrowing power, probably in the end will outweigh in their minds any potential danger, particularly in view of the fact that any country which finds that it cannot function within the association has the right at any time to get out.

There was a large collection of assorted South Americans, who for the most part spoke something approximating English; a very little Spanish was spoken. Their leader, a Mexican Harvard graduate -- Espinoza de Monteros -- was very effective in bringing about accord on a great many points. Machado of Cuba, a very good-looking and active person, was also an important Latin-American leader. He was specifically trying to get the conference to do something about silver, but didn't get very far on that issue.

In the end, they all came together and signed, with some reservations in the case of a few countries, the reservations being mostly in the nature of various countries wanting larger quotas. I will tell you about the quotas a little later.

With this general sketch of what was done, you will have an idea of the kind of meeting it was. It was very hard work. The delegates of each country usually met by themselves in the morning. There were always two or three meetings of committees and commissions and sub-committees, and later there would be the big task of having all that combined, written and distributed by the next morning. There was a large force of stenographers and multigraphers who worked day and night. They had shifts and I think did an amazingly good job in taking material that sometimes wasn't finished until two or three in the morning, and having it ready for distribution among the delegates the first thing in the morning. And all this way up in the White Mountains in a hotel which had been closed for two years. All the supplies and equipment had to be shipped up there. The service was very poor and inadequate, and with all that the thing went struggling through and they accomplished a great deal.

One of the nice features of the meeting was a little group of Boy Scouts who were acting as pages, and helped a good deal in keeping things moving and distributing things smoothly.

It was in the White Mountains, and you have probably all seen Bretton Woods, - a little valley surrounded by mountains. It is only a large golf course really, with a hotel or two. For a week or ten days it was extremely hot, which I didn't think ever happened in New Hampshire, but after a while the natural weather prevailed and it was much easier to function, though the facilities for meeting were poor. The small committee rooms were very hot and not private, so that there were all kinds of physical difficulties in the way. It is a beautiful spot, and when it was cool it was extremely pleasant to be there and to walk in the woods or follow the trails, so that there were compensations.

The fundamental question we have to decide before we make up our minds about the achievements at Bretton Woods is whether we want to or can pursue an isolationist policy in this country. As to whether we want to or not there are probably differences of opinion. Some people think we should pursue an isolationist policy. Not an extreme one. I don't think any one would want to build a Chinese wall around us; we all want exports and imports, - but a policy of as little contact in a financial and political way with the outside world as is consistent with the life of the world today. There is a considerable body of opinion which would say that.

On the other hand, on the question of whether we can have it, I believe there is no room for a difference of opinion, because the fact is that experience shows that we cannot stay out of world affairs. We are now the only powerful nation in the world with unused resources. We have pressures on us which are going to meet in one form or another, and therefore it seems to me that the only realistic approach is to have plans and programs which will help us to do what we are going to do anyway, in a way that is best calculated for the public good of this country and also the public good of the world as a whole. The public good of the world as a whole may not concern us except as it reflects on us, but it does reflect on us. The two wars into which we have been drawn have demonstrated that we cannot stay out. This country has not had any direct stake in either of the wars in which it has found itself, except for the sacrifice of its lives and treasure. So I think it is quite academic to talk about isolationism, and we must realize that our choice lies between an intelligent plan of organization in cooperation with the world, or a disorganized lack of planning with a great chance of disaster.

Our choice is not whether we will be a "creditor" or "debtor" nation but whether we will be a "creditor" or "sucker" nation, for the fact is that we have been made a creditor nation by the circumstances of the last two wars. We cannot escape the fact that the world now owes us money and that we are going to lend more. Are we going to be an intelligent creditor in the sense of lending in conformance with a well thought up plan, and with some chance of collecting the debts? We must decide this or whether we are going to do as we did after the last war, leaving it to haphazard arrangements, which led to all kinds of abuses, and with an almost certain guarantee of never collecting the debts. In that case we are going to be "suckers", because we are going to lend, or think we are lending, when we are actually giving, and we are not going to accomplish the purposes for which we met, which need a well-planned organization, with a complete understanding of the problems involved.

