The Bretton Woods Agreements
Author(s): John H. Williams
Source: *Proceedings of the Academy of Political Science,* Vol. 21, No. 3, World Organization: Economic, Political and Social (May, 1945), pp. 40-50
Published by: The Academy of Political Science
Stable URL: https://www.jstor.org/stable/1173058

THE BRETTON WOODS AGREEMENTS

JOHN H. WILLIAMS
Dean, Graduate School of Public Administration, Harvard University

I

THIS is the first time I have discussed the Bretton Woods proposals since last October.[1] Since then a bill approving the Final Articles of Agreement for an International Monetary Fund and a Bank for Reconstruction and Development has been submitted to Congress, and hearings have been begun by the House Committee on Banking and Currency, to be followed presumably by hearings in the Senate. The Treasury has conducted an intensive campaign of education, including articles in reply to critics, and many meetings with interested groups throughout the country. Numerous articles and some books have appeared, and banking and business organizations have made statements of their views.

In my *Foreign Affairs* paper last fall, I suggested adoption of the Bank, with modifications designed to permit it to perform some of the purposes of the Monetary Fund during the transition period from war to peace, and postponement for the present of a decision on the Fund. As the debate has developed in recent months, this has appeared to be the central issue. There has been general endorsement of the Bank but a widespread difference of views about the Fund.

When the debate about the Fund began with the publication of the original Keynes and White plans in April 1943, I thought that the main question was whether we should approach the problem in terms of a general international monetary organization, as those plans proposed, or should begin with the major countries whose currencies are the chief means of international payment and whose policies and circumstances will have a predominant effect upon the character of post-war international trade and currency relations. After Bretton Woods, I believed that a solution should be sought so far as possible within the framework of that Agreement, but, as I have listened in recent months to the discussion here and abroad and watched developments, I have become convinced, even more

[1] "International Monetary Plans: After Bretton Woods", *Foreign Affairs*, October 1944. This and a number of earlier papers are included in my book, *Postwar Monetary Plans and Other Essays* (New York, 2nd edition, 1945).

than before, that the question whether and when we should adopt the Fund should depend primarily upon what is done, outside the Fund, toward solving England's special problems.

II

Before proceeding further with this question, I shall review briefly some of the more general issues around which the debate on the Fund has revolved.

The Fund is intended primarily as an agency of long-run monetary management. It is intended to give all member countries access to a common fund of currencies in order to meet the short-term fluctuations in their international position. The basic assumption for the successful operation of such a Fund is that there should be a tendency for international transactions to equalize, apart from short-term fluctuations, so that the Fund would not become lopsided, with some nations in the position of chronic debtors and others of chronic creditors in the Fund. Whether such an even-balance position could be maintained would depend partly upon the circumstances under which the Fund had to operate and partly upon the principles and policies of adjustment pursued by the Fund.

One of the early questions raised about the Fund by myself and others was whether in the abnormal conditions of the period of transition from war to peace the expectation of an even-balance position could be realized. It was in response to this criticism that the provision was introduced into the Fund Agreement prohibiting the use of the Fund for expenditures for relief, reconstruction and the liquidation of war balances. Actual avoidance in practice, however, of such use would be more difficult than its formal prohibition, which still leaves the question whether the Fund would not in fact be a catchall for inadequacies in the transitional arrangements. Nations would not know in advance just what they were using the Fund for. They would only know their over-all situation and would come to the Fund to cover any deficits that might arise. I still feel strongly that to put the Fund into effect during the transition period would involve the risk of wrecking it because of the unusual character of the conditions that it would have to confront.

A growing awareness of this danger, coupled, I think, with an awareness of the inadequacies of the Fund provisions regarding the methods of international adjustment whereby the Fund is to be maintained on an even keel, even under more normal conditions, seems to me to be responsible for a number of the suggestions that have been made about protecting the Fund. Treasury officials have said in their testimony that care would need to be exercised in putting the Fund into operation, that member countries would have to convince the governing body of the Fund that they were in proper condition to begin using it, and that it would probably take a year or two after adoption to bring the Fund into operation.

Much of the discussion of the Fund has centered on the question whether members would have an automatic right to use it. The advocates of the Fund have stressed the fact that it provides for a graduated rate of interest and that the right to use it would normally be limited to 25 per cent a year of a nation's quota. Bankers and other critics of the Fund have questioned whether these and other safeguards now in the Fund Agreement are sufficient. A fear of misuse of the Fund has been a principal reason for suggesting that the Bank should be specifically empowered to make longer-term stabilization loans.

