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BRETTON WOODS AND INTERNATIONAL COÖPERATION

By Henry Morgenthau, Jr.

THE United Nations won a great if unheralded victory at the Bretton Woods Monetary and Financial Conference. For they took the first, the most vital and the most difficult step toward putting into effect the sort of international economic program which will be necessary for preserving the peace and creating favorable conditions for world prosperity.

International agreements in the monetary and financial field are admittedly hard to reach, since they lie at the very heart of matters affecting the whole complex system of economic relations among nations. It is a familiar fact that in all countries sectional interests are often in conflict with the broader national interests and that these narrow interests are sometimes sufficiently strong to shape international economic policy. It was, therefore, a special source of satisfaction to all the participants in the Conference that agreements were reached covering so wide a range of international monetary and financial problems. This was largely due to long and careful preparation preceding the Conference during which we secured general recognition of the principle of international monetary and financial coöperation.

The Conference of 44 nations prepared Articles of Agreement for establishing the International Monetary Fund and the International Bank for Reconstruction and Development to provide the means for consultation and collaboration on international monetary and investment problems. These agreements demonstrate that the United Nations have the willingness and the ability to unite on the most difficult economic issues, issues on which comprehensive agreement had never before been reached even among countries with essentially similar political and economic institutions. The victory was thus all the greater in that the Bretton Woods Agreements were prepared by countries of differing degrees of economic development, with very far from similar economic systems, and will operate not merely in the immediate postwar years, as will UNRRA, but in the longer period ahead.

The hope that the United Nations will not prove a merely temporary wartime coalition which will disintegrate after military victory has thus received substantial reinforcement. No matter what pattern future organs of international coöperation may as-

sume — and the pattern may be diverse and varied to correspond with the great variety of problems to be met — Bretton Woods proved that if the determination to cooperate for peace as well as for war is present, adequate and suitable instruments can be devised in every sphere where international action is needed. In that sense, Bretton Woods was an unmistakable warning to the Axis that the United Nations cannot be divided either by military force or by the diplomatic intrigues of our enemies. It gave an unequivocal assurance to the soldiers of the United Nations that the sacrifices they are making to stamp out forever the causes of war are not being made in vain. And lastly it was a sign to the civilians on whose labors the war efforts of all the United Nations depend that such labors are bearing fruit in the councils of peace no less than those of war.

I have indicated that at Bretton Woods the United Nations took the first and hardest step toward the adoption of the kind of economic program necessary for world stability and prosperity. It was only the first step because the Articles of Agreement for the establishment of the Fund and the Bank still have to be ratified by each of the participants in accordance with legal and constitutional requirements and procedures. I would be the last to claim that the process is likely to be a simple or an easy one. Yet, so far as the action to be taken by the United States is concerned, I have sufficient faith in the common sense of the American people to believe that they have learned the painful lesson that the best way to guard our national interests is through effective international cooperation. We know that much remains to be done in other fields. But, despite their highly technical nature, the Fund and the Bank are the best starting point for international economic cooperation, because lack of agreement in these spheres would bedevil all other world economic relations.

Highly technical questions have one great advantage from the political point of view — their very intricacy should raise them above merely partisan considerations. My optimism is partly based on the belief that the Bretton Woods proposals will be discussed on an objective basis and that such differences of opinion as may emerge will not follow party lines. The American delegation was non-partisan in composition and was thoroughly united on all major questions. Republicans and Democrats alike had an equal voice in shaping its decisions, and there is good reason to expect that the precedent followed before and during the Conference will be continued and that the next stage of

ratification will be conducted on the same high plane. In the light of my experience as chairman of the American delegation, I believe that men of broad vision in both parties will rise to the challenge and the opportunity to initiate the historical pattern of international economic coöperation that world peace demands. The challenge and opportunity are all the greater because our course of action will largely determine the course of action of many other members of the United Nations. "As America goes, so goes the world" may be an exaggeration. But it is a pardonable exaggeration in a world made one by time and fate, in which America's strength and potentialities are perhaps more clearly realized by the rest of the world than by the American people itself. I should therefore like to emphasize as strongly as possible that a tremendous responsibility rests on our government and people in connection with the ratification of the Bretton Woods Agreements. For our action will be rightly or wrongly interpreted as a sure and infallible index of our intentions with respect to the shape of things to come.

II

The fate of the Treaty of Versailles adds to the significance of the course we adopt on the Bretton Woods proposals. As the President has pointed out, the Allied leaders are acquainted with our constitutional processes as they affect our dealings with foreign powers. If there are any Americans who would utilize the division of powers to defeat the ends sought by the vast majority of Americans, they are not likely to succeed if the issues are clearly and unambiguously presented to the Congress and the people. We must always keep in mind that other nations are anxiously asking whether the United States has the desire and ability to coöperate effectively in establishing world peace. If we fail to ratify the Bretton Woods Agreements, they will be convinced that the American people either do not desire to coöperate or that they do not know how to achieve coöperation. They would then have little alternative but to seek a solution for their pressing political and economic problems on the old familiar lines, lines which will inexorably involve playing the old game of power politics with even greater intensity than before because the problems with which they will be confronted will be so much more acute. And power politics would be as disastrous to prosperity as to peace.