The agreements reached at Bretton Woods should be considered along with a lot of other things that need to be done. There is no idea that by deciding on an international bank and monetary fund the world problems of financial relations and trade relations can be solved. That is only one phase of the situation. We have to have, in order to meet the post war situation, a great many other things, such as the organization for relief and rehabilitation which is now functioning under the name of UNRRA. We have to have a well thought out and organized commercial policy, which is being worked out, and we must take a great deal of interest in it.

The fundamental facts of life are related to food and clothing and shelter, exports and imports, and the ability of a country to maintain trade, and are not a matter of exchange rates and loans.

There has to be a plan to overcome both the great difficulties which have been created by the war, and the maladjustments existing before the war. We have got to find a method of handling these intelligently, with far-sighted self-interest. I am not in favor of this country being a Santa Claus to the world. I am not in favor of undertaking any of the programs on a philanthropic basis. In so far as we want to be philanthropic there will be plenty of opportunities in the days ahead that will be much safer.

In the long run, we must undertake measures which will help the world get on its own feet and will result in keeping nations functioning in a self-supporting way, rather than establish a relationship of tutelage, support, and subsidy by this country. Our people wouldn't and shouldn't stand for it, and it would not in the end accomplish its purpose. Any kind of proposal has to be subjected to the test of being essentially in the interests of the United States, but on the basis of far-sighted self interest rather than of a narrow one which is not really in our best interests.

There were two main proposals that were discussed at Bretton Woods and a third group of minor ones which I don't need to mention. The two major proposals were a bank for reconstruction and development, and a monetary fund which is supposed to help stabilize exchanges. These two things are mutually dependent and complementary. It will be much easier to have an efficient monetary fund if there is an institution which is in a position to extend credit on a long time basis to countries which need long time development, provided those loans are the kind that will help a country to become self-supporting. On the other hand, it will be much easier to make loans

and do other things if the exchanges are relatively stable, and if the chaotic conditions which prevailed after the last war and ended first in economic and later in military and political disaster, are to be avoided. The two plans were discussed, and programs have been adopted for both.

The Fund has three major functions. I think I might say in considering those functions that back of all of them is the thought that it is primarily a mechanism for encouraging the expansion of international trade, because aside from that it becomes rather vague. The only way that all of this machinery can express itself is if it increases the flow of trade, on a lasting basis and that is what the Fund is supposed to do. For the purpose of encouraging international trade it provides an institution in which the initial exchange rates can be fixed. After this war, some of these countries will have all kinds of currencies. In some of them international trade has not existed for a number of years and we don't exactly know what the rates should be, so there needs to be some method whereby a country does not decide its own rate, but the rate is determined with a view to the prospective balance of payments of a country in so far as it is possible to estimate it.

The first function of the Fund is to set the preliminary rates on the basis of the best estimates per each country. Secondly, the Fund is supposed to provide machinery by which rates which have been incorrectly estimated can be corrected, and be corrected by joint and mutual understanding rather than by individual action and in a competitive spirit. The same applies to corrections made necessary by changes in conditions. It provides for adjusting rates from time to time, and in addition to that it provides a fund of money which will help to sustain the rates in so far as the disturbances are temporary, and where temporary help is likely to help a country ride out the storm and come back to reasonable security without the disrupting effect of a major change in rates. So that is the second thing the fund does -- provides machinery for making changes in the rate when necessary, and for sustaining existing rates so far as that seems desirable.

The third point, and I attach a lot of importance to this. The agreement establishes a whole set of rules of the game to which every country which joins the Fund subscribes, and by which it must abide if it is going to be a part of this United Nations program. These rules include abolition of exchange control except for capital movements, that no country will be permitted to engage in anything like the Schachtian programs of multiple currencies, or any discriminating arrangements between one or two countries as against other countries. There is a whole set of rules that the countries undertake to live up to so long as they belong to the Fund, and that, I believe, is the core of a world financial institution which is necessarily somewhat loose, but in which specific and binding provisions will be developed in the course of time if the thing is successful. It seems to me that the success depends upon the development of new techniques and new codes around this flexible international monetary gold standard, rather than the old inflexible standard.