I have never sympathized with the idea that the way to protect the Fund is to make it operate like a bank. Critics of this general line of suggestion seem to me quite right in maintaining that this type of restriction on the use of the Fund will only undermine its usefulness. If the Fund is to operate as a common pool of foreign exchange resources, equivalent to gold, there must be the same freedom of access and of use as pertains to gold itself. To guard against possible misuses of the Fund by measures which undermine its essential logic seems to me a wrong approach. My own suggestion of a postponement of adoption of the Fund rests, in part, on the ground that the conditions of the transition period will not be suitable for it. To succeed at all, the Fund would need a trial under favorable circumstances. It seems to me better to wait until those circumstances have been achieved rather than to circumscribe the Fund with restrictions that deny its character.

A second major criticism which I have made relates to the technical or mechanical character of the Fund. As now designed, the Fund would be composed of a miscellany of forty-four national currencies, most of which are not used as international means of payment. Under the conditions of the immediate post-war period, and perhaps for a long period to come, it cannot even be assumed that the pound will be an internationally usable currency except within the sterling area and under the special bilateral currency agreements which England is now in process of arranging, particularly with the countries of western Europe. Thus, as a practical matter, we may be confronted with a large discrepancy between the demand for exchange as represented by the quotas of the member countries and the American obligation to supply dollars, which is limited to \$2.75 billion. This discrepancy will be aggravated by the fact that member countries coming to the Fund for a means of international payment will put up their currencies and obtain dollars which will be paid out of the Fund; whereas, since this country does not, for the most part, make its international payments by buying other currencies, there will be no way in which, in the normal operations of the Fund, we can replace these dollars. What this means is that, even when we have an even balance of payments, there will be a tendency for dollars to seep out of the Fund. This is too technical a question to discuss further in this paper, but I do want to point out that, though there have been a number of official replies to critics, this point has been ignored, and we have been presented instead with a discussion of whether or not there is likely to be a scarcity of dollars *in the general market*, such as occurred during the inter-war period. To quote Dr. Harry White's paper in *Foreign Affairs*, January 1945: " Such a shortage, if it develops, will not be because of the Fund but in spite of the Fund. . . . The Fund cannot create a shortage of dollars." My point was expressly that the Fund mechanism could create a shortage of dollars *in the Fund*.[2]

I have not been able to find a solution of this difficulty which seems to me workable. Keynes's Clearing Union would have avoided it by making the obligation to supply dollars or any other desired currency equal to the aggregate size of his Clearing Union. But I do not think it is practicable now to raise so large a question, and it seems reasonably certain that the Clearing Union would encounter greater objection in this country than the Fund. The repurchase provisions of the Fund Agreement do not seem to provide an adequate solution of the problem, if we assume, as is evidently implied and intended by the interest charge and other provisions of the Fund Agreement, that it will be the countries without adequate exchange resources that will use the Fund. In any event it ought to be made clear that the recapture of dollars would require the maintenance of the machinery of exchange control, not merely for the transition period but permanently, and for current account transactions as well as for capital transactions.

A third set of questions relates to the provisions for exchange-rate variation and the methods of international trade adjustment. It should be on these, rather than upon the restrictions on the use of the Fund, that success or failure of the whole experiment should depend. I shall not attempt to add anything in this short paper to what I have previously said about the problem of international adjustment. I have always favored liberal provisions about exchange-rate variation, but on the assumption that this would be the rare, rather than the usual, method of international trade adjustment. I have been disturbed throughout the discussion by the great,

[2] I have seen two papers which address themselves to the question I raised. See A. F. Bourneuf, " Professor Williams and the Fund ", *American Economic Review*, vol. 34, December 1944, pp. 840-47, and W. A. Brown, Jr., " The Repurchase Provisions of the Proposed International Monetary Fund ", *American Economic Review*, vol. 35, March 1945, pp. 111-20. Neither, in my opinion, sees the problem I had in mind, but I cannot discuss them here.

and apparently growing, divergence of American and British public opinion on this point. It relates closely to what I shall say later about the British problem.

Unless we can find more common ground than has thus far appeared, I would rather proceed on the post-war problems of adjustment case by case without rules, because I am afraid we will descend into legalism, each country setting forth its own interpretations of the provisions and then defending them on legalistic grounds. We shall need economic analysis of the most objective and thorough kind rather than attempts to fence and hide behind forms of words.

