REPLIES TO OBJECTIONS TO THE FUND AND BANK PLANS PRESENTED BY REPRESENTATIVE WOLCOTT AS LISTED IN THE AMERICAN BANKER, FEBRUARY 28, 1945

Preliminary Draft

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I. OBJECTIONS TO THE BANK PLAN

1. The Bretton Woods lending program is only a part of a much larger program of expanded exports through loans, and will inevitably result in defaults abroad and disillusionment at home, because this country will not permit the large scale imports necessary for the repayment of all the loans and investments.

While it is undoubtedly correct that there will be loans by the Export-Import Bank and perhaps under Lend-Lease besides the loans encouraged by the Bretton Woods program, it does not follow that the inevitable result is defaults because of the reluctance of this country to permit large-scale imports.

In the first place, the loans made under the auspices of the Bank will be carefully considered and on the whole much sounder than our past loans. Loans will be made or guaranteed by the Bank only after careful study and only if the projects financed will help the borrowing country to become relatively less dependent on foreign supplies or to be able to sell more of its own products abroad so that the borrower will be in a position to meet its obligations under the loan. The long-range projects financed by the Bank will help the borrowing countries to stabilize their international transactions and therefore will help them to meet interest and amortization payments on loans which are not guaranteed by the Bank. And it is doubtful whether even with the Bretton Woods program our foreign loans will reach very high levels.

In the second place, this country probably will permit larger imports after the war. The volume of United States imports will depend in large part on the size of our national income. If we are able to maintain a high level of employment and income, our imports will be large. A large and continuous flow of American exports into an expanding world market will help to maintain prosperity in this country particularly during the first years after the war.

The adjustment of our balance of payments necessary to enable foreign countries to meet payments due us on loans by the Bank will come very gradually and largely in an automatic fashion if we have rising incomes in this country. If further adjustments are necessary, they can be brought about by corrective measures which can be timed and devised in such a fashion as to avoid serious disturbance of our domestic economy.

Thirdly, it was the abrupt cessation of American foreign lending and the onslaught of the great depression which were responsible in large measure for the defaults in the 'thirties. If as a result of the successful operation of the Bank and the Fund, and through other instrumentalities of international economic and political cooperation, world trade and world production can expand without major disturbances there is no reason to expect our lending to cease after a few years and a reverse flow of capital to set in suddenly. Only if major international maladjustments develop -- which the Bank and the Fund are designed to avoid and counteract -- will our stake in international investment be endangered.

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2. The program for vast exports, predicated in part on Bretton Woods credits, will ultimately produce a third world war, for the reason that it will cause a disequilibrium in world trade.

There is no reason to assume that the lending or guarantee operations of the Bank will cause a disequilibrium in world trade. Quite to the contrary, the use of foreign capital for constructive purposes, the restoration of destroyed and disrupted economies and the development of productive facilities and resources in less developed countries will help to diminish the disequilibrium of world trade which prevailed before the war and which presumably has been aggravated as a result of the war. Before the war, one important cause of disequilibrium in world trade was the fact that foreign countries needed American goods for an increase in their national production and well-being more urgently than we needed their products, or conversely, that they had fewer goods to sell to us. If the Bank provides through loans and guarantees the medium for the reestablishment of the war-torn economies, and for the development of resources in less developed countries it will contribute to the elimination of this basic disequilibrium. The purpose of international capital flows is the orderly financing of the development of the productive resources of countries which for the lack of resources or skills of their own are unable to undertake these projects without foreign assistance. By helping to reduce disequilibria in world trade, one of the most important causes of international economic friction, the Bank can reduce the likelihood of political and military warfare.

3. Although the stated objective of the Bretton Woods program is the balanced growth of world trade, by financing the industrialization of other countries, we may rather find that, in the end, we shall have balanced trade at a low level, instead of at our high level, to the detriment of our laboring men, our farmers and industrialists.

The industrialization of other countries will tend to raise rather than lower the level of United States foreign trade. Between the first and second world wars the chief foreign customers of this country were the United Kingdom and Canada, both of which are industrialized nations. We exported to the United Kingdom more than to all of Asia; and to Canada more than to all of South America. Our trade with Japan was far larger than our trade with China. The highly industrialized countries of Europe in 1935 (comprising 38% of the area and 61% of the population) received 83 per cent of the total imports of Europe and supplied 81 per cent of Europe's exports.

Through industrialization the real income of economically backward nations can be raised and a market created for goods produced abroad as well as for goods produced domestically. Our own economic history reveals a 25-fold increase in the value of imported goods in the eighty years from 1850 to 1929, a period of rapid industrialization in this country. It is entirely possible that the industrialization of backward areas will require shifts in the commodity composition of our exports but any plea for the avoidance of this development is a plea for economic stagnation at home and abroad.

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4. The Bank will be under political pressure to make unwise loans.

There is good reason to have confidence that the management of the Bank will not make unwise loans. No loan can be made or guaranteed except after careful study and on the recommendation of a committee of exports. Furthermore, loans may be made only for specific projects and when the prospects of the borrower being able to meet its obligations are good.

In addition, since all members are liable to meet losses incurred by the Bank, they will have a real interest in seeing that only sound projects are financed by the Bank. Unwise loans which result in defaults will also reduce the income of the Bank which, on the decision of the Board of Governors, may be distributed to members.

The United States will be able to exert an important influence on the lending policy of the Bank because a large portion of the Bank's loans are likely to be dollar loans and each country has special powers with respect to loans made in its currency. A member may prevent the use of that part of its subscription paid in for making direct loans for purposes which it may consider unsound. A member may veto any proposed use of its currency paid in to the Bank's loan fund. Also the Bank may not borrow in a member's market for the purpose of making direct loans without that member's consent and may not guarantee a loan without the approval of the member in whose market the funds are raised.

5. Our past lending experience should dampen our ardor for such a scheme.

A recent study of the Bureau of Foreign and Domestic Commerce indicates that despite the original unsoundness of many of the investments and despite the extremely adverse conditions of the thirties, our foreign lending of the period between the two wars was on the whole profitable to us. The value of our foreign investment in 1940 was 9.8 billion dollars. Since we originally invested 13.6 billion dollars, defaults and decline in the market value amounted to about 25 per cent of our net investment. Offsetting these losses were income receipts from abroad of almost 14 billion dollars. Taking these into account, it appears that our foreign investments in the period 1920-1940 yielded a net return of between 4 and 5 per cent, even after allowing for defaults.

The fact that our foreign lending was profitable in the aggregate does not alter the fact that thousands of individual investors lost large amounts in foreign loans. It is for this reason that the Bank scheme is necessary. Without some guarantee private investors would not lend abroad in large amounts. The Bank can make such guarantees without excessive risks because a wise program of foreign lending is apt to be very profitable in the aggregate.

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The statutes of the Bank contain numerous provisions which are designed to prevent unwise loans and to keep the danger of default to a minimum. Loans made or guaranteed by the Bank must, except in special circumstances, be for specific reconstruction or development projects. A competent committee must make a careful study of the projects and recommend the loans. Careful attention must be paid to the prospects that the borrower will be able to meet its obligations and the borrowing government must guarantee the loan. These and similar safeguards of the soundness of the loans, which were absent in most of the international loans made in the inter-war period, appear to be sufficient ground for the assumption that the unfavorable experience of American lenders with respect to certain types of foreign loans will not be repeated.

See also the answer to Objection 1.

6. The Bank will bill off private lending to the detriment of foreign borrowers.

Only 20 per cent of the Bank's capital can be used for direct loans while the remaining 80 per cent can be used only to meet losses occuring in connection with loans guaranteed by the Bank. Since the Bank will operate in general either by guaranteeing loans made by private investors or by making loans with funds borrowed from private investors and will make or guarantee only such loans as the borrower is unable to obtain elsewhere on reasonable terms, it is clear that the Bank will promote rather than hinder the flow of private funds into international investment. The foreign borrowers will be better off because they will be able to obtain loans on more reasonable terms.

7. The Bank would be under debtor-country control.

The possibility of debtor-country control of the operations of the Bank has been excluded by provisions giving a member the right to veto the use of its currency subscription by the Bank, the guarantee by the Bank of any loan floated in its markets and borrowing by the Bank in its markets.

See answer to Objection 4.

8. Private bankers can take care of all lending needs.

There is nothing in the contemplated structure of the Bank which would tend to restrict lending operations of private bankers. The Bank can not make or guarantee any loan unless private investors are otherwise unwilling to provide the funds on reasonable terms. Furthermore the total amount of loans which the Bank can make from its own capital funds are relatively small, compared with the amount the Bank may lend out of funds

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borrowed from private investors and the volume of private lending it may encourage by guaranteeing loans made by private investors. Actually private bankers are expected to take care of most of the lending needs. But the average investor today is much more skeptical of foreign investment than was the average investor in the 1920's. He will be extremely reluctant to invest his money in foreign bonds, unless he receives definite assurance that the risks peculiar to foreign investment are minimized by the intervention of the Bank. The Fund can also help to promote private investment by assisting countries to balance their international transactions without resorting to drastic exchange restrictions.