One important reason for the sharp decline in international

trade in the 1930's and the spread of depression from country to country was the growth of the twin evils of international economic aggression and monetary disorder. The decade of the 1930's was almost unique in the multiplicity of ingenious schemes that were devised by some countries, notably Germany, to exploit their creditors, their customers, and their competitors in their international trade and financial relations. It is necessary only to recall the use of exchange controls, competitive currency depreciation, multiple currency practices, blocked balances, bilateral clearing arrangements and the host of other restrictive and discriminatory devices to find the causes for the inadequate recovery in international trade in the decade before the war. These monetary devices were measures of international economic aggression, and they were the logical concomitant of a policy directed toward war and conquest.

The postwar international economic problems may well be more difficult than those of the 1930's, and unless we cooperate to solve these problems, we may be faced with a resumption and intensification of monetary disorder and economic aggression in the postwar period. There is no need to enlarge on the consequences of such a development. It is a bleak prospect, yet it is one we must understand. In some countries it will present itself as the only practical alternative if the rest of the world should be unable to count on effective American participation in a rounded and coherent program covering international political and economic relations. If that should come to pass, we will have to frame our own future to fit a world in which war will never be a remote contingency and in which economic barriers and restrictions will be the rule in a contracting economic universe. On the other hand, if we ratify the Bretton Woods Agreements, we will be showing the rest of the world not only that we can cooperate for winning the war, not only that we are capable of formulating a program for fulfilling our common aspirations, but that we intend to enforce and implement such a program in every relevant sphere of action. Ratification would thus strengthen all the forward-looking elements in every country who wish to translate their craving for peace into deeds and will be a resounding answer to the pessimists who feel that peace is unattainable.

The institution of an international security organization on the lines agreed on at Dumbarton Oaks constitutes a history-making accomplishment of which we may well be proud. Here

is an organization for maintaining peace and political security which for the first time has teeth in it. But it is our duty to keep to a minimum the tensions to which that organization will be subjected and to deal with the economic causes of aggression before the stage is reached where more far-reaching measures would be necessary. International monetary and financial coöperation is indispensable for the maintenance of economic stability; and economic stability, in turn, is indispensable to the maintenance of political stability. Therefore, a program for international economic coöperation of which Bretton Woods is the first step must accompany the program for political and military security toward which the United Nations are moving. Bretton Woods is the model in the economic sphere of what Dumbarton Oaks is in the political. They reinforce and supplement each other. Political and economic security from aggression are indivisible, and a sound program for peace must achieve both.

III

As I have already said, agreement on international monetary and banking policy is only the first step toward the achievement of a constructive economic program through which world stability can be maintained and within which the horizon of prosperity can be expanded. Other measures, both national and international, will be required to round out the program.

Domestic economic stability is, of course, intimately bound up with international stability. But international stability by itself will not ensure domestic stability. It will be incumbent on us to adopt the kind of domestic program which will make possible the attainment and maintenance of high levels of employment with rising standards of living. I have sufficient faith in our economic system and the institutions of free enterprise and individual initiative to hope that this goal will be achieved. Needless to say, its achievement will be greatly facilitated by the promise of international monetary stability held forth by the Bretton Woods Agreements, just as the achievement of international monetary stability will be facilitated by a high level of prosperity in the United States. This is merely another illustration of the thesis that we are an integral part of the world economy and that the relations between the parts and the whole are intimate and mutual. High levels of employment in the United States strengthen economic and political stability throughout the world, which in turn reinforce American domestic prosperity.

In addition, international collaboration in the sphere of commercial policy, control of cartels, and possibly in the supply of primary commodities and labor standards will be needed if the basic causes of economic friction and aggression are to be abolished. The Fund and the Bank are not intended to cover these fields, which will, of course, be subjects for further discussion among the United Nations. The great objective of the Fund and the Bank is to provide the monetary and financial foundation without which agreement in these other important fields would be either impossible to attain or meaningless if attained. For no economic agreements among nations could survive discriminatory exchange practices, severe and repeated competitive currency depreciation, tight permanent exchange controls, and the like. In fact, it is not too much to say that when nations are pursuing competitive exchange policies — whether their purpose is aggressive or merely defensive is immaterial — reciprocal trade agreements cannot be made. Thus no reciprocal trade agreement with Germany in the period from 1933 to 1939, say, would have been worth the paper it was written on for the simple reason that all its purposes and effects would have been completely nullified by the exchange policy which the Germans pursued in those years.