The resources of the Fund will amount to \$8.8 billions, of which the United States will subscribe \$2-3/4 billions. The subscriptions will be in gold and in local currencies. Each country is to subscribe 25 percent of its quota in gold or 10 percent of its gold and dollar holdings, whichever is the smaller. The countries are to subscribe 25 percent unless that is more than 10 percent of what they have, in which case 10 percent would be accepted. The quotas were originally calculated on the basis of national income, trade balances, and reserves. This resulted in a

series of tentative quotas which were modified in negotiations to some extent, for there must be agreement. So that there are cases in which some countries got rather more than their statistical position would justify -- notably Russia, whose quota statistically would have been considerably less, but she got \$1.2 billion because of the fact that she is likely to become a bigger factor than she has been in the past. Perhaps the most important factor in making this concession was that it was the only basis on which she could be persuaded to come in, and it was essential to have her come in. China also got somewhat more than her statistical quota, because of sympathy for China's situation.

These quotas were agreed upon through negotiations; Judge Vinson, Jesse Wolcott and others were a committee for making these arrangements and they made the best arrangements they could. The delegates in most cases had to communicate with their own countries before committing themselves. The United States' quota, determined in advance, was \$2-3/4 billion, and there was no change in that. I might say that the voting power of the United States, together with the fact that it has the right to pull out of the Fund at any time and take its dollars with it, and the further fact that it has influence with the South American countries, gives the United States what amounts to a dominant position in the Fund. It has such a dominant position that it will be impossible to go against its will in any measure, and in a number of measures the vote required is more than a majority. Sometimes it is four-fifths and sometimes two-thirds. In all such cases, the United States has an absolute veto power, or close to it.

The use of the Fund by the countries is limited to one-fourth of their quotas in a year, so that a country like England, with a quota of \$1.3 billion, cannot draw more than \$325 million a year from the Fund. That indicates that the relative magnitude of the Fund in relation to the world trade is not decisive, and is not sufficient to put a country on its feet if other conditions are not propitious.

England expects an unfavorable balance of \$1 billion a year for some years to come, and she has, in addition, \$12 billions of frozen balances. Problems of that sort have to be worked out by England and her creditors quite independently of the Fund. The Fund specifically excludes the use of its resources for paying war-incurred indebtedness, for that would overload its resources, and would make it impossible for it to carry on as a stabilizing agency.

There is to be a common fund to which a country may come for certain amounts of foreign exchange for current use. This it must repay as soon as possible. There is a provision whereby countries will pay interest when they use resources of the Fund, and that interest rate will be a progressive rate, increased both with the size and the duration of the loan, so that there are provisions to encourage only temporary use and moderate use. If the use of the Fund is either continuous or large in relation to a country's quota, it begins to pay substantial rates of interest.

There are certain fundamental questions about the degree of stability and the degree of flexibility which will be possible under the Fund. Two very different philosophies were presented. One is the philosophy which, on the whole, is close to what the English were saying to their own constituents -- the philosophy that exchange rates should be adjusted to domestic situations, and that the British will never have to do anything in the domestic field in order to straighten out exchange rates; on the contrary, that there should be an adjustment in the exchange rate

whenever the domestic situation demands it. That was an extreme point of view to which some of the speeches of Lord Keynes lent considerable support.

Another point of view, even more extreme, is to say that domestic policies must be adjusted to the stability of the exchange -- the old gold standard philosophy. What has worked out is a compromise between these two views. There is a provision that the countries can make changes in their exchange rates, but only if they can prove that the changes are made necessary by a fundamental maladjustment, and that the modifications would cure the maladjustment, rather than merely postpone its cure, or even aggravate the situation.

There are provisions by which the Fund cannot refuse a change of rate for domestic political or social causes. There was a lot of discussion as to what was meant, but it was put in partly because it would not do for the Fund to say "You are Communists - we cannot let you have a change" or "You are Tories, and you cannot do this." Reasons of that sort cannot be used for refusing a change. What is meant by "social" is not altogether clear, but it probably means that if a country has legislation relating to women or child labor, or social security, or safety devices, the Fund cannot say, "These things are undesirable, and therefore, we won't let you make a change." In political and social issues, countries must have the say, and must handle these things as they see fit.

But if a country is pursuing a fiscal or labor policy or any kind of an economic policy which is bound to result in maladjustments the Fund can say, "We cannot let you meet that by changing your rate because that will only postpone the debacle and will further disorganize the world. You must find other ways of putting your own house in order." These points are relatively vague because anything rigid written this far in advance would probably become unworkable and we could not get agreement between countries. If the provisions are flexible, and it is understood what we are working for, and we have good management, we will gradually build up a system that will be both flexible and workable.