If private investors are willing to provide most of the funds needed on reasonable terms without the intervention of the Bank the Bank will not do much business. This would be a happy state of affairs. The Bank's operations will automatically diminish as world economic conditions improve and private investors take over the job.

9. If American dollars are to be loaned they should be loaned without the intermediation of other nationals.

Nothing in the Bretton Woods proposals will prevent either the United States government or private investors from continuing to make direct loans to foreign nations without the intermediation of nationals of third countries in so far as this may appear desirable. The Bank will supplement rather than supplant private investment and will enter the picture only when it is satisfied that a potential borrower is otherwise unable to secure reasonable terms. (See answers to Objections 6 and 8). Furthermore the Bank can not guarantee a dollar loan, borrow dollars in the United States, or lend dollars subscribed by the United States without our approval.

There will, however, be various reasons for the United States to permit a part of its foreign investment to be handled under the auspices of the Bank and to welcome the opportunity to lend in this fashion. Under the Bank proposal other countries may share in making a loan and all countries share the risks of the Bank's operations. The Bank will tend to underwrite long-term developmental loans the returns on which will be too long delayed and too moderate in amount to attract the private investor save on the basis of gilt-edge security such as the Bank guarantee will be able to provide. The indirect returns from investments of this type, in terms of increased productivity, improved standards of living in the area affected, and increased trade may be far greater than the direct earnings which can be applied to service of the investment. That the benefits derived from such projects are widely shared is a strong argument for having public and private investors from various countries participate in the loan and for having the governments of various countries share in the risks involved.

Other long-term reconstruction and development loans will carry political and economic risks which can be minimized if the sympathetic interest of neighboring countries is enlisted by securing their participation. Conversely default upon such loans might result from non-cooperative actions of competing states. From this point of view a sharing of participation and of risks has obvious advantages.

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Finally there are strategic areas and areas rich in natural resources whose development by any single power would give rise to fears of economic imperialism and dollar diplomacy. Certain nations are hesitant in accepting foreign capital lest political domination or undue economic influence follow the loan. This is a third situation in which an international Bank, in the management of which both creditors and debtors will be represented, will create new opportunities for profirable investment.

10. The Bank and the Fund should be separated, and not regarded as one program for simultaneous enactment.

It is true that the Fund and Bank will undertake different types of transactions; the Fund will conduct exchange operations on a revolving credit basis and help members to keep their promises to maintain stable exchange rates and avoid restrictions on current transactions. The Bank will grant long-term loans for specific projects of reconstruction or development. To handle these divergent operations, the Fund and Bank will require management with different capabilities and experience. However, the Fund and Bank are designed to implement a single program to promote international monetary stability. Their functions in achieving this purpose are complementary and inter-dependent. If either the Fund or the Bank were rejected, the operations of the other agency would be handicapped and the purposes for which it was organized would be jeopardized. (See answer to Question 1 on Fund.) Both the Fund and the Bank are especially needed in the immediate transition period. (See answer to Objection 33 to the Fund).

11. The guaranty of debtor countries is of questionable value to the United States.

All loans made or guaranteed by the Bank must be fully guaranteed by the government, central bank, or some comparable acceptable agency of the borrowing country. This guaranty will be a pledge to all other member countries of the government's faith and credit to meet the obligation incurred. A member would be loathe to default on a loan from the Bank not only because of its moral obligation to all members but because such a default would probably mean that no further credits would be granted to the defaulting country by any of the members. The possibility of default, except when due to unforeseen and uncontrollable circumstances, will be small because prior to granting any credit the Bank must give special attention to the financial position of the borrower and guarantor and to the prospects of the borrower and guarantor being able to meet their obligations under the loan. The Bank also makes or guarantees loans only with reasonable rates of interest and with schedules of repayment appropriate to the project. However, the Bank may offer the borrower or guarantor a chance in cases of acute exchange stringency to service a loan for a period up to three years by payments in its own currency. The Bank may also modify the terms of amortization or extend the life of a loan when circumstances make greater leniency in terms desirable. The existence of the Fund will also help member countries to balance their international transactions and maintain thus ability to meet their obligation.

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According to the Bank Agreement, the total loans and guarantees of the Bank may not exceed the amount of its unimpaired subscribed capital, reserves, and surplus. Any losses on direct loans made by the Bank out of borrowed funds or on loans guaranteed by the Bank are shared by all members in proportion to the size of their total subscription. A large proportion of the Bank's loans and guarantees to finance projects of reconstruction and development will be made to members with relatively small subscriptions whose territories have been occupied by the enemy or whose economies are at an early stage of development. Thus, even if some of the larger borrowers should default on their loans and even fail to meet calls on their unpaid subscriptions to the Bank the Bank's ability to meet its obligations would not be seriously impaired because countries like the United States, the United Kingdom and Canada, whose subscriptions represent a large proportion of the total subscriptions to the Bank, would be in a position to meet a call by the Bank upon their unpaid subscriptions.

12. Concessions to the other countries like the Latin Americas, who insisted at Bretton Woods that the Bank be devoted equally to reconstruction and development mean in effect that members desiring to develop have an automatic right to loans.

The Bank Agreement says merely that its resources will be used "with equitable consideration to projects for development and projects for reconstruction alike." Members have no semblance of an automatic right to loans either for reconstruction or development. The Agreement specifies several conditions which must be met before the Bank may make or guarantee loans. It must have received, from a competent committee appointed by the Bank, a written report recommending the project on the basis of a careful study of the merits of the proposal. When the member in whose territory the project is located is not itself the borrower, the member or the central bank or some other acceptable agency must fully guarantee repayment of the principal and payment of interest and other charges. The Bank must be satisfied with the rate of interest proposed and with the schedule for repayment, and must pay due regard to the prospects that the borrower will be in a position to meet its obligations under the loan. The Bank must also be satisfied that the loan cannot be obtained on reasonable terms from other sources.

Furthermore each member country has special veto powers, over the Bank's operations in its currency. (See answer to Objection 4).

13. Our subscription is unlikely to be the full measure of our contribution since the Bank may later increase its capital.

The authorized capital stock of the Bank may be increased only by a three-fourths majority of the total voting power. Since the United States will hold over 31 per cent of the total votes, such an increase would be impossible without our approval. Furthermore no member is obligated to

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subscribe any part of the increased capital if an increase should occur. The bill now under consideration, furthermore, specifically reserves to Congress the sole authority to approve or disapprove any additional subscription by the United States.

There is every reason to believe that our subscription to the Bank will be a profitable investment, not a "contribution."

14. Repeal or suspension of the Johnson Act, as is provided in the Wagner-Tobey-Spence Bill, means tearing up billions in old IOUs, and the pouring out of new billions of private American capital.

The enabling legislation provides for suspension of the Johnson Act in regard to countries which are members of the Fund and Bank. Suspension of the Act will have no effect whatever on the status of existing debts to this country resulting in large part from the first World War. Their status was completely unaffected by passage of the Act which simply prohibited future private loans to governments in default on World War I debts to the United States. Total repeal of the Johnson Act has been requested by the President and advocated by bankers' associations, export groups and the Chamber of Commerce as well as by governmental and private economists.

An increased outflow of private American capital is an admitted objective of proponents of the International Bank. Both the United States and foreign countries will benefit greatly if a large and steady flow of American funds permits rapid reconstruction of war-devastated regions and sound development of economically backward areas. Reconversion in this country will be facilitated if reconstruction demands can in part supplant war demands after the fighting has ended. It is not likely or desirable, however, that private foreign investment will be conducted in the reckless and haphazard manner of the inter-war period during which loans were granted with inadequate investigation of the purpose for which they were to be used or of the prospects for repayment, interest rates and other charges placed undue burdens upon the borrowers, and an abrupt cessation of American foreign lending added to the tremendous difficulties of the borrowers in the years of severe depression. Both the Bank and the Fund will help to prevent unwise lending and borrowing, to steady the flow of foreign loans, and to create conditions under which surplus capital can be channeled into productive use.

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II. OBJECTIONS TO THE FUND PLAN

1. It is contended that it is inadvisable to set up two distinct agencies; that there is no necessity for the Fund, that the functions of the Fund can be better administered by creating a department in the International Bank for making exchange stabilization loans, and that the functions of the Bank in this respect may be supplemented by increasing the capital and powers of the Export-Import Bank of Washington. It was partly in deference to this theory that in considering the so-called George Bill in the House last week amendments were suggested which in effect would create the Export-Import Bank of Washington as an independent agency of the Government, divorcing it from all domination by the Secretary of Commerce and making it possible for the Congress to control its policies.

