

# What Does Bretton Woods Mean?

## Attempts Abroad to Answer Yield Varying Opinions

HERBERT BRATTER

READERS of BANKING know well that there are in this country considerable differences of opinion concerning the wisdom of the Bretton Woods program. Some inkling of different schools of thought in Britain has been disclosed in news reports. Below are presented quotations from recent British and other statements which reveal how differently American and British critics of the program view it. Nearly all the foreign comment that has come to our attention relates to the proposed International Monetary Fund, rather than to the suggested International Bank for Reconstruction and Development.

In British financial and business circles the program which emerged from Bretton Woods has been as controversial a subject as the original Keynes and White plans. There is evident a very firm determination to avoid anything like a return to the rigidities of the international gold standard as it operated before 1931. In the British Empire outside of the United Kingdom the reaction to Bretton Woods is strongly influenced by local national considerations. In Australia and New Zealand the determination of the people to control their own economies without too much reference to the external value of the local monetary unit is quite evident. The Indian reaction naturally is pointed in the direction of the Nationalist aspirations. South Africa, as the leading gold producing country, is more receptive to the gold provisions of the Bretton Woods program.

Without waiting for conclusive action on Bretton Woods, the nations of western Europe have commenced to inaugurate provisional monetary arrangements. As a result temporary parities are being established between the pound sterling, the French franc, the Belgian franc, and the Dutch guilder. These provisional arrangements, it is reported, are such as to permit their incorporation into the Bretton Woods Fund, should that be established. But if the Bretton Woods Fund does not come

into being, a start on European currency stabilization will have been made anyway.

In general, foreign countries seem inclined to withhold their own decisions as to Bretton Woods until they see what the United States does about the program.

### London Times Articles

Because of the influential position of the *London Times*, a series of articles on Bretton Woods published in August merits special notice. These articles, prepared by an unidentified correspondent, started out by reviewing the unprecedented series of international conferences, both official and unofficial, during the past 25 years, seeking to eliminate artificial trade barriers and foster trade. Supplementing those efforts were the promotion of investment, the League of Nations loans, and other such measures. All these efforts, the *Times* writer states, ended in unheard of disaster.

After citing the various new commercial policies adopted by the nations during the 1930's, this British writer asks two questions:

First, does the scheme provide a basis on which a workable world economy can be built without resort to some or all of these new methods of commercial policy? Secondly, if it does not, can these methods of commercial policy be applied without leading to currency practices which infringe the stipulations of the scheme?

Both questions he answers in the negative. The Fund would not provide members with credit facilities large enough to relieve them of all anxiety about their balances of payments, he states, so that "conscious control of Britain's balance of payments remains as necessary as before." What the *Times* writer sees ahead "implies 'bilateralism,' 'discrimination,' and 'multiple currency practices,'" all of which have been condemned at Bretton Woods.

A footnote to the *London Times* articles was a letter from Lord Keynes to the editor, pointing out that "the Bretton Woods plan would be consistent with our requiring a country from which we import to take in return a substantial quantity of our exports."

"The most effective means of carrying out such a policy," he continued, "would be to supply the country taking our exports with a certificate which importers

"Bretton Woods is like a wall"

Remember the story of the blind men who were asked to describe an elephant? One touched its side and said, "The elephant is like a wall." Another, touching the trunk, said, "The elephant is like a tree," and so on.

### American Bankers Study the Plan

The Bretton Woods program was touched on by President W. Randolph Burgess of the American Bankers Association in his inaugural address at Chicago.

"There are now before the public certain definite proposals resulting from the conference of 44 nations at Bretton Woods this Summer," said Dr. Burgess. "By general and fortunate agreement action by our Congress on these proposals is being postponed until after election. This gives time for the full consideration which the proposals deserve and require, for they are complicated and difficult to understand.

"A year ago the Economic Policy Commission of this Association published a report on the whole problem. The Commission after long study favored, among other proposals to encourage trade and sound international finance, the creation of an international body for the twin function of conferring among the nations on monetary problems and for the extension of modest amounts of credits where they are likely to be sound and fruitful. The Bretton Woods proposals go far beyond the suggestions of the Economic Policy Commission.

"They would call for commitment by the United States of as much as \$6 billion. The plans are elaborate and complex. It is not clear, particularly in the Monetary Fund, that only good loans are contemplated. They are, however, the proposals arising from an important international conference at a time when the nations must find means for international cooperation. We have therefore asked the Association's Advisory Committee on Special Activities to make a thorough study of these plans.