I sometimes like to quote this little verse from Ogden Nash about the turtle:

The turtle lives 'twixt plated decks  
Which practically conceal its sex.  
I think it clever of the turtle  
In such a fix to be so fertile.

The turtle has found the solution. It has plates that keep it protected against enemies and against inclemencies of the weather, and at the same time it retains all necessary flexibility to propagate its kind and provide everything it needs in life. The turtle, which is proverbially slow, has found a solution, and I think we ought to be ~~smart~~ smart enough to find a mechanism by which we have just as much stability as is consistent with the facts of life and as much flexibility as is necessary to sustain it. I believe it is not beyond the power of human intelligence to work this out.

Now to turn to the rules of the game. In the first place, we must have abolition of exchange controls as soon as possible, so that there will be a free movement of funds. This does not have to be immediate. Countries have five years in which to do it, but they must agree to do it as rapidly as possible.

Capital movements are to be excluded from this prohibition. The Fund's resources may not be used to meet a large or sustained outflow of capital, and the Fund may request a country to take steps to prevent such use of the resources of the Fund. Countries should be permitted to regulate capital movements.

There are to be no multiple currencies or any kind of discriminations, and if a country does not live up to the general rules, the Fund may make a report to the country, and if the reply received is not acceptable, the Fund can suspend use of its resources by the country or ask the country to withdraw. The Fund can do this whether or not the country at the time is using the Fund's resources -- that is a very important point and there was a good bit of debate about it.

This applies to us. If we are doing things here which tend to be disturbing, the Fund can write us a report. We do not have to pay any attention to it, but it will help crystallize public opinion and help us and other countries to carry public opinion, since there will be an authoritative, objective report which will indicate what these disturbing things are.

You can see that all this puts a tremendous amount of weight on management. Human beings being what they are, it is rather a heavy burden to put on a group of people, but there is one safeguard; there is a very good incentive for each country to see that it has good representation, because its representative is there to protect its own interests. If he is soft and allows other countries to use the Fund excessively, the Fund might become exhausted and when his own country comes to the Fund there would be nothing left. So that there will be considerable pressure for soundness. That is about all the organization can do -- supply management and supply an incentive for good management as this Fund does. Any human institution that is capable of being of any service cannot possibly be devoid of power to do harm if mismanaged. Therefore, you have to rely on management. If management has a good motive for doing right, that is about as far as we can go.

What are the alternatives to the Fund?

One alternative would be to have a legal gold standard, which probably means maintaining exchange controls. The gold standard as it functioned before the First World War is not feasible for the immediate future because too many countries have no gold and because its essential rigidity would make it unworkable in a period of transition. What is being proposed is a gold standard with a carefully worked out flexibility to meet emergencies.

Then there is the proposal that, instead of trying to get agreement among 44 nations, we work out an arrangement with England and allow other countries to come in one at a time, as their conditions become more acceptable. That point of view has a substantial measure of support, but it seems to me it is not fair to other countries. Furthermore, the Fund is not obliged to do business with it, unless the Fund is satisfied that the country is in a fairly satisfactory condition. It is contrary to democratic ideals and is based on the erroneous theory that it is the key countries that start disturbances, whereas disturbances usually are started by the small countries.

Of course, we have key countries and must have key country control in the Fund, but the Fund is not to be an exclusive club where people have to pass an examination in the Bank of England and the Federal Reserve before they can get in.

Rather, it will be an organization in which everyone who wishes to cooperate may come in and participate in proportion to size. I think this is a better arrangement and one that will add a lift to the situation as no agreement between two great countries could. I am very much in favor of a general agreement.

Still another idea is to let nature take its course -- to do nothing and see what happens. What would happen would be either a chaotic condition with competitive rates of exchange or maintenance of very rigid controls and development of bilateral agreements which were found so undesirable after the last war. I have an idea, therefore, that the "let nature take its course" philosophy hasn't much support.

