

THE BREYTON WOODS PROPOSALS

by
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THE BRETTON WOODS PROPOSALS

I. Background of international relations

A. Introduction

1. An expert is one who ^{spends all his time} ignores ~~minor~~ inaccuracies as he sweeps on to the major fallacy.
2. It is a fundamental tenet of democracy that it doesn't require an expert to make a wise choice among fundamental alternatives.

B. Major factors

1. Destruction has gone so far (must be near \$1 trillion).
Can we rebuild? - nip and tuck.
Determination not to rely on old methods.
2. Social revolution
 - a. Even before the war we had not solved fundamental social, economic, and political questions.
To an increasing extent people ^{were} ~~are~~ turning to Government.
 - b. Aggravated by war - great masses now refuse to believe that economic ills are inevitable.
That if necessary Government can and must do something.

c. Differs among countries in degree to which movement has gone.

C. Conditions of a possible solution: no one has clear-cut answer to meet every contingency. *Can't give assurance it will work. Show some schemes that won't. Can make best choice of available alternatives*

1. Must attack on all fronts at the same time.
aspect of problems interlaced

2. In the political sphere: Collective Security

must join against the outlier

a. A unified policy: no falling out among each other.

b. Based on law and morality.

c. Must give up right to use military force for selfish ends.

Must use military powers to maintain security of all.

3. In the economic sphere: Mutual Aid

a. Our only hope - because of the social revolution - is an expanding economy.

b. To achieve it we must mutually give up our economic weapons.

c. We must commit ourselves to economic as well as political peace.

d. We must be assured that others will not attack.

*Eastern Outlook
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New York*

➔
I. Method of achieving agreement.

1. Two years of discussion among all interested parties.
culminating in Bretton Woods.

2. Result: the miracle of the plans - agreement among experts.

*lawyers
economists
and miscellaneous
experts!*

3. One person could write a better plan but hundreds couldn't do it better.

1946-59-58 in the metropolitan area (Netherlands)

II. The International Monetary and Financial Proposals

A. They are only part of a comprehensive organization.

1. Collective security in the political field.

2. Trade policies and practices.

B. The background of the plans.

1. Rules of the gold standard game developed over a century of peace and stability following Napoleon.

2. First World War shattered the whole structure.

3. Attempted restoration in the 1920's.

a. Individual instead of joint action.
Austria in 1922 to Portugal in 1929.

b. Relation to pre-war parities.

The nature the effects of the increase in the price of the pound from

\$4.32 in June 1924 to \$4.87 in June 1925 may be illustrated clearly by reference to a single British export industry. A correspondent of the London Economist reported in the June 27, 1925 issue that in Brazil, American coal was being quoted at \$8.85 as against 39 shillings for British coal. When, as in June 1924, the quotation is \$4.32 per pound, 39 shillings are equal to \$8.42; but when, as in June 1925, the quotation is \$4.87, the same number of shillings are worth \$9.50. Thus with no change in either the dollar or the sterling quotation on coal but with a change from \$4.32 to \$4.87 in the quotation on the pound, British coal ceases to be \$0.43 per ton cheaper and becomes instead \$0.65 per ton dearer than American coal in the Brazilian market.

*Net profit = 10¢ per ton
turn to loss 55¢ "*

*lower wages - coal strike - unless cost reduced
C of C reduced only thru credit contraction*

rest theory. record of experience

4. Failure of the restoration attempt

a. Causes

Coal illustration

- (1) Sterling parity *from \$432 in June 1924.*
Charged 10% more than it was worth.
Had to reduce domestic prices and wages - unemployment.
- (2) Franc undervaluation.
Favorable balance on current account to pay for cheap French goods.
- (3) Other errors.

b. Effects

- (1) Competitive exchange depreciation to capture world markets.
Retaliations by shutting the home market (import quotas).
- (2) Multiple currency devices.
High price for goods over which you have a monopoly.
Low price for competitive goods.
- (3) ~~Bilateral~~ clearing arrangements with export surplus neighbors.

c. Conclusions

- (1) Primary objective of countries was to protect themselves - acting individually.
If others adopt unfair tactics, only defense is to adopt them for defense

(2) Result was to destroy world trade all around.

~~As a result~~ 5. Determination to avoid in the future.
by economic disarmament

III. The International Bank for Reconstruction and Development.

A. Reception of the plan.

1. Widely accepted, hence need not discuss very much.

B. Principles.

1. Need for long term capital for specific projects.

2. Reluctance of individual investor to provide except at very high rates if at all.

International benefit
3. International sharing of the risks.