"It may be that the American Bankers Association after further study will be able to suggest means of simplification of the Bretton Woods proposals or alternative constructive proposals which will make sure that funds which we may provide for world recovery are wisely and prudently used. There is no more virtue in making bad international loans than bad domestic loans. Both make trouble. We do not wish to repeat, whether through government or private channels, the mistake we made in foreign loans after World War I. They led to over-expansion followed by collapse.

W. L. Hemingway, president, Mercantile-Commerce Bank & Trust Co., St. Louis, heads the A.B.A. Special Activities Committee which is studying the Bretton Woods plan



"The delay in action on these plans not only allows opportunity for the careful study they require but gives time for development of related elements of the international picture. These proposals for mechanisms for currency stabilization and for longer term foreign loans came to us in advance of other necessary parts of an international economic program and we are handicapped in judging them before we know the rest of the program with respect to security, reciprocal trade arrangements and the internal, political and economic stability of the countries concerned. In particular the key to the picture is the British position. For Britain has been a great center of world trade and finance on which many parts of the world depended. Unlike most of the other countries, Britain has drained off her substance in this war. A first step in world recovery is a plan for Britain. We ought to know that, and to know what help is required from this country before making other commitments.

"It should also be added that another basic necessity for any enduring world monetary stability is assurance as to the strength and stability of the United States dollar which can only come from our putting our own financial house in order."

from that country would be required to produce as a condition of receiving an import license into the United Kingdom. If such a policy were to commend itself to us and if it were consistent with any commercial agreements we might have signed, there is nothing in the Bretton Woods plan to prevent it. Equally there is nothing to prevent other countries from requiring us to take their imports as a condition of receiving our exports."

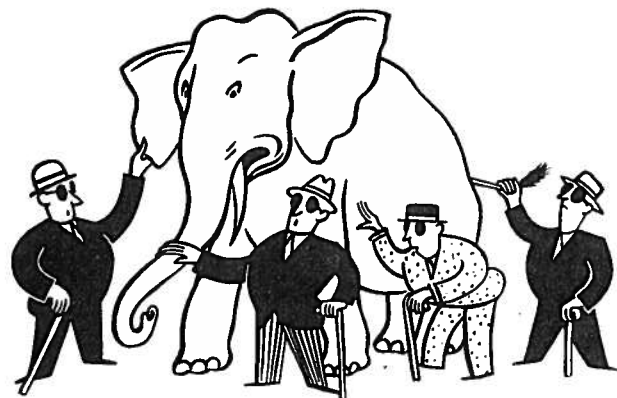
### Is It a Gold Standard?

In selecting the above as the title for his article on Bretton Woods in the *London Banker* for September, Dr. Paul Einzig puts his finger on the most sensitive spot in British policy. There can be no question that the British simply will not again submit to the rigidities of the traditional gold standard, "chaining sterling to its

parity." The inclusion of gold in the Bretton Woods program, even though under limitations, has raised suspicions in Britain and considerable outspoken opposition to the proposed Fund.

While Dr. Einzig's article concludes that there is in the Bretton Woods Fund too much of the gold standard for Britain's good, the editor of the *Banker* expresses his support of Bretton Woods in an answering editorial entitled, "Nothing of the Kind!" As is well known, advocates of the Bretton Woods Fund in the United States have been seeking to sell the idea on the grounds that the proposed system is not so flexible as many here fear, whereas British supporters of the plan meet their skeptics with denials that this is anything like the gold standard. With this fact in mind Dr. Einzig concludes that:

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In the interest of avoiding a grave British-American misunderstanding after the war it is of the utmost importance that the two governments should agree on an identical interpretation of the plan. To adopt it while harboring diametrically opposite intentions would be asking for trouble.

## Finance Minister Answers Critics

Sir John Anderson, Britain's Chancellor of the Exchequer, in a speech at Mansion House, took the occasion to answer the wave of British criticism of the Bretton Woods Fund. He told his audience of merchants and bankers that Britain could not afford to stay out of the program, if the United States and other countries find it acceptable.

I am told that the Bretton Woods Conference means a return to the gold standard. Now I doubt whether those critics who use the words "gold standard" as a term of opprobrium always have a perfectly clear idea of what they mean, but perhaps one can assume that what they are thinking of is a system under which the external value of sterling was fixed, and the internal credit policy was made subservient to the maintenance of that value. To that system, if it ever existed in such a crude form, we do not propose to return. . . .

To read some criticisms one would imagine that Britain's foreign trade fundamentally depends upon exchange rates, which rush up and down almost like a barometer in a cyclone. Now that is nonsense. For a country whose whole economy is widely influenced by international trade, some reasonable stability in the value of sterling is of primary interest. We have not much less interest in the reasonable stability of other peoples' exchanges. . . .