Then, there is a philosophy which has gained a great deal of support among banking people. It holds that what we should build around is the Bank, and that the Fund should be an appendix to the Bank. I think we could get those holding this idea to agree that the Bank and the Fund should have joint resources equal to the two and that the Bank should have rules of the game and that it should have the power to determine rates. In the final analysis, the difference would be whether a country would be assured of a certain amount of money being available to it if it abides by the rules, with the Fund having the burden of proof that the country is not abiding by the rules, or whether it would have to come to the Bank, hat in hand, and ask for loans, with no assurance that it could get the loans, for the Bank would have the power to prescribe different conditions for different countries.

That is going to be a debated issue on which there will be much difference of opinion and on which you will have to make up your own minds. My own view is that this proposal would fail to accomplish much toward re-establishment of world trade. What we need to provide is assurance to all of these countries that there is a stated amount in proportion to their needs that they can count on, provided they live up to the rules of the game. It isn't automatic. They must prove that they are going to use the funds for certain purposes, but they will know in advance that they can have so much and won't have to depend on market conditions and will also know in advance what conditions they will have to meet.

Very well managed, the two proposals might operate in the same way, but there would be the difference that there would be no assurance in advance, and this, in my opinion, is extremely important. My conviction is that we would have a better chance of success if we started out with the understanding that there are certain funds which will be available, rather than to leave this to banking methods.

As I said before, everything depends on management. There will be a Board of Governors, with each country having one Governor. Then there will be a smaller group of executive directors which will serve continuously. Directorship of the Fund will be selected in proportion to quotas. Membership in this group will be divided between several countries. The five key countries are assured of a place on the executive board. The Latin American countries will have two places, and the rest will be divided among the remaining countries by a rather elaborate mechanism of election. The executive directors will elect a manager, who will run the show. Some matters can be decided by a majority vote of the Board of Governors, but there are many things which will require more than a majority vote.

No country's rate can be changed without its approval, so that each country retains its veto power. That goes, too, for uniform changes in the par value of

all currencies which the Fund may decide upon, but no country must accept such a change in its own currency.

That is about all I want to say about the Fund, except to make one or two other observations. One is that I have heard from what should be responsible quarters that the Fund will only result in drawing more gold into the United States. That is not so. There is absolutely nothing in the Fund which will result in drawing more gold to this country. There is going to be a tendency for gold to come to us because of the fact that everybody will want our goods. Most countries have some gold and part of it is likely to come to this country, but there is nothing in the Fund that encourages such a movement. On the contrary, the Fund should be a restraining influence and should result in less gold coming here.

In the second place, it is said that the Fund will make dollars scarce. The dollar is scarce for the same reason that gold will come to us -- that other people will want to buy our goods and they do not have much to sell that we want to buy, with the result that the dollar is likely to be scarce. The Fund will not contribute to the scarcity. It will exert its influence continuously to lessen the scarcity.

There are elaborate provisions in the Fund by which a country which is using the Fund and which has resources or has increased its resources is to draw upon its own resources as much as it can, so that the Fund will be a revolving fund rather than a one-way street.

And what about the Bank? The Bank is a simple proposition compared with the Fund. All countries will chip in a certain amount in proportion to their resources, under conditions similar to those by which Fund quotas were fixed. Total capital will be \$9.1 billions. This is a little larger than was first thought of because Russia came through finally with a larger contribution. Each country wanted to contribute as little to the bank as possible and to have as large a quota in the Fund as possible. The early days of the conference were spent in trying to hold down Fund quotas and later days in trying to increase contributions to the Bank.

The countries, then, will all chip in proportionately and 20 percent of the Bank's resources may be used to make direct loans while 80 percent will be used as a guarantee fund for loans floated in the market. The Bank is supposed to facilitate loans for productive projects which will help the borrowing country get on its feet and which will require foreign exchange; and only where there is no private credit available on reasonable terms. In general, therefore, it is not supposed to interfere with, but to encourage private financing, to regulate it, and more or less to set a pattern which will avoid some of the abuses which developed in the Twenties.

The management of the Bank would be similar to that of the Fund and would be selected in the same way. There are no great technical questions involved. The language is simple. Lord Keynes said he thinks our lawyers did an extremely good job in drafting the agreement, but only wishes they had not cluttered up the birth certificate with such a tremendous amount of detail as to the obsequies. Detailed provisions about liquidation were probably necessary but are rather tedious to read.

-----