Since the Fund and the Bank are designed to deal with different problems, it is desirable that they be distinct agencies. The Fund is designed to stabilize exchange rates and eliminate exchange restrictions by helping to meet temporary shortages and providing members faced with an international drain a breathing spell in which to make necessary adjustments. The Bank, on the other hand, will grant long-term loans to finance reconstruction and development projects. These two divergent types of operations require different experience and knowledge for their management.

The proposal that the Fund's functions might be better administered by creating a department of the Bank empowered to make stabilization loans implies a fundamental lack of understanding of the Fund proposal. Without the Fund countries would not be obligated to maintain stable exchange rates or to eliminate exchange restrictions. And if members are to succeed in meeting their obligations they need the confidence and help provided by being able to obtain assistance from the Fund for certain purposes without delay. The necessity for the Fund lies in the fact that it will put a stop to the economic warfare conducted with monetary weapons which was prevalent in the 30's. The risks involved in the Bank's long-term loans would be increased without the Fund. The assurance of stable exchange rates and the absence of exchange restrictions would reduce transfer risks in connection with repayment of the Bank's loans.

Stabilization credits similar to those granted in the 20's and 30's would be an inadequate substitute for the Fund Agreement as a whole, especially for the commitments on exchange rates and exchange restrictions, but also for the Fund's lending operations. Stabilization loans would be made only after careful investigation and usually only after the borrower was already in a very difficult position or had already succeeded in going through a long period of recovery and reorganization after a period of severe disturbance. The Fund would require members to reasonably stabilize their internal position before beginning to receive any assistance from the Fund after the Fund is set up. But in the long run the Fund is intended primarily to help prevent members from getting into seriously unbalanced positions and deflationary difficulties. The Fund will help

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to meet deficits on current account as they arise, and by tiding countries over periods of unbalance and by proposing corrective measures, will enable them to avoid deflationary and restrictive measures which would disrupt international trade and set up repercussions in the economies of other countries. In the absence of the Fund, most countries would deal with the problems arising from a sudden exchange shortage through restrictive measures, e.g., exchange controls, bilateral agreements, subsidies on exports, multiple currency arrangements, competitive currency depreciation, etc., rather than request a stabilization credit from the Bank which might be conditioned upon control of the borrower's economy, enforced balancing of the budget, reduction in government expenditures, etc.

The arguments against the substitution of stabilization credits granted by the Bank for the operations of the Fund apply even more strongly against empowering a United States government agency like the Export-Import Bank to grant such loans. The most important part of the Fund Agreement is the commitments members make on exchange rates and exchange restrictions. And the Export-Import Bank would be even less able than the International Bank to provide the necessary temporary assistance. The dollar is not the only currency which will be needed to meet temporary deficits. The Export-Import Bank's lending authority should be increased to permit the continuance of the financing of United States foreign trade and for certain other purposes.

2. From the United States standpoint, the Stabilization Fund created out of the devaluation profits of 1934 is more than ample for our needs since $1.8 billion of the original $2 billion has never had to be touched.

The fact that the Stabilization Fund has used only two hundred millions while the United States will subscribe $2,750,000,000 in gold and dollars to the International Fund indicates the difference in the scope of the Stabilization Fund's operations and those of the proposed International Fund. The Stabilization Fund has concentrated primarily on evening out day to day fluctuations in exchange rates through purchases of foreign currencies which the foreign countries redeem in gold almost immediately. The Stabilization Fund, also by agreements with a few foreign countries, has promised to hold small amounts of their currencies for very short periods of time, and these foreign countries have promised to maintain their rates. It has also undertaken special transactions, such as the sale of precious metals and coins to foreign countries, but these operations have also been conducted on a very short-term basis. The Stabilization Fund has not attempted or succeeded in stabilizing exchange rates all over the world over a long period.

The International Fund will operate on a much larger scale. Whereas the Stabilization Fund dealt with only a small number of countries, the Fund through its operations will help to stabilize the exchanges of 44 member nations, and membership may eventually be increased to include all countries in the world. Furthermore, the International Fund will

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make credits available for two, four, or six years if necessary and in amounts large enough to be of real assistance to members. By providing members with access under certain conditions to its pool of foreign exchange resources, the Fund will tide members over temporary difficulties caused by a deficit in their current transactions and will give members a breathing spell in which to take corrective measures to adjust their balances of payments.

3. If we are going to attempt to stabilize the economies of other countries, it should not be done in the guise of currency stabilization.

The Fund does not pretend to stabilize the economies of other countries. It is undoubtedly true that the economies of other countries will have to undergo a process of stabilization after the disturbances and disruptions of the war. But the countries concerned must work to that end themselves through their own policies and devices; no Fund, no monetary authority, and no monetary device alone can solve the problems connected with the stabilization of foreign economics. As a matter of fact, the Fund may postpone exchange transactions with any member if its circumstances are such that, in the opinion of the Fund, they would lead to use of the resources of the Fund in a manner contrary to the purposes of the Fund. Through the elimination of harmful exchange practices, the Fund will undoubtedly contribute to the stabilization of the international transactions and exchange rates of the member countries and thereby favorably affect the stability of the economies concerned. It may also require members to take proper stabilizing measures as a condition of continuing to obtain assistance from the Fund.

4. The Fund in most cases would start out by recognizing as the value of individual foreign monetary units the artificial quotations which have been in force throughout the war, whereas many foreign currencies if released from control would have a true buying power of only a fraction of the present artificial quotations. Therefore, the Fund would conceal the true condition.

The Fund will not start out by automatically recognizing the artificial wartime values of foreign currencies. The Fund will ask each member country to communicate the par value of its currency based on the rates of exchange prevailing 60 days before the Agreement entered into force. If either the Fund or the member country is of the opinion that this par value is unsatisfactory, it must say so within 90 days. The Fund can object to the par value if it appears that it cannot be maintained without leading to undue use of the resources of the Fund either by that member or by other members. The Fund and the member must agree on an initial par value within a reasonable period. If no agreement is reached the member will be considered as having withdrawn.

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Countries which have been occupied by the enemy are permitted to postpone communicating the par value of their currencies until they have ceased to be involved in major hostilities, or until such later time as the Fund may determine. The provisions of the Agreement also allow these countries and the Fund more than 90 days to register objections to the communicated par value.

Furthermore, the Fund provides for necessary changes in par values. If the initial par value should prove unsatisfactory later on and if a change in the par value is necessary, in the opinion of the member, to correct a fundamental disequilibrium, member countries are given the right after consultation with the Fund but without the necessity of obtaining its concurrence, to alter the par value of their currency by a total of 10 per cent from that initially established. On any further proposed changes, the Fund has the right to concur or object (Article IV, Section 5).

These provisions are, in essence, designed to overcome the difficulties envisaged in the statement under discussion. The Fund's purpose is to promote exchange stability as an important means for the restoration of world trade and the international flow of capital. But the Articles of Agreement recognize that exchange rate stability can be maintained only if satisfactory par values have been established and if necessary adjustments are provided for.

5. The Fund will be used for capital purposes, as well as for the intended short-term purposes.

The Fund has sufficient discretionary power to prevent any substantial use of its resources for long-term or capital purposes. If any member is not taking advantage of the time during which it is drawing on the Fund to take measures to correct its situation and enable it to repurchase its currency from the Fund, the management of the Fund can refuse further assistance. There may be cases in which a member will be unable to repurchase relatively small amounts of its currency for a period of a few years. But if any member is using the Fund to finance purchases of equipment or machinery abroad for development or reconstruction purposes, the Fund will point out in short order that the member's deficit is apt to continue for some time and that the member must obtain long-term loans to finance such projects.

There are special safeguards against use of the Fund's resources to meet a large or sustained outflow of capital. The Fund may require a member to control such an outflow as a condition of further use of the Fund.

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6. Our subscriptions to the Bretton Woods program (Fund and Bank) would be as much money as the value of all the goods we exported in three entire pre-war years: 1936, 1937 and 1938. We should therefore look this program over carefully before committing ourselves.

Our total exports in the years 1936-1938 amounted to 8.9 billion dollars. Our total subscription to the Fund amounts to 2,750 million dollars, our subscription to the Bank 3,175 million, together 5,925 million dollars, which is 3 billion less than the value of total exports mentioned in the statement. But these simple additions and subtractions are meaningless. Our initial cash subscription to the Bank amounts to only 317 million dollars and another 317 million dollars can be called by the Bank later for use in making direct loans. The remainder of our subscription, or 80 per cent, is callable only if needed to meet obligations of the Bank arising out of its guarantees of loans or its own borrowings. Such calls will be made only when loans made or guaranteed by the Bank are in default and the Bank's special reserve does not suffice to meet its obligations. Even under the most adverse circumstances it is utterly inconceivable that the sum total of all loans made or guaranteed by the Bank will be defaulted, and since loans and guarantees are limited to the capital and surplus of the Bank our total subscription to the Bank will never be called.