One aspect of the problem of international adjustment on which I have especially insisted is that, in our search for relieving the harshness which the gold standard has at times entailed, the principle of two-sided international adjustment must not become submerged. As a method of international adjustment, a system which is the "exact opposite" of the gold standard, as Keynes has characterized the present Agreement, seems to me meaningless. The phrase often used, that we will permit exchange-rate variation but not competitive depreciation, also means to me very little. I cannot see any escape from the necessity for two-sided cost-price adjustments, in most circumstances, if we are to have anything that deserves to be called an international system. Exchange-rate variation does not provide an escape from price adjustments but changes their impact. It becomes a question of how much of the adjustment is to be borne by the internal economy of a country and how much is to be forced upon others. If we look objectively at the inter-war experience, we must recognize not only that the gold standard had a deflationary effect on some countries adhering to it, and notably on England in 1925-31,[3] but also that currency depreciation had a deflationary effect on the outside world, resulting in a vicious circle of depreciation in one country after another; the most striking example was the British depreciation of 1931 which deflated prices throughout the world. The problem is a difficult one. The attempt to escape into a system of exchange controls and bilateral trade was really an attempt to run away from both the gold standard and variable exchange rates.

One thing that has most troubled me during the entire course of the discussions has been the reiterated insistence by the British that the responsibility for international trade adjustment rests on the creditor country. I cannot avoid the conclusion that, taken against the background of this British discussion, the fact that the negotiation with regard to principles of adjustment resulted finally in the removal from the document of all

[3] England's experience really proved little, since, as all are agreed, the great mistake was in the overvaluation of the pound.

references to two-sided adjustment and the high-lighting of the one case of a possible dollar shortage means quite specifically that if we do not prevent a dollar shortage that fact will be taken to mean we have not discharged our responsibility, and have therefore given the rest of the world carte blanche to resume exchange control and trade discrimination as before. It is not that I wish to run away from this responsibility. It is only that I think it will not work unless there is a clear understanding that the responsibility must be shared. There is no action which a surplus country might take which does not have its counterpart for the deficit countries, whether it be in the sphere of price changes, trade changes, foreign investment, or any other method of adjustment that might be explored. Recognition of this fact is the only reasonable basis on which to proceed.

III

This brings me back to the British problem. From the beginning, I have felt that England's situation in the post-war world will have a decisive effect upon whether the world moves toward multilateral trade with reasonably free and stable currencies or toward bilateral trade and currency arrangements. As time passes, the gravity of England's problem and its implications for the future become only more clear. It is not merely, or perhaps mainly, that England has now hanging over her an accumulation of over $12 billion of international war indebtedness, growing at the rate of several billion dollars a year. There is the further fact that her current account balance in the post-war years will show a large annual deficit, owing to the loss of foreign assets, of foreign markets, of shipping, her need of sustained high imports for the transition period, and the probable requirement of some interest payment on the accumulated debt. England's current account deficit has been variously estimated at from $1.2 billion to as high as $2 billion a year in the immediate post-war period. How rapidly it will be corrected is a matter of conjecture.

Much emphasis has been laid in British comment on the necessity for maintaining full employment in both England and this country. The first effect of full employment in England would probably be seen in her imports; there have been estimates that at full employment her imports might exceed the pre-war level by as much as 50 per cent. The effect of full employment in this country must be divided into the direct and indirect effects. The direct effect on British exports would be slight since our imports from Britain amount to a small fraction of her exports. I have seen estimates which suggest that even the indirect effects, through Britain's trade with third countries, would probably not remove more than half of her current account deficit. Britain's problem is that her exports must rise much more than in proportion to the general growth of production and trade throughout the world, even on optimistic assumptions about world trade and employment.

It is not difficult to see how England's problem complicates the general problem of international trade adjustment. Next to the desirability of an expansion of American imports, toward which high employment in this country would provide the chief impetus, the point most often made is that we can achieve international trade and currency adjustment through American foreign investment. This point is always included in the British statements so constantly repeated that a creditor nation need never have a larger surplus than it wants to have; it can always invest its foreign exchange surplus abroad, as England did in the nineteenth century, and in this way a dollar shortage could be avoided.[4] But it seems to me very doubtful whether in her special circumstances during the post-war period England would really welcome this method of adjustment if, as would almost inevitably be the case, our foreign investment were accompanied by a great expansion of our exports. Again, I am led back to the conclusion that in such a complicated problem no one nation should put itself in the position of appearing to assume the sole responsibility.

