

BRETTON WOODS AGREEMENTS

by
Karl R. Bopp

**Sunday Breakfast Club
The Midday Club
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I. Place of the Bretton Woods Agreements

Amer. people & their Govt committed to

A. Must attack international problems on all fronts.

Intertwine.

B. Progress in different fields varies.

1. Political; collective security; plans well advanced.

2. Economic - mutual aid.

a. Trade relationships.

Started but no formal plans.

b. International finance.

Bretton Woods.

C. The need for give and take.

II. Financial aspects of the flow of trade.

A. Need reasonable stability - no more instability than domestic prices (stable exchange rates).

B. Need reasonable assurance that receipts for exports to any part of the world may be used to pay for imports from any part of the world.

C. Need credit. *loans*

1. Long term for constructive projects.

2. Short term to tide over emergencies.

III. Long-term credit - The International Bank for Reconstruction and Development

A. Widely accepted - can dispose of briefly.

B. Purposes.

1. Need for long-term capital for special projects.
2. Reluctance of individual investors to provide except at very high rates.
3. International benefit: therefore, international sharing of risks.

IV. The Fund.

A. Purposes.

1. General purpose to reduce and, if possible, eliminate financial obstacles to world trade.
2. To create a permanent institution of international monetary cooperation.
3. To promote exchange stability.
 - a. Evils of freely fluctuating exchange.

(1) Risks

(a) Importer doesn't wish to pay in exporter's currency.

- (b) Exporter wants his own currency.
 - (c) Can cover with insurance but this adds to the cost of trade.
- (2) Causes shifts of labor and resources perhaps only temporarily.
 - (3) Creates speculative movements. Capital flights - hot money.

b. Evils of absolute stability.

Sterling parity in 1925

British vs. American Coal in Brazil

	<u>June 1924</u>	<u>June 1925</u>
Sterling rate.....	\$4.32	\$4.87
" price.....	(39s.)	39s.
Dollar price.....	(8.85)	8.85
Sterling equivalent	8.42	9.50

English-American... .43 - .65

Net profits in England 10 cents a ton (1925), turned to loss of 55 cents.

Reduce miners wages.

Why? Without C. of L. reduction?

Strike.

c. The Fund Agreements.

Members agree to maintain stable rates except when change is really necessary.

4. To remove exchange controls.

- a. Meaning so-called multilateral system of payments.
So that exporting country can spend proceeds in any part of the world.
- b. Evolution of exchange controls as self-protective measures.
 - (1) Franc undervaluation.
 - (2) Competitive exchange depreciation.
 - (3) Import quotas.
 - (4) Bilateral clearing agreements.
With export-surplus neighbors.
 - (5) Multiple currency devices.
High price for monopoly goods.
Low price for competitive goods.
- c. Fund members agree to remove on current transactions as soon as possible. Recognize it can't be done at once by all.
Not on capital (hot money).

Credit aspect 5. To provide additional monetary reserves.

- a. The problem of temporary difficulties.
Walter Nash of New Zealand.
Overcoming without being forced to measures destructive of national or international prosperity.
- b. The Fund - a pool of international means of payment.

c. Initial transactions.

- d. All agree not to resort to Fund except in accord with its purposes. If in accord, have limited line of credit on which they can depend - else would resort to destructive practices.

V. Conclusion.

- A. The Fund is a compromise among 44 nations.
- B. Not a perfect document.
One person, but not 200!, could write better.
Will be modified in the light of experience.
- C. Any institution with possibility and power for good may do harm if perverted.
 - 1. Good faith of members.
 - 2. Quality of management.
 - 3. Technical provisions.
- D. U. S. has opportunity for leadership.
Position of the State Department.
- E. Franklin statement.