Furthermore, the statement implies that our subscriptions are a real cost which the United States is expected to bear. But the Fund is intended to operate as a revolving fund. If it functions properly, it will maintain a reasonable distribution of its currency holdings and losses which our exporters and investors would suffer from exchange depreciations, exchange controls and similar unilateral actions of foreign countries will be avoided or at least kept to a minimum. If the indirect advantages derived from the Fund in the form of a larger volume of world trade are added, the monetary contribution becomes insignificant in comparison.

It may also be noted that the United States would be able to secure the full gold value of its subscription to the Fund in foreign currencies or in goods upon withdrawal or liquidation. The Bank aims at the revival and expansion of the international flow of capital. Its loans and guarantees present the framework within which the economic development of the world is to take place. The Bank will help to stabilize currencies and promote trade. It will contribute to the elimination of economic frictions which only too easily lead to political discord and war. If our subscriptions to the Fund and Bank must be compared with any financial data, it may be better to compare them with the costs of warfare than with the value of our pre-war exports. Ten days of war cost more than our subscriptions to the Fund and Bank combined.

It is, of course, wise to study the program carefully. For almost four years the program has been studied by the best experts available and has been discussed with interested groups, including commercial and

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investment bankers, foreign exchange dealers, economists well versed in problems of international finance, importers, exporters, and so on. The documents which emerged from the preliminary conversations and the final discussions at Bretton Woods are the result of these discussions. Hardly any other piece of legislation has been prepared with such thoroughness and after such comprehensive consideration.

7. The hope that the Bretton Woods Fund will assure or even materially contribute to world peace is vain in the light of the realities among which the world lives.

The prevalence of economic warfare among the nations of the world may be listed as one of the "realities" which contributed to the outbreak of the present war. Among the most pernicious and dangerous weapons in this warfare were competitive exchange depreciation, multiple currency practices, and discriminatory exchange controls. The Fund Agreement aims directly at the elimination of these measures. There are other types of commercial warfare which the Fund Agreement does not pretend to eliminate but which can be attacked effectively only after monetary cooperation has been achieved. Finally, there are non-economic causes of war which must be removed through political agreement. World peace must be organized through a number of measures all of which involve effective cooperation among the nations of the world. The Bretton Woods Agreements offer striking evidence of a desire on the part of 44 nations to solve their common problems through continuing consultation and co-operative action and their adoption would augur well for the peace of the world.

8. The Bretton Woods program is really just a variation of the WPA, but on a world-wide scale. It is international pump-priming.

The Fund (and the Bank) do provide for some governmental funds being used to help maintain imports, employment, and investment throughout the world. To this extent they resemble certain efforts at maintaining investment and expenditures in the domestic sphere. However, the resources of the Fund (and the Bank) are made available for certain definite purposes. The primary purpose of the Fund is to help a country to maintain its purchases abroad while taking steps to balance its transactions. The fact that the Fund will exert all possible influence on countries to balance income and outgo makes the Fund scheme quite different from a deficit financing scheme.

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9. The Fund will destroy the control by Congress over the dollar, and the constitutional prerogative to regulate the value of our money will be imperiled.

The bill under consideration reserves final control over the dollar to Congress. Congressional authorization is required to propose or agree to any change in the par value of the United States dollar and the Fund is not permitted to change the par value of the dollar unless the change is proposed by the United States. Congressional authorization is also required to approve any general change in par values and the United States has a right to veto any general change in par values.

Should the United States intend to change the par value of the dollar, it can do so without the Fund's concurrence up to 10 per cent. Beyond 10 per cent concurrence of the Fund must be sought. The Fund is obliged to concur in a proposed change if it is satisfied that the change is necessary to correct a fundamental disequilibrium. Should the Fund object to a change proposed by the United States, the United States can either withdraw from the Fund or can change its rate despite the objection of the Fund in which case it might be asked to withdraw.

10. The Fund is premature; the world is not yet ready for it. Domestic currencies should be stabilized before we attempt to stabilize foreign exchange.

On the contrary, the Fund will be desperately needed and will have unexcelled opportunities to function as a coordinating force in the early post-war period. This is the very time when countries would be most sorely tempted, in the absence of an international mechanism, to embark upon a round of competitive devaluations which would tend to delay the attainment of either domestic or international stability much longer than would otherwise be necessary. When a nation's original exchange rate has been determined (in consultation with the Fund) it will have a point of reference for guidance in framing policies directed to the adjustment of prices and costs to a stable and defensible relationship at home. It is true that exchange rates cannot be stabilized over the longer run if domestic price levels are fluctuating widely; it is equally true that domestic currencies cannot be "stabilized" (in economies based on private initiative) if their external values are constantly changing. Both problems must be tackled at once if the alternative of rigid governmental control of all international commercial and financial transactions is not to be unduly prolonged.

The Fund can refuse to assist any country until it is in a reasonably stable position and there is reason to believe that it can make good use of the Fund's assistance.

See Answer to Objection 33.

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11. The Fund is too large for stabilization purposes, and consequently would encourage member nations to delay the necessary steps, generally disagreeable to effect a balance in their international payments.

As pointed out in the answer to Objection 22, the Fund is not too large. The amount of assistance each individual country may expect to obtain under certain conditions is quite small in relation to its trade and probable temporary deficits.

As to the contention that member countries would delay necessary adjustments, it must be pointed out that the scale of rising charges, the provisions for consultation, and the right to impose additional charges after a certain point is reached, and the repurchase provisions are strong safeguards against the delay of adjustments in the balance of payments. Most important of all, the Fund can refuse further assistance to any country which is not taking advantage of the breathing spell gained by the Fund's assistance to take steps to correct its international position. But it should also be kept in mind that adjustments which are not restrictive and in agreement with the purposes of the Fund take time. Their successful application depends upon the availability of foreign exchange -- which the Fund stands ready to provide. In the absence of an international mechanism countries are more likely to delay and refrain from making "generally disagreeable" adjustments than if they are able to avail themselves of the support of the Fund.

12. The Fund gives the member countries virtually an automatic right to borrow and leaves little or no discretion to the Fund to refuse to make a loan.

It is the purpose of the Fund to assure members of assistance to meet temporary shortages of the means of payment on current international transactions. The Fund, however, does not give a member an automatic right to borrow since the Fund's resources may only be used by members for the specific purposes enumerated in the Articles of Agreement. In general, members may use the resources of the Fund only to finance current transactions with other member countries. Members may not make net use of the Fund's resources to meet large or sustained outflows of capital. Nor is the Fund to be used to provide facilities for relief and reconstruction or to deal with international indebtedness arising out of the war. Members may not use the Fund as a source of permanent financing but only for a temporary period during which maladjustments in balances of payments may be corrected.

At the outset of its operations, the Fund may determine whether a member is in a position to use the Fund's resources. If, in the opinion of the Fund, exchange transactions with any member might lead to use of the Fund's resources in a manner contrary to the purposes of the Agreement, the Fund may postpone operations with that member. The Fund can thus protect itself by refusing to deal with a country in an unstable economic or political condition.

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At any time after the Fund is prepared to enter into exchange transactions with a member, the Fund may limit the use of its resources by that member even if the Fund's holdings of the member's currency have not increased by the annual permissible amount of 25 per cent of the member's quota. The Fund may take such action whenever it is of the opinion that the member is using the Fund's resources in a manner contrary to the purposes of the Fund. A member applying to the Fund for foreign currencies need not prove it will use these funds in the proper fashion. Rather the management of the Fund, through study of the information required of members and by following actual international transactions of members, must determine whether the member is making proper use of the Fund's resources and take action upon its findings. The Fund may declare a member ineligible to use its resources if, after presenting a report to the member acting contrary to the purposes, no satisfactory reply is received. Before a member declared ineligible would be permitted to again make purchases from the Fund, it would have to satisfy the Fund's management that it had taken necessary corrective measures and was prepared to make use of the Fund's resources in a manner consistent with the Fund's purposes. Members must have confidence in the ability and judgment of the Fund's management to protect the Fund's resources from improper use by members.

In addition, a member may be declared ineligible to use the Fund's resources if that member fails to fulfill any of its obligations under the Articles of Agreement. Specifically, a member may also be declared ineligible to purchase exchange from the Fund if the member changes the par value of its currency despite the Fund's objections, if it maintains exchange restrictions inconsistent with the purposes of the Fund, or if it fails to exercise appropriate controls as suggested by the Fund to prevent the use of the Fund's resources to meet a large or sustained outflow of capital.

13. The Fund would be controlled by the debtor countries.

It is true that the United States will have only a minority vote in the Fund. However, this country controls at least 28 per cent of the total voting power in the Fund, and in voting on certain questions, on whether or not to waive any of the conditions governing a member's use of the Fund's resources and on declaring a member ineligible to use the Fund's resources, the voting power of this country will be increased in proportion to the net sales of dollars by the Fund. The voting power of the United States under this provision could reach 35 per cent. Also, there is no doubt that the influence of the United States will be much greater than our actual voting power if only because American participation is so vital to the success of the Fund. The United States, furthermore, will not be the only creditor country.