IV

It is essential to an understanding of the Bretton Woods Agreement to appreciate the fact that it is primarily the result of a long process of negotiation between the British and American experts, subsequently adhered to by the delegates of forty-four countries at Bretton Woods. The gist of the Agreement is that if this country will create and maintain the conditions necessary for multilateral trade in a reasonably free exchange market, England will undertake, after a transition period of three to five years during which exchange control and bilateral currency arrangements are permitted, to relinquish her controls and join a multilateral exchange system. The Agreement, however, carefully states that, even after the five-year period, the member country itself shall be the judge of whether the conditions are right for relaxing its controls. In weighing the adoption of the Fund, the essential question is whether there is a fair prospect that this bargain can be consummated.

Since the Bretton Woods Conference, England has been negotiating a series of bilateral currency agreements. The one with Belgium last October has been followed recently by agreements with Sweden and with France, and others are said to be in process of negotiation. Meanwhile, as the recent arrangement with Egypt indicates, the controls within the sterling

4 This, of course, refers to a general dollar shortage in the market, not to the special shortage in the Fund which I discussed previously.

area are being tightened, and its supply of dollars rigidly controlled. These facts, taken together with what I have said about the extreme difficulty of England's position, her large war debt, and even more importantly her large annual deficit on current account, carry a strong presumption that during the transition years England will be moving further toward, rather than away from, a system of bilateral trade and currency agreements and will find herself under compulsion to intensify, rather than relax, her exchange controls.

Contemplation of this prospect has led me to wonder whether the transition from the transition period will not prove to be the really crucial problem. A set of vested interests and a network of discriminatory trade and currency practices will have grown up which it may prove very difficult to break down. Against these we would have the moral compulsions of the Fund Agreement. But with the responsibility resting on us to avoid a dollar shortage, and the further implied responsibility which runs all through the British comment that we must maintain full employment as a necessary condition of the successful operation of the Fund Agreement, it might be far from clear where the moral responsibility for failure lay. Meanwhile, in a world comprising a fully managed economy like that of Russia, a centrally planned economy in England, if anything like the Beveridge model should be adopted, and some kind of modified free enterprise system in this country, there will be much room for honest doubt as to whether a system of multilateral trade and free exchange is any longer workable.

As I said in beginning this paper, I have been impressed from the outset of the debate with the necessity of attempting to create the conditions under which this country and England can embark upon multilateral trade with reasonably free and stable exchange rates. If this could be done, the task of general international monetary and trade organization would not be difficult. If it is not done, I am becoming only more convinced, as time passes and the situation develops, that the approach in terms of a general world monetary organization will fail. Perhaps among people genuinely concerned for the future of international coöperation the issue boils down to a question whether adoption of the Monetary Fund, with whatever defects it may have, would not compel us to face up to the logic of its implications and to take the steps, outside the Fund, which are necessary for its eventual success, or whether, as I believe, it is necessary to face up to the situation in advance. If England is to find an escape from the road down which she appears to be heading, if she is to avoid the temptation of making a virtue of her bad situation and using blocked sterling balances to develop her trade connections bilaterally, she must have help during the transition period from countries—and especially from this country—which are genuinely interested in multilateral trade and stable exchange rates.

The situation calls for heroic measures, going far beyond anything that the Fund or the Bank could legitimately undertake. I have suggested the continuance of Lend-Lease for the transition period, but this now appears to be politically impracticable. I sometimes wonder whether the main effect of the Bretton Woods debate has not been to shift the emphasis from the concrete problem, on the solution of which the success of the Bretton Woods Agreement must depend, to more formal and abstract solutions which will give us a comfortable feeling of coöperation without the actuality. Perhaps the most unfortunate aspect of the discussion has been that in the heat of debate these two approaches have come to be regarded as alternatives, whereas what we need in the end is both. Some of the Bretton Woods delegates have made disparaging remarks about any form of direct aid to England, and the trend of the hearings before the House Committee has been such as to suggest that if the Bretton Woods Agreements are adopted, there will be no direct aid—at any rate not in the form of Lend-Lease or in the form of a credit on terms which England could afford to accept.

V

My preference, therefore, is to adopt the Bank with some changes and to postpone the Fund until more favorable conditions have been developed for its operation. Among these conditions, I would list, first, a thorough exploration with the British government of possible methods of dealing with her problem along other than bilateral trade and currency lines. I would list, second, a thorough exploration of the problems of commercial policy. There is now in Congress a bill to continue the Reciprocal Trade Agreements Act, which expires in June, with an important new provision that the power to decrease tariff rates should be by 50 per cent from the rates in effect at the beginning of this year, rather than, as heretofore, from the rates in effect in 1934. I strongly favor the renewal of the Act with this all-important provision. Following its adoption, we should discuss the possibilities of Reciprocal Trade Agreements with England and in this connection explore particularly her attitude toward the most favored nation clause. The fact has been emphasized in British comment on Bretton Woods that that Agreement binds England only to renounce exchange restrictions, after five years, and says nothing about bilateral trade agreements. The implication is that agreement on commercial policy will be a far more serious matter. One suggestion frequently made is that before entering into agreements about trade England would want to have more assurance about our full employment policy; and Resolution VII of the Bretton Woods Agreements, calling for coöperation on internal full employment policies, has been much emphasized as a necessary preliminary to agreements on trade. Nothing would be more futile than to sign the