## The Economist Weighs the Issue

The London *Economist*, liberal weekly, sees Britain faced with a dilemma:

Here are proposals which will confer benefits on the world if certain optimistic assumptions are fulfilled, but which may be dangerous tying of hands if the hopes are not realised. On the other hand, to reject them is to surrender once and for all the chance of realising the hopes on which they are founded. It is the same dilemma that was faced, though less consciously, over the return to the gold standard 20 years ago—for the new proposals are, if not a version of the gold standard, at least based on the same fundamental conceptions. It would be easier to have faith that faith alone will suffice if there were not so recent a proof to the contrary. . . .

Two things should, however, be reasonably clear. The first is that every effort should be made, as speedily as possible, to fit together the other parts of the jigsaw—particularly the important sections labelled "commercial policy" and "employment policy" in order to build up the assurance of a reasonable world economy. The second is that, pending

this effort, there can be no question of rejecting the Bretton Woods agreements. But whether they should be unconditionally accepted, for immediate application, is a matter which must necessarily await further evidence of the trends that are to be expected. That evidence will have to be sought, above all, in the results of the American election and in the temper of the American public and Congress in the months that are to come.

## Other Views

A strong rooter for Bretton Woods is the *Financial Post* of Toronto, which states: "If anybody undermines the Bretton Woods agreement it does not look as though it's going to be Canada." Taking up Winthrop W. Aldrich's criticism of the Fund as being unnecessarily complex and unrealistic, the *Financial Post* considers that it is rather Mr. Aldrich who is unrealistic in proposing what is "unlikely to be realized in the immediate future": agreement on tariffs, imperial preferences, export subsidies, and the like. The newspaper, however, compliments Mr. Aldrich, when he suggests a large grant-in-aid to Britain, "for having put so bluntly and clearly the responsibility that rests on his own nation to 'underwire' post-war trade and exchange."

Since the chief aim of the India delegation at Bretton Woods was to have incorporated in the Fund agreement provision for the early thawing of India's frozen sterling balances and their conversion into dollar exchange, it is not surprising that the failure to obtain such a provision caused expressions of "utter disappointment" in India. The principal Indian members of India's delegation to Bretton Woods, Sir Shanmukham Chetty and A. D. Shroff, regard membership in the proposed world Bank as more in India's interest than membership in the Fund, which would impose onerous obligations on India.

## Latin American Reactions

In general, Latin American reaction to Bretton Woods is reported as favorable. At Bretton Woods, Latin America got a chance to make a splash. Its spokesmen were listened to and Latin America was guaranteed a place in the direction of the proposed Fund and Bank. All this is naturally pleasing to the national pride of the countries concerned, not to mention the fact that the Bretton Woods program will give them access to additional financial assistance.

In Brazil, it is reported, the authorities are more interested in the Fund

than the Bank, because they feel that the Export-Import Bank will be able in any case to take care of Brazil's needs adequately.

The Banco Nacional de Mexico expresses the opinion that Mexico should wait before ratifying the Bretton Woods program, until it sees what other countries, especially countries recently liberated from Nazi influence, will do about it. International collaboration in foreign exchange and reconstruction the bank regards as a "thorny" subject. It quotes the Mexican Minister of Finance to the effect that Mexico should put "the health of the economy paramount over the integrity of the currency." Great stress is placed by the Finance Minister on the advantages to Mexico of the proposed world bank.

## The Reconversion of GI Joe

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Maybe there is too much red tape involved in its operations, but yet the shortage of manpower is acute. It will take considerably more than a routine type of person to qualify for the task, in each of those 1,500 offices, of carrying out the veteran's desire that his problems be considered in relation to "me" and not simply to an average.

The loan program threatens to require the services of scores of thousands of administrative personnel. Here rests the question of when an organization ceases to be essentially useful and when it turns into a bureaucracy more interested in perpetuating itself than in giving service to the veteran "me."

No one can chart the probable course of political demagoguery that will follow the scent of the veterans' trail through the next generation—possibly encouraged by veteran blocs organized among the ignorant and gullible, or flourishing despite opposition from the thinking body of veterans themselves.

The threat here lies in agitation for bonuses. These certainly will be made and soon. Perhaps some bonus in addition to the benefits already provided—including a \$200 cash gratuity for men who served more than 90 days in the country and \$300 for those who were overseas—is in order.

The problem may well be to find the line of division between that which is rightfully owed to veterans and the burden that the community, of which veterans may constitute easily one-fourth of the productive group, can bear.