There are many reasons for believing that even countries which borrow from the Fund will have a real interest in seeing that the Fund is managed wisely. Most of them will subscribe substantial amounts of gold

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or dollars and will want to see that the Fund remains in a position to help them directly and to secure for them all the indirect advantages which will result from effective stabilization of currencies and the avoidance of exchange restrictions.

On questions of special importance to the United States, this country has an effective veto power. Thus, the United States must consent to a change in the quota of any member of the Fund and no change in the quota of this country may be made without the United States' approval. The United States has a veto power over any uniform change in the par values of the currencies of all members, over any change in the charges levied on the balance of a member's currency held by the Fund, and over any amendment of the Agreement. In addition, no change in the par value of the dollar may be made except on this country's proposal and the Fund cannot borrow dollars without the consent of the United States.

14. The Fund will not, as asserted by some advocates, eliminate exchange control.

Member countries agree not to impose restrictions on the making of payments and transfers for current international transactions without the approval of the Fund. Members also agree not to engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund. If a member is engaged in such practices when the Fund Agreement comes into force, it must consult with the Fund as to their progressive removal. The most dangerous form of discriminatory currency arrangements which are ruled out is the bilateral clearing agreement by which a country allows those countries from which it buys to use the money received in payment only to purchase goods in that country.

There are, however, provisions by which members may avail themselves of special arrangements made for the post-war transitional period. After notifying the Fund, members may maintain, but adapt to changing circumstances, restrictions on payments and transfers for current international transactions. However, they must take all possible measures to facilitate international payments and must withdraw such restrictions as soon as they believe that they will be able, without the restrictions, to settle their balances of payments without being forced to draw too heavily on the resources of the Fund. Starting three years after the Fund begins operations, the Fund must issue an annual report on the restrictions still in force under these transitional arrangements. After the fifth year, any member still imposing such restrictions must consult with the Fund. At any time the Fund may indicate to a member that it is in a favorable position to withdraw any or all restrictions and, after a suitable time, may require a member to withdraw from the Fund if it continues to maintain those restrictions.

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The reason for these exemptions is that it would be impossible to require all member countries immediately to remove all restrictions on current transactions. If that were done, some members would be forced to rely heavily on the Fund, with the consequence that the Fund's resources would be used increasingly in financing deficits in international payments incurred by countries which are as yet in no position to take advantage of the Fund's temporary assistance to balance their trade with the rest of the world without such restrictions. On the other hand, all member countries are committed gradually to abandon restrictions and the Fund has the power to refuse the use of its resources to, or require the withdrawal of, a member which is not eliminating its restrictions as rapidly as the Fund believes this should be done.

The Fund also allows members to impose certain restrictions on transactions in a currency which has been declared scarce by the Fund. This means that the Fund recognizes that such restrictions are bound to be imposed if any single country has such a large and continued favorable balance of payments that the Fund's holdings of its currency are exhausted. Under the Fund plan members are obligated not to impose any more rigorous restrictions than are necessary in view of their existing and accruing supply of the scarce currency and must consult the Fund as to the restrictions imposed. For these reasons the restrictions will be less harmful and severe than they would be without the Fund plan. Furthermore, the Fund will postpone the development of a scarcity of any currency and its operation will help very much to prevent such a development.

See answer to Objection 16 on capital controls.

15. The Fund does not tackle the important question of blocked balances.

The statement apparently refers to the blocked sterling balances which have accumulated in the course of the war. Although the problem is important and its solution is a desirable objective it is clear that Britain cannot eliminate the blocked balances all at once. Some long-term funding arrangements will be necessary and Britain has indicated that she prefers to make such arrangements with countries owning the blocked balances. A large dollar loan to Britain would not of itself help very much to solve Britain's problems, or the world's problem of establishing a sound post-war pattern of international payments and Britain has indicated she is not interested in getting such a loan. It would simply burden Britain with a dollar debt and make no real contribution toward balancing Britain's international payments. On the other hand, the Fund and the Bank, by providing the favorable conditions necessary for expanding world trade and investment, would be of real help in establishing a sound post-war pattern of international payments and contribute substantially to Britain's ability to balance her current transactions and gradually eliminate the blocked balances.

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16. The Fund will actually encourage exchange control. To control capital movements, the members must control short-term transactions as well.

See answer to Objection 14 on general question of whether the Fund encourages exchange controls.

As to the contention that the control of capital movements, which is permitted and may even be required in some cases as a condition of further access to the Fund, would necessitate the control of "short-term" transactions as well, it must be pointed out that, according to the Agreement, "no member may exercise these controls (over capital transactions) in a manner which will restrict payments for current transactions or unduly delay transfers of funds in settlement of commitments". The inclusion of short-term banking and credit facilities among current transactions, and the right of the Fund to determine whether certain specific transactions are to be considered current or capital transactions are ample safeguards against the imposition of restrictions on "short-term" transactions.

It is true that control of capital transactions may require some supervision of all exchange transactions and perhaps even licensing. But supervision over, or general licensing of, all current transactions does not imply controls or restrictions on such transactions.

17. Virtually the only internationally desired money in the Fund, apart from about $1,000,000,000 of gold, would be that money contributed by the United States.

The statement assumes that the dollar will be the only internationally desired currency and the United States the only country with a favorable balance of payments. Certainly, the Canadian dollar, the Dutch guilder, and numerous other foreign currencies are, or will become again, "internationally desired". The Fund's resources will consist of the currencies of 44 nations. It is hardly conceivable that the United States will be the only country with a favorable balance of payments and, therefore, the only country whose currency would be desired on balance by other countries. It is far more likely that over a period of years the Fund will be called upon to supply the currencies of many, if not all the member countries. At one time or another, each of the 44 currencies involved may be called for.

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18. The Fund will interfere with the sovereignty of its members and with their powers to control their own economic lives.

Such temporary limitations of sovereignty as are involved in the Fund are inherent in the very nature of international monetary relationships. In one important sphere the Fund offers greater freedom to the members to "control their own economic lives" than existed under the rigid gold standard in that it recognizes the validity of exchange rate changes as a method for correcting a fundamental disequilibrium in the relationship of any nation with the rest of the world. It offers member nations assurance that the effects of truly corrective economic action on their part will not be nullified by aggressive monetary measures by other governments. Also no change in a member's exchange rate can be made except on its own proposal and a member is free to change its rate despite the objection of the Fund.

The Fund Agreement involves no final limitation on the sovereignty of members since any country may withdraw from the Fund upon giving notice.

19. The Fund is too complex to be understood or honestly explained so that the average person can understand it.

The principles of the Fund Agreement and the basic mechanism involved are easily understood. Assistant Secretary of State Dean Acheson in testimony before the House Banking and Currency Committee outlined them as follows: Member countries agree (1) to define the value of their currencies in terms of gold; (2) to maintain this value within narrow limits; (3) to permit current transactions to be consummated freely within these limits; and (4) to refrain from altering the par value of their currencies except after consultation with the Fund. In order to permit the nations of the world to undertake these obligations the Fund establishes a reserve pool of gold and currencies, contributed by all member countries and all members have a conditional right to temporary assistance, subject to certain limitations, to meet deficits in their international transactions.

The precise conditions included in the Agreement in order to protect both the Fund and the members from ill-conceived or arbitrary action are necessarily complex since they deal with complex and many-sided problems. Their meaning and purpose are clear to the financial experts who will operate the Fund and to all who are familiar with present or past mechanisms of international monetary relationships. One might say that the Rules of Procedure of the United States Congress were too complex to be generally understood by the public, without suggesting either that those Rules are more involved than the circumstances demand or that the Congress should be abolished.

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20. The Fund has a marked inflationary bias. Under it, all changes will be in the direction of devaluation.

A clear distinction should be drawn between inflationary measures and anti-deflationary measures; the Fund admittedly has an anti-deflationary bias. Insofar as devaluation of a nation's exchange rate may be necessary to relieve deflationary pressures on its domestic economy, the Fund will be expected to approve devaluation. At the same time it is not contradictory to say that the Fund will exert an anti-inflationary effect in preventing countries from seeking inflationary impetus through excessive devaluation. Also the Fund may require a member to abandon inflationary measures as a condition of further use of its resources if domestic inflationary measures are unbalancing the country's international transactions.

In addition, it must be recognized that the Fund will exert an important anti-inflationary influence by helping countries to keep their currencies stable. Fluctuations in exchange rates often lead to loss of confidence in the currency and inflationary pressure. See answer to Objection 10.

21. Our past lending experience should dampen our ardor for such a scheme.

See Objection 5 to the Bank plan on our past lending experience.

It should be pointed out that the Fund's lending operations, as well as the Bank's, will be quite different from anything in our past lending experience. For a discussion of the difference between the Fund's operations and the individual stabilization loans of the inter-war period, see the answer to Objection 1 to the Fund plan.