Bretton Woods Agreement looking toward the eventual elimination of exchange restrictions while leaving the door open to the accomplishment of the same purposes through quotas and other forms of trade restrictions. Clarification of Britain's own problem and of what we can do to help solve it should go far toward providing the conditions under which we can agree to relax both currency and trade restrictions.

As to the Bank, there are two functions which it could perform in the transition period, in addition to the making or guaranteeing of loans for specific projects of reconstruction or development. In his testimony before the House Committee, Dr. White suggested that it might be necessary for the Fund to make loans running up to eight years. This clearly contemplates something more than merely evening up the short-term fluctuations in the balances of payments of the member countries. I agree that there will be need for longer-term loans which cannot be stated in the form of specific projects and whose general purpose would be to rehabilitate countries and restore their powers of production and of export to the point where the countries would be in proper condition for engaging in the shorter-term operations contemplated by the Fund.[5] For such a purpose the Bank would be a much more suitable instrument than the Fund. It is on these grounds that this kind of amendment of the Bank Agreement has been suggested by the American Bankers Association and the Committee for Economic Development. For the reasons I have given earlier, I would postpone adoption of the Fund to the end of the transition period and rely for exchange stability in the interval upon exchange control, the Bank, newly mined gold, and the $20 billion of gold and dollar balances which are now owned by foreign countries and are fairly widely distributed round the world.

The second function that the Bank might well perform during this interval is to serve as a center of consultation and coöperation on exchange rates. This is a point that needs to be emphasized because in the minds of some advocates of the Fund its value lies not so much in actual credit operations as in the fact that it would be an agency of coöperation on exchange rates and on other monetary matters. I can see no reason why, until operations by the Fund are actually begun, this function could not be performed equally well by the Bank. The fact that the Bank would not be subject to a set of monetary principles, such as are provided in the Fund Agreement, would in the circumstances be an advantage rather than a disadvantage. It would mean, as I suggested earlier, proceeding from case to case on the merits and would avoid the danger of a descent into legalism.

[5] Perhaps the best analogy is with the "League Loans" after the last war.

VI

There remains the question whether we have any longer any freedom to discuss the Bretton Woods Agreements on their individual merits, or must make an all-or-nothing decision here and now. There are many who feel that the fact that, in what we hope will be a series of major political and economic steps toward post-war international coöperation, the Bretton Woods Agreements are the first to reach the stage of legislative decision gives them a significance that goes beyond their own intrinsic merits or importance. Bretton Woods is the key to San Francisco; Bretton Woods is the first step away from economic warfare; the issue is isolationism *versus* Bretton Woods; a further conference on monetary plans must at all costs be avoided. These are some of the statements being made in support of prompt and complete acceptance.

I have some sympathy with this view but think it is exaggerated. We are embarking upon a great and difficult experiment, in a field in which up to now the record has been one of failure. We must not content ourselves with the forms of coöperation if there are honest grounds for doubting that they embrace the substance. The procedure I have suggested would, I believe, promote rather than impair international coöperation; it would hasten, rather than delay, the achievement, as distinct from the formulation, of our aims. The worst bargain we could make, but unfortunately as matters now stand perhaps the easiest, would be to adopt promptly the Bretton Woods Agreements *in toto* but be left with the discriminatory trade and exchange practices and without the bases for genuine coöperative efforts. The essential question is whether we should delay the Fund and in the interval find a solution of the British problem or whether we should adopt the Fund in the hope that we will understand clearly that a solution of that problem must be found, outside the Fund but by methods that are consistent with it. I am afraid, human nature being what it is, that if we leave the matter in the latter way we will not do the job. Our only hope of success is to face the problem squarely now.

Remarks by the Chairman

Chairman Burgess: Dr. Williams, the audience shows its appreciation of that very subtle and careful analysis.

One of the important questions in this whole matter is who needs the money and how much, and how much is there to take care of all the needs? The next speaker will respond to that question. He is Vice-President of the National City Bank, my associate, Mr. George B. Roberts, who has given some special study to this problem. Mr. Roberts!