IV. The International Monetary Fund

A. Introduction

1. To provide high level of productive employment we must expand world trade.

2. Can't accomplish if we follow tactics of 1930's.

3. All countries would like to go along *would feel it could* but ~~each would try to~~ buy no more than it sells.
That is, to capture as much of the world market as possible.

B. The Fund:

1. A permanent institution to promote international monetary cooperation. By providing machinery for consultation and collaboration on international monetary problems.
To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
"It would facilitate the creation and maintenance of a sound currency basis for the balanced growth of international trade by establishing and by assisting members in following rules of good conduct based on the proposition that exchange rates are properly matters of international concern."

C. The conflicts.

1. On rates.
 - a. Exchange stability - U.S.
 - b. Flexibility - others, esp. U.K. & Australia.

2. On controls.

- a. Free exchange - U.S.
- b. Controls - others

D. The reconciliation.

1. On rates.

- a. Others agree not to change except to meet fundamental lack of balance. (E.g., England: 1925-30)
Would agree only if they have a second line of reserves.

Handwritten note: ... of controls

- b. We agree to permit changes but only if really needed.
And establishment of a fund of additional reserves.

would not begin dealing until ...

2. On controls.

Successful ^{we} removals to make currencies multilateral.

5 year limit except with fund approval

3. On second line of reserves (the Fund).

- a. They say automatic right.
- b. We say only if live up to terms and conditions.

Handwritten notes: ... to ... the Fund

E. Objections to the Fund.

1. Why have two organizations?

- a. Two very different full-time jobs.
 - (1) The Bank loans for specific purposes.
 - (2) The Fund to see it is not misused. Analysis of balance of payments.
 - b. If consolidated, one would tend to become a stepchild - or so delegates of the 44 nations believe. No objection if could assure this wouldn't happen. Actually, those who would consolidate would emasculate the Fund.
2. The Fund permits too much flexibility in exchange rates and too much control over exchanges.
- a. This was the great issue before and at Bretton Woods.
 - b. ABA says:

"The Monetary Fund...goes far beyond the principles heretofore accepted by the United States in recognizing and approving changes in currency values and the maintenance of exchange controls."

 - (1) How does the ABA propose to meet?

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"That an article be added placing on the governors and directors of the Bank responsibility for arranging and negotiating agreements between the member countries with respect to the stabilization of currencies, removal of exchange controls as rapidly as practicable, and the general rules of procedure in carrying out monetary policies."

(2) How would this secure more stability and speed?

*uniform rules of behavior
variations for each*

(3) Fund brings all up to minimum level - ABA each at lowest level it will accept.

(4) ABA would not give the positive powers the Fund will have over rates and controls.

3. Access to the Fund is too easy.

- a. The purpose is consistent with the purpose of the Fund.
- b. The amount does not exceed 25% of the quota in any twelve-month period or 200% of the quota in all.
- c. The member repurchases - that is, repays - at the end of each year a portion of its currency, depending upon its resources.

- d. It pays specified charges.
- e. The Fund has not otherwise limited the member or declared it ineligible to use the Fund because of prior abuses.
- f. The Fund has not declared scarce the foreign exchange the member wishes to purchase.

In addition, and more importantly in many cases, proponents of the Fund rely upon the good faith of the member and upon the quality of management of the Fund.

4. Scarce currency provisions.

If dollar becomes scarce, countries may impose restrictions.

- a. Fund will not cause dollar scarcity but will tend to mitigate.
- b. If dollar becomes scarce, restrictions would be imposed without the Fund but in less orderly way.

V. Conclusions.

- A. The position of the State Department in international negotiations.
which leadership - what is the fair ^{thing to do} certainty
- B. Not a perfect document: *possibility* of revision, *based on experience*

C. Based on principle of mutual aid and economic disarmament.

D. Franklin statement on the Constitution:

Mr. President, I conceive that there are several parts of this Constitution which I do not at present approve, but I am not sure that I shall never approve them. For having lived long, I have experienced many instances of being obliged by better information, or fuller consideration, to change opinions even on important subjects, which I once thought right, but found to be otherwise. * * * In these sentiments, Sir, I agree to this Constitution with all its faults, if they are such.

I doubt too whether any other convention we can obtain may be able to make a better Constitution. For when you assemble a number of men to have the advantage of their joint wisdom, you inevitably assemble with those men all their prejudices, their passions, their errors of opinion, their local interests and their selfish views. From such an assembly can a perfect production be expected?

It therefore astonishes me, Sir, to find this system approaching so near to perfection as it does; and I think it will astonish our enemies, who are waiting with confidence to hear * * * that our States are on the point of separation only to meet hereafter for the purpose of cutting one another's throats. Thus, I consent, Sir, to this Constitution because I expect no better, and because I am not sure that it is not the best. The opinions I have had of its errors are sacrificed to the public good.