22. The Fund erroneously presumes that there is a general scarcity of international monetary reserves.

The Fund does not assume a general scarcity of reserves in the sense that no countries have adequate reserves. It is based on the assumption that very many countries have reserves which are inadequate and that even in the case of some countries which have large reserves, a loss of gold may lead to unnecessarily destructive defensive measures.

If the Fund can assist such countries to meet temporary deficits the destructive measures may be prevented. Of the 44 nations represented at Bretton Woods, 22 countries, with quotas amounting to 2.5 billion dollars out of foreign quotas totalling 6.1 billion dollars, have gold and dollar reserves equal to less than 50 per cent of the value of their exports in 1929. Of these slim resources a certain proportion must be immobilized to meet official reserve requirements and a substantial proportion may be used to meet immediate postwar needs.

The objection appears to imply that the Fund is too large. If the quotas are examined country by country, however, it will be seen that the maximum annual borrowing privilege of 42 of the nations represented is less than 20 per cent of the value of their respective exports in 1938.

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23. The Fund would be dissipated without any material accomplishments.

See answer to Objections 11, 12, 26, 35, and 48.

24. The benefits of the fund in the monetary field could readily be offset by trade controls.

The Bretton Woods Agreements do not pretend to solve all international economic problems. They confine themselves to monetary problems. Member countries are not bound by the Bretton Woods Agreements to relax existing trade restrictions, or to refrain from the imposition of new ones. Therefore, it is certainly of the utmost importance in the interest of an expanding world trade that an international understanding on trade controls be reached.

However, the benefits of the Fund agreement must not be discounted. Trade controls are often imposed because the economic system of a country suffers from an unfavorable trade balance or a disequilibrium in the balance of payments on current account and is unable or unwilling to make the drastic adjustments in the economy which are necessary to restore equilibrium in time. The fact that the resources of the Fund are available to a member country while it experiences difficulties and while it adjusts its economy, will substantially ease the pressure toward imposition of trade restrictions. Thus, it can be said that the Fund, while it does not eliminate the right of any country to impose trade controls, is designed to avoid some of the conditions which lead to the imposition of trade controls.

25. The wide divergence of interpretation of the meaning and operation of the Fund, both here and in Britain, bodes only ill for the Fund's future.

In the interpretation of the Articles of Agreement on the Fund, there is no real difference between the governments of the United States and Great Britain or between their delegations at Bretton Woods. Opposition groups in both countries have raised points on interpretation. They have not apparently consulted their governments to discover what is the official interpretation of various articles as understood by the delegates to Bretton Woods. It is true that in public speeches in these countries, British and American officials have emphasized different aspects of the Fund. For example, on the question of stability of exchange rates the British have emphasized the flexibility permitted by the provisions and the Americans the stability of rates which members are obligated to maintain. Proponents have exaggerated somewhat the phrases which would be most popular in their particular country.

There is little chance that serious differences of interpretation will arise between members of the Fund. If a question of interpretation does arise, it will be submitted to the Executive Directors and may be

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appealed to the Board of Governors. It is logical that the Fund Agreement, like any important body of principles, will with the passage of years require some interpretation. This has been true of the United States Constitution, yet in the process the basic, underlying principles have not been abrogated by the interpretations of the Supreme Court.

26. The Fund's safeguards are inadequate.

An examination of the safeguards incorporated in the Fund Agreement to protect the resources of the Fund against their use by members in a manner inconsistent with the purposes the Fund will demonstrate their adequacy. These safeguards are of two types, automatic and discretionary.

The automatic safeguards include quantitative limitations on the amount of currencies that a member may purchase over a period of time. Thus a member may not increase the Fund's holdings of its currency by an amount larger than one-quarter of its quota in any 12-month period. In the aggregate a member's net purchases of foreign currencies from the Fund may not exceed the amount of its quota plus its gold contribution. Members purchasing foreign exchange from the Fund with their currencies are also required to pay a service charge and another series of charges which increase with the amount of exchange obtained from the Fund and the period over which it is used. The Agreement also provides that members using the Fund shall repurchase a share of the Fund's holdings of its currency under certain conditions. These repurchase provisions insure that a member will use its monetary reserves, if they exceed a specified limit, in proportion to its use of the Fund's resources and will use half of additions to its reserves to reduce the Fund's holdings of its currency.

The discretionary safeguards are those which may be applied by the management of the Fund to insure that the Fund's resources will be used most efficaciously and in a manner consistent with its purposes. Thus the Fund may postpone exchange transactions with all members until it is assured that economic and political conditions are sufficiently stable to permit the Fund to operate in accordance with its purposes. It may also refuse to deal with any particular member on the same grounds. The most important safeguard in the Fund Agreement is in the provision that the Fund declare a member ineligible to use the Fund's resources if it is using them in a manner contrary to the purposes of the Fund. The most important purposes in this connection are (a) to provide members with opportunity to correct maladjustments in their balance of payments without resorting to destructive measures and (b) to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

27. The Fund is likely to break down because currencies and trade outside the Fund will far exceed those within the Fund area.

The Fund will not begin operations until it has been accepted by nations holding 65 per cent of the quotas originally allocated. It is

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difficult to see how this minimum membership could be constituted without the inclusion of nations controlling well over half of the world's commercial transactions. If the major nations accept the Fund Agreement it is probable that all the countries represented at Bretton Woods will become members and that the principal neutrals will promptly apply for membership. Enemy countries will not be permitted in the post-war period to engage in practices inimical to the purposes of the Fund.

If the objection refers to the fact that by far the greater share of all current transactions between member countries will be handled without the intervention of the Fund, it has no force whatever. In so far as member countries are able to keep their international accounts in balance, they will have no occasion to use the facilities of the Fund. Far from weakening the Fund, this ability to attain equilibrium without dependence on the Fund's resources would tend to lighten the task of preserving the well-balanced distribution of the Fund's assets which is necessary for its maximum efficiency.

28. The Fund is objectionable because it is a cartel.

Although the definition of a cartel is extremely elastic, it cannot possibly be stretched to apply to the Fund. Perhaps the most obvious answer to this objection is that the stockholders, the management, and the customers of the Fund are identical. There could be no less attractive set-up than this for a cartel.

29. The Fund, by Section 5 of Article IV, is rendered powerless to achieve its proclaimed purpose of ending economic warfare.

Section 5 of Article IV outlines the conditions under which changes in exchange rates may occur. The objection may refer to the provision that the Fund shall not object to a proposed change which, together with all previous changes, does not exceed 10 per cent of the initial par value of the country's currency. Permission to each member country to adjust the original par value of its currency to this moderate extent is granted in recognition of the difficulties to be faced in setting the original rates with precision at a time when conditions are abnormal as a result of war-time distortions. Certain countries will not need to avail themselves of this privilege; others will, but the extent of the total changes allowed is not wide enough, at any rate, to permit economic warfare to become dangerous even if any nation were to abuse the freedom granted by this provision.

All further proposed changes must be approved by the Fund, which will not approve exchange rate changes designed for economic warfare. The fact that the Fund will approve changes which are really necessary will prevent the breakdown of the whole international monetary system, currency

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instability, and the resort to methods of economic warfare. The Fund's power to decide whether a change is really necessary to correct a fundamental disequilibrium is not limited in any way by the clause which says the Fund shall not object to a change because of the domestic social or political policies of the member.

It is only if necessary changes in rates are permitted that there is any chance of attaining reasonable stability of rates in the long run.

30. There is no real compulsion on members to continue membership, once their quotas have been exhausted.

There is no compulsion on members to continue membership at any time. If a country were to withdraw when its quota became exhausted it would be under obligation to settle all its accounts with the Fund, either on the basis of an ad hoc agreement with the Fund or by redeeming any excess of its currency held by the Fund in gold or convertible currencies within a five year period. It is harder for a country to withdraw if it has used up its quota than if it has not. Furthermore the Fund may grant assistance beyond the amount of the quota.

An important reason why countries would probably remain in the Fund is that as a member they have the assurance that other members will not impose exchange restrictions on current transactions with them. There are many other indirect advantages of membership in the Fund. And of course withdrawal from the Fund would probably necessitate withdrawal from the Bank.

31. The U.S.A. would have the legal right to withdraw from the Fund, but once a member, it would not have the moral right to do so. Withdrawal later would be much more difficult than abstention now.

If "moral rights" are to be considered there is little doubt that our moral obligation to take every reasonable step to encourage international cooperation will seldom be more clearly defined than it is at the present time. United States abstention from joining the Fund would undoubtedly mean that the Fund would fail to be established.

The cohesive force in the Fund will be nothing more than the enlightened self-interest of the member nations. As the objection points out, any country has the legal right to withdraw at any time. If in the future the Fund should prove disadvantageous to the United States--disadvantageous as compared with alternative policies which did not include open economic warfare--then the withdrawal of the United States would be less reprehensible in terms of morals, politics, or economics than would its failure to attempt to work out with other nations a basis for stable progress in international economic relationships.

