THE FUTURE OF THE BRETTON WOODS ORGANISATIONS

Recent events have led to some heart searching regarding the character, functions, and future of these twin organisations. The International Bank, which has a relatively simple function, although the carrying out of borrowing and lending is a complicated technical operation, has already discovered that the management structure is expensive, unadapted to the requirements of the Bank, and in certain circumstances obstructive rather than helpful. The Bank, however, has built up a complete organisation independent of that of the Fund entailing much wasteful parallelisation resulting in considerable duplication of effort and probably unnecessary expense.

The position of the Fund is much more difficult as it has no precisely defined financial functions, is the custodian of a complex series of international monetary obligations, and has the character of a policy-formulating body in the field of foreign exchange. Problems of management were settled in advance at Savannah without much thought of the kind of international situation which would develop in the second half of the 20th century. The Fund has become a vast amorphous organisation paying enormous attention to relatively trivial details, but finding itself in no real position to deal with questions of serious international importance. It has struggled hard to formulate policies and to endeavour to enforce its authority over members. It has had some notable successes, for example in Latin America where many Latin American countries' currency situations would have been far worse if they had not accepted the advice of the Fund. It has also been not unsuccessful in establishing a certain degree of authority with regard to questions affecting the monetary uses of gold. It would not be unfair, however, to suggest that in its main field of exchange rate patterns, exchange control restrictions and the development of a stable international foreign exchange system, that the Fund has so far been a failure. In my opinion it is quite unfair to blame the Fund for this situation as the Fund Agreement itself is full of barely intelligible compromises between violently opposed points of view. One of the most important differences of opinion between the American and British points of view has been over automatic drawings where the British position has rested upon the conception that the Fund's resources represent an addition to the central banking reserves of all members. The American view, put in the most simple terms, appears to be based on the conception that the Fund only sells exchange on a swap basis and that therefore no transaction can be permitted unless there is reasonable evidence that repayment can

be made in a period of months. The other major difference of approach rests upon the different assessments of priorities in the re-establishment of a world system of international exchange. It seems fairly clear that the U.S.A. regard the return to convertibility as having a prior importance whereas the British view to date has been that the stability of exchange is of paramount importance if the capitalist world is not to fall into a condition of monetary anarchy. During the three years of the Fund's operations these widely differing approaches to very important questions have increasingly tended to turn the Fund Board into a battleground between the British and American points of view.

The strategic problems facing the Fund have been made less soluble, even if circumstances had been more favourable, by the management structure. At an early stage after the first election of the Executive Board the general function of management was directed into the hands of the Board (with the Managing Director acting as Chairman rather than as Managing Director) and away from the Staff. The Board then tended to become a permanent standing committee of management depriving the Staff, i.e. the Fund, of any function except that of office routine, and collectors and assessors of statistics. In these conditions a general feeling of frustration has developed and it is obvious that except for monetary considerations there is little to hold the loyalty of the most senior and competent members of the staff.

This is a brief and inadequate analysis of the current position of the Bretton Woods twins and many may not agree with it but few are satisfied to allow the present state of things to continue. The inherent weaknesses of the Fund as at present organised have been highlighted by the events of the past week. Because there has been complete Anglo-American unity over the question of devaluation of non-dollar currencies, including sterling, rapid and decisive action has been taken. But the Fund, although it has an appearance of being actively occupied in arriving at these decisions, in effect has been nothing more than an international rubber-stamping organisation, and has not been in a position to play any operative part in establishing the new pattern of exchange rates. We all agree that it is imperative that the Fund should go on. We are probably faced with the alternatives of allowing the present position to continue, in which case every self-respecting member of the Staff will leave, their places being taken by the floating scum of the international unemployables or that there should be a drastic change in the management and functions not only of the Fund but also of the bank. It would be our aim to produce a situation whereby everyone connected with the Fund would have a sense of over-riding loyalty to and some pride

in the organisation. This would require structural changes in management, Anglo-American agreement over the general policies to be pursued by the Fund, and perhaps some more precise definition of its functions. The following paragraphs include some suggestions that might be worth the consideration of the American, British and Canadian Governments when the continuing committees have an opportunity of discussing monetary organisation.

1. Each Government should review its own policy with regard to the Fund and Bank to see whether it is not possible to regard the two organisations as being distinctly complementary, the Fund operating in the short-term loan field, and establishing a code of conduct in foreign exchanges, the Bank operating in the long-term loan field and working towards a coordination of international capital investment.

2. The first steps in establishing a closer liaison between the two organisations should be seized upon when the positions of Vice President of the Bank and Deputy Managing Director of the Fund become vacant. An endeavor should then be made to obtain the services of an outstanding figure in the central banking field, e.g. Donald Gordon, Deputy Governor of the Bank of Canada, to accept both positions.

3. The Governments having the right to appoint Executive Directors and Alternates should agree together to appoint the same two persons as Director and Alternate of both Fund and Bank. They should also try to persuade Europeans to adopt a similar policy. As regards the elected representatives of the smaller countries, e.g. the Latin Americans, they should be encouraged to change representation in Washington say every six or twelve months thus giving more of the smaller countries the opportunity to share in the policy discussions of the Board.

4. Directors should, if possible, be fully employed in their own countries and should not accept a permanent salary from the Fund or Bank. Living and travel allowances should be paid by the organisation on a pro rata basis.

5. So far as possible Board Meetings should not be held more frequently than once a month, there being full arrangements made to call special meetings if an emergency arises. The Executive Directors would be expected to spend, at perhaps six-monthly intervals, at least one month in Washington (one coinciding with the Annual General Meeting) for the purpose of exchanging views and establishing a general policy for both organisations during the ensuing six months. The other monthly meetings would be

largely attended by Alternates and such Executive Directors who happened to be available.

6. When considering the position of any member requiring foreign exchange and financial assistance all missions should be of a joint character for the purpose of deciding in the early stages whether assistance to be provided during say the next twelve months should be of a short or long term nature. If it is to be of a short term nature, the resources of the Fund would be made available but greater attention should be paid to the waiver clause in the Fund Agreement. If long-term capital were required then the Fund's resources should not be used unless there are exceptional circumstances and the responsibility for providing finance would then rest upon the Bank.

7. The use of common services by the two organisations should except in particular instances, be avoided owing to the administrative difficulties which would probably follow. Considerable economies in personnel and costs could, however, be effected if certain functions became the full responsibility of one or other department. For example, the Operations Department of the Fund could be merged into the Loan Department of the Bank. Separate financial control of capital funds would be maintained by the continued existence of the Comptroller's Department of the Fund and the Treasurer's Department of the Bank. All Statistical services should be centered in the Research Department of the Fund which should be regarded as the source of all figures and statistics of an international character. All foreign missions should be the financial responsibility of the Bank. The Research Departments of the Fund and Bank should be merged and a different conception of function worked out.

8. Every attempt should be made to reorganise within the existing Agreements, any changes that might be made being adapted to the simple necessity of acceptance at the Annual Meeting of Governors. Changes in the Articles of Agreement should be avoided.

Washington, D.C.
23rd September, 1949