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It is to be hoped that future withdrawal would indeed be more difficult than abstention now because cooperative efforts on the part of all member nations to realize the purposes of the Fund Agreement will prove increasingly effective.

32. Since the fund may borrow here, there is no telling what its total cost will be to us.

H.R. 2211 states explicitly in Section 5 (Certain Acts Not To Be Taken Without Authorization) that "Unless Congress by law authorizes such action neither the President nor any person or agency shall on behalf of the United States----(e) make any loan to the Fund or the Bank". That means that only Congress has the right to decide whether any loan on behalf of the United States government will be made.

The Fund may, of course, attempt to borrow from private sources in the United States, but it can only do so with the approval of the United States government. The United States is under no obligation, legal or otherwise, to make a loan to the Fund. Therefore, our "cost" of joining the Fund is fully covered by the authorization contained in the pending bill.

It is true that if the Fund ran out of dollars it would be quite clear to this country that a loan to the Fund would help to maintain our exports. But this does not mean that we would necessarily approve a loan. Congress has often failed to approve of large foreign loans in the past.

33. The Fund is unsuited to the problems of the transition period; it is primarily a long run agency.

The Fund is admittedly unsuited to handle many of the problems of the transition period and for this reason the Agreement states expressly that the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising from the war. But the problems with which the Fund proposes to deal will be present in the transition period as well as in the years beyond. It is essential, for example, that the post-war pattern of exchange rates should be determined in consultation with the Fund and that there should be an agreed procedure for orderly change of such rates as the need arises. Paralleling the abnormal flow of goods for relief and reconstruction will be a gradually increasing two-way exchange of goods and services representing in part the resumption of pre-war commercial relationships and in part the growth of those new channels of trade which must be integrated with the older pattern. With the resumption of trade there will undoubtedly be temporary maladjustments which the Fund is admirably suited to meet.

It is of very special importance that the Fund be set up quickly because in the absence of firm commitments to eliminate exchange restrictions and arrangements to help countries eliminate them we would certainly see a gradual tightening and strengthening of controls and a strangulation of international trade.

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The Fund can protect itself against unwise use of its resources in the transition period by delaying all exchange operations until conditions are reasonably stable and by refusing assistance to any particular country until it is in a condition to make good use of the Fund.

See Answer to Objection 10.

34. Government and other organized propaganda has focused attention on the Bretton Woods program, to the exclusion of other solutions of the problem. The President instructed the American delegation at Bretton Woods to consider no alternative plan.

The international conference at Bretton Woods was only the final phase of a long period of intensive study and preparation and preliminary discussion within this country and with representatives of other countries. Almost two years before the conference, the Treasury presented to the public a plan for an international stabilization fund, the so-called White Plan. The British government likewise published a plan which became known as the Keynes plan. Later the Canadian government presented a third scheme.

These plans were widely distributed, and interested groups were invited to present their views on the subject. In numerous discussions and conferences the comments and suggestions of bankers, exchange brokers, economists, and businessmen experienced in international trade were given careful consideration.

After two years a joint statement of principles was prepared which embodied what were believed to be the best features of all previous stabilization plans. The President did specify that the joint statement on the Fund should provide the framework for the Bretton Woods discussions on the Fund and that the views of the American technical committee on the Bank should be taken as a guide. Nevertheless at the Bretton Woods conference about 1000 individual proposals for changes were presented and discussed. Some of them were rejected, some of them accepted in their original or in a modified form, so that actually not one but numerous alternatives were considered. It would probably have been impossible to reach agreement on any plans at the Conference if the Conference had not worked within the broad framework of principles agreed upon ahead of time.

35. The Fund will only obscure the underlying problems and render more difficult their ultimate solution.

One of the main objectives of the Fund is to give member countries time to adjust their balance of payments positions without resorting to restrictive measures. The Fund has the right to limit a member's use of its resources if it is of the opinion that the member is not taking the necessary corrective measures. Therefore, it is at any time at the discretion of the management of the Fund to prevent a member from using the

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Fund's resources as a means of avoiding the solution of "underlying problems". Each member country which uses the resources of the Fund will find it in its own interest to solve its balance of payment problems through appropriate national policies with a speed compatible with the abstention from the use of restrictive controls.

36. Under the Bretton Woods program (Fund and Bank) gifts will be confused with loans.

This objection must be considered as a deliberate attempt to mislead the reader. To answer it completely one would need to outline in detail the mechanisms of the Fund and Bank, to restate the various safeguards which have been written into each Agreement, and to describe once again the world situation in which the agencies are designed to function. It must be perfectly clear to anyone familiar with the agreements and the background that no gifts are contemplated through either the Fund or the Bank.

The objection is probably based upon the fact that certain international loans in the past have not been repaid and accordingly might in retrospect be called "gifts". Basically there may be various causes for default on international loans. Most of these are identical with the reasons for loss of capital invested domestically: but in international lending there may be a further cause for default. Not only must the specific project resulting from the investment prove profitable but the entire economy of the debtor nation must be on a "profitable" basis vis-a-vis the rest of the world, i.e., the nation must be able to secure the international means of payment with which to pay its creditor. This second condition cannot be attained unless creditor countries are willing to accept foreign goods and services. Both the Fund and the Bank will work toward the achievement of a balanced position on total account for all nations. To the extent that they are successful, defaults on international loans should be appreciably diminished.

37. The Fund promises too much; in particular, there is a gap between the Fund's supply of dollars and the rights under the Fund to dollars.

It is true that there is a gap between the supply of gold and dollars to be subscribed to the Fund (roughly 4 billions) and the maximum possible demand on the Fund for dollars if all countries concentrated their demands on dollars (7 billions). However, other currencies subscribed to the Fund will also be in demand, notably the Canadian dollar and possibly certain Latin American currencies. Also, the Fund will be continuously replenishing its supply of gold and convertible currencies through the provisions requiring members to repurchase the Fund's holdings of their currencies and obligating members desiring to purchase foreign currencies with gold to do so through the Fund.

However, it is of the utmost importance to realize that members do not have an unqualified right to purchase dollars or any other currencies from the Fund. They have a conditional right subject to certain very important limitations. One of the most important limitations is that a member

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may be declared ineligible to use the Fund's resources if it is using them in a manner contrary to the purposes of the Fund. (See answer to Objection 12).

It is clear that the Fund will not run out of dollars unless the international transactions of the United States have been seriously unbalanced for several years. Members with reserves in excess of their quotas are required to use their reserves of gold and exchange at the same rate that they draw upon the Fund. If the $4 billion in gold and dollars held by the Fund is used to purchase dollars at the same time an approximately equal amount of gold would have to flow to the United States either through or outside the Fund. This would mean that the United States balance of payments had been favorable to the extent of about $8 billion dollars. The Fund and Bank plans will help very much to prevent such a serious disequilibrium.

38. The quotas have no realistic relation to credit needs and credit-worthiness of members.

The fund quotas are not unrelated to credit needs. See answer to Objection 22.

As to the relationship between the credit-worthiness and the quotas, it must be pointed out that the Fund Agreement contains very specific provisions with regard to the uses to which the resources of the Fund can be put and leaves ample room for the discretion of the management of the Fund to decide whether or not a country shall have access to the Fund. The right of members to use the Fund is a conditional one and subject to important limitations so that at any time the management of the Fund has an opportunity to pass judgment on the credit-worthiness of a member. See answers to Objections 11, 12, 26, 35 and 48.

39. The Fund does not really stabilize.

See answer to Objection 29.

40. The Fund does not provide for two-way adjustment.

The Fund Agreement does provide that both debtors and creditors shall take action to correct a maladjustment in their balances of payments. When the Fund believes that a member is using its resources in a manner contrary to its purposes, it must present the member with a report setting forth its views and if no satisfactory reply is received, may declare the member ineligible to use the resources of the Fund pending the adoption of necessary corrective measures. The Fund also has the right to communicate its views informally to any member and to publish a report, after a special

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vote, regarding any member's monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members. The Fund under this power may make recommendations to both debtors and creditors.

Under the scarce currency provision the Fund may recommend to a creditor country that a persistent favorable balance in that country's payments has created the situation and that the creditor country will have to take steps to restore balance or see its exports to member countries limited. In its report setting forth the causes of the scarcity the Fund may also suggest measures to be taken by the debtor countries to correct the situation.

The provisions specifying that the Fund shall concur in a proposed change beyond 10 per cent in the par value of a member's currency if the Fund is satisfied such change is necessary to correct a fundamental disequilibrium is in reality a two-way adjustment. A devaluation permitted to countries with chronically unfavorable balances of payments is similar in effects to an appreciation by countries with persistently favorable balances and the devaluation will effect conditions in both debtor and creditor countries. Permission for necessary changes will help to prevent the serious deflationary pressures forced upon debtor countries under the rigid gold standard.

41. The best solution of the world currency problem is restoration of the gold standard.

The International Monetary Fund attempts to retain the fundamental advantages of the gold standard. It requires member nations to define their currencies in terms of gold, to maintain exchange rates within one per cent of parity, to impose no restrictions on current transactions except after consultation with the Fund or with its approval, and to make no alteration in their exchange rates without consulting the Fund. It differs from the gold standard system primarily in recognizing that rigidity of exchange rates may at times redound to the disadvantage of individual nations and the world economy. The gold standard (in this sense of rigid exchange rates) demands for its successful operation a higher degree of flexibility in the cost-price structure than is present in many nations today, or will be present in the post-war period. Without this flexibility of costs (including wages) and prices, adjustment to deflationary pressures of monetary origin, such as may arise from lack of balance in international transactions, is a slow, painful and disorderly process which inevitably involves large-scale unemployment. When nations are linked together by rigid exchange rates, a depression in any major country is rapidly transmitted throughout the world and to the inescapable deflationary influence resulting abroad from curtailed buying on the part of the depressed nation may be added the general deflationary pressure of credit curtailment as foreign nations attempt to protect the exchange value of their currencies. Cumulative deflationary pressures result which delay recovery everywhere. If these deflationary pressures can be mitigated by permitting changes in exchange rates which are necessary to correct a fundamental disequilibrium the prospects for avoiding major world-wide depressions will be substantially improved.

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To attempt to go back to the gold standard would imply confidence that the standard could in fact be preserved. The gold standard does not now command world confidence, having broken down twice in a generation. But discussion of the possibility of future collapse of the gold standard is unrealistic in that it assumes the standard can be restored. There is ample evidence that it cannot be, for some of the leading nations of the world refuse to consider its adoption. The practical choice is not between the Fund and the gold standard but between the Fund Agreement and monetary chaos.

42. The best world monetary system is international bimetallism.

International bimetallism is open to all the same objections as the rigid international gold standard and a great many others besides. Tremendous amounts of resources would be wasted on the production of silver. In any case, there is not the slightest possibility that the major countries would be willing to adopt bimetallism.

43. The Fund is only a device for lending dollars cheaply and will soon be wasted or lost.

See answer to Objections 11, 12, 26, 35 and 48.

44. The Fund gives to its members indiscriminately, without regard to credit-worthiness, the automatic right to borrow foreign exchange.

See answers to Objections 12 and 22.

45. Both because of the terms of the Agreement and the nature of the good-neighbor policy, the Fund will be managed by debtor countries, and the U.S. in reality will exercise only a minority voice.

As far as the good neighbor policy is concerned it is very probable that Latin American countries will support the United States positions, if only because of the advantages and assistance they may obtain from the United States outside the Fund.

See answer to Objection 13 on debtor control.

46. The Fund is too ambitious; stabilization of key currencies is more practical.

The stabilization of key currencies has been suggested as an alternative to the Fund. According to this proposal the United States and Great Britain by agreement would establish a dollar-pound rate and other countries would subsequently fix their exchange rates in relation to the dollar or the pound.

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The Fund incorporates any advantages which may be claimed for the key currency proposal. There is no doubt that the dollar-pound rate will be set at a very early stage and other countries will be able to set their rates in relation to the pound or the dollar. But the Fund would go further and with proper consideration for the problems and time element involved in establishing rates for occupied countries, would provide for international agreement on the rates for all members. A complete pattern of rates would be established as soon as practicable for the currencies of all nations joining the Fund. There is more hope of appropriate rates being set than if each country set its rate by a unilateral decision and without full knowledge and consideration of the rates being established by other countries. Furthermore the Fund provides an orderly method for making such changes in rates as become necessary and obligates members not to manipulate their currencies in order to undercut foreign competitors.

The method of approach to monetary stabilization proposed by the key currency advocates is contrary to the avowed principle of the United Nations of international cooperation. Smaller countries would have to associate themselves with a sterling or dollar bloc and these blocs might become powerful instruments of economic warfare.

Once the dollar-pound rate has been determined, the key currency plan provides no means for maintaining that or any other rate. Even if the United States were prepared to grant the United Kingdom a loan sufficiently large to permit Britain to settle her balances with other countries accumulated during the war and to meet the inevitable deficit in Britain's immediate postwar balance of payments, Britain would not be willing to incur a dollar indebtedness for such purposes. Britain would prefer to make individual arrangements for settling blocked balances and in the absence of the Fund would elect to overcome an excess of imports by resorting to exchange controls and advantageous trade agreements.

The Fund not only obligates its members to refrain from competitive exchange depreciations and from instituting exchange restrictions, but provides an alternative through its exchange transactions with members. The Fund, by making available foreign exchange resources, gives members faced by an international drain on current account a breathing spell in which to take necessary steps to correct maladjustments.

47. Before stabilization is attempted, trade barriers must be removed. To set up the Fund now is to put the cart before the horse.

A similar objection would be made if commercial policy agreements were attempted before agreement had been reached on monetary matters. Perhaps the ideal situation would be to reach simultaneous agreement on all aspects of international commercial and financial relationships. It is soubtful whether this could be accomplished at the present time. A start must be made at some point in recreating a workable system of international economic relations, and monetary agreements provide an important first step.

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Without stressing the point unduly, it is probable that monetary manipulations are more effective instruments of economic warfare than are tariffs and quotas. It might be said that the latter are better adapted to defense than to offense while monetary measures are equally effective for either purpose. If this be true, the abandonment of the monetary weapon will facilitate agreement on other phases of commercial policy.

See answer to Objection 24.

48. International currency stability cannot endure unless based upon prior economic and political stability within the various nations.

In answer to Objection 10, it was pointed out that domestic stability and international stability cannot be treated as two isolated problems. There is a constant and complex interaction between the two and stability must be sought on both fronts at once. The Fund recognizes, however, that the external value of a nation's currency cannot be stabilized if that nation does not possess a reasonable degree of political and economic stability internally. It therefore retains the right (1) to refrain from admitting any nation to membership unless it believes that the par value of its currency can be maintained without causing recourse to the Fund on a scale prejudicial to the Fund and to the members, and (2) the right to postpone exchange transactions with any member if its circumstances are such that they would lead to use of the resources of the Fund in a manner contrary to the purposes of the Fund.

Furthermore if unstable conditions develop at a later stage the Fund may require a member to take the proper internal measures as a condition of further access to the Fund.

49. The Fund may force us to lower our tariffs.

The Fund has no power whatever to force us to lower our tariffs. If we continue to export much more than we import the Fund may make informal recommendations to us, or by a 2/3 vote may decide to publish a report regarding developments which are tending to produce serious unbalance in the transactions of members. Such recommendations or reports might exert some pressure on us to take action and one recommended course of action might be the lowering of tariffs.

50. The Fund's safeguards are not effective safeguards, because they may be waived.

It is provided in the Fund Agreement that the Fund may waive the conditions governing the use of its resources. In making a waiver the Fund would take into consideration any periodic or exceptional requirements of the member and might require the pledge of satisfactory collateral by the

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member to protect the Fund's interests. The only safeguard which might in practice be waived under this provision is the quantitative limitation on purchases of foreign exchange by a member. Waiver, as applied to other conditions governing the use of the Fund's resources, is a misnomer. If a member has previously been declared ineligible to use the Fund's resources because it was using the Fund in a manner contrary to its purpose the Fund would not waive its decision on the member's eligibility. If the member had taken corrective measures and was no longer entering into transactions inconsistent with the Fund's purposes, the Fund might decide to reinstate that member. Likewise, the Fund would not waive a previous declaration that a particular currency was scarce, it simply decides how much of a scarce currency it can make available to any given member. As far as the waiver provision applies to the quantitative limitation on purchases of exchange, we must have confidence in the judgment of the management. It is very desirable to have some flexibility. It may be remembered that creditor countries have extra voting power on decisions to grant a waiver.

51. In the Bretton Woods program we should be pouring our money down a rat hole.

See answers to objections 11, 12, 26, 35 and 48.

52. The Fund implies government control of foreign trade.

The Fund will be a long step toward the elimination of government control of foreign trade. A country may choose to exercise detailed control of its foreign trade as the most effective way of waging economic warfare, or it may be forced into control of foreign trade as the only means of balancing its international accounts in the face of a non-cooperative attitude on the part of other nations. The Fund will help very much to prevent unbalanced international accounts and will help members to meet deficits without reverting to restrictive controls.

Under the Fund members agree to eliminate as rapidly as possible discriminatory currency arrangements, multiple currency practices, and exchange controls affecting current transactions. In agreeing to abandon these practices member nations will be discarding some of the most effective tools of government trade control.

53. The Fund is an unnatural monstrosity, because it attempts to reconcile the irreconcilable; its appearance of agreement is really a diplomatic fiction.

This question presumably refers to alleged differences in interpretation of the Fund here and in Britain. See answer to Objection 25.

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54. The Fund cannot work as we are told it would, because economic considerations were set aside for military and political reasons at Bretton Woods.

Military or political considerations had almost no influence at Bretton Woods and no important economic considerations were set aside.

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