This consideration applies with still greater force to agreements for protecting producers of primary commodities or for raising labor standards. How, for example, can we protect the American farmer in the world markets if a sizable wheat-producing country can resort to monetary action which places the wheat producers in that country in a preferred position with respect to American wheat exporters? If the American farmer is to continue to export wheat and to receive a fair price in dollars for the wheat he sells at home, he must know that the world price of wheat in terms of his own currency will not be seriously disturbed by large exchange fluctuations in the principal wheat exporting and importing countries.

And how can we obtain agreement protecting our own high labor standards if we do not participate in expansion of international long-term investment? For if the economically less advanced countries are to raise their labor standards they must increase their productivity, and to increase their productivity they need capital for modern machinery and processes. Unless adequate provision is made for a resumption and expansion of international investment by private investors on sound lines,

the less developed countries will have no alternative but to meet all their capital requirements themselves. The process of industrialization would then inevitably become more painful both to themselves and to the rest of the world, since they would have little choice but to control their imports rigorously and to compete as intensively as possible for their share of the world market, ruthlessly exploiting their own cheap labor, and undercutting countries with higher labor standards in the process. Instead of tending to raise their labor standards to our high level, this would tend to pull our labor standards down to theirs.

These instances are corollaries of the broader proposition that world stability and prosperity demand the expansion and growth of international trade and investment. In a contracting market each country will fight to maintain its foothold and will not be too fastidious as to the weapons it uses in the fight. An expanding market does not eliminate competition, but while competition assumes cutthroat and destructive forms in a contracting market, it tends to have socially beneficent effects in an expanding one.

IV

The Bretton Woods Agreements are thus the most vital step in the path of realizing effective international economic coöperation. Without monetary coöperation, international economic coöperation in other spheres will at best be short-lived; and it may not be too much to add that without monetary coöperation, international coöperation in non-economic spheres may be short-lived also. The Bretton Woods Agreements are also the most difficult step in international economic coöperation because while we were not exploring entirely uncharted seas, while precedents for monetary and financial collaboration for specific purposes existed, the scope and content of the collaboration proposed at Bretton Woods are so much broader and fuller that problems with infinitely more complications had to be solved. Our own stabilization fund has in the past entered into a number of arrangements with other governments and Central Banks to promote stability in exchange relationships between the United States and other countries. And such arrangements, while *bilateral* in character, undoubtedly made a definite contribution to orderly international monetary relations. An even broader form of *multilateral* coöperation through consultation with respect to contemplated changes in exchange rates was achieved by the

Tripartite Declaration of September 1936 among France, Great Britain and the United States, to which Belgium, Holland and Switzerland subsequently adhered. But without minimizing the significance of such monetary arrangements, and particularly of the Tripartite Accord, it is proper to note that because of their limited and improvised character, and also because of the conditions in which they were made, they could not cope with the range of problems the Fund and Bank are designed to handle.

Take, for example, the question of the relative international economic positions of the United States and England to which so much attention has been devoted in discussions of postwar trade possibilities. England was formerly a creditor nation and has now become a debtor. Previously she was able to turn her unfavorable trade balance into a favorable, or at least a compensated, balance of payments by receipts of interest and dividends on foreign investments and by receipts for current banking, insurance and shipping services. After the war she will have to expand her exports. Otherwise she will have to run down her foreign investment still further or resort to new borrowing, or she will have to curtail her imports which would lower her living standards and sharply restrict world trade. The United States has become a creditor country with the prospect of increasing exports, provided our customers are in a position to find the dollars which they need to pay for the goods and services they want to buy from us. Other countries cannot find the necessary dollars to pay for our exports unless we are willing to increase our own imports, our tourist and other expenditures abroad, or unless we are willing to become a creditor country on a greater scale, or both.

The measures for international coöperation on monetary and investment problems required to meet the needs of the United States and England must obviously be flexible in character and broad in scope. This was one of the outstanding accomplishments of Bretton Woods, an accomplishment which was easier to achieve because of the spirit of mutual understanding with which the American and British delegations faced their problems, and because of the extended British and American technical discussions during the two years prior to the Conference. I believe that the economic interests of the United States and Great Britain are not irreconcilable, that the world is large enough to provide an expanding market for the exports of both, and that, given the good will which has characterized the discussion of our common economic and financial problems in the past, no problem involv-

ing our two countries need remain unsolved. Quite obviously, the solution will be much less difficult in a world in which international trade is expanding and in which an adequate volume of sound and productive international investment is undertaken by private investors. That is precisely how the Fund and the Bank can contribute to the adjustment of international accounts.

v

But that is only part of the picture. At Bretton Woods, countries in very different stages of economic evolution joined in working out common instruments of monetary and investment policy. China and India are predominantly agrarian countries with low levels of industrialization and low standards of living. Naturally, they desire to raise both. The United States and England are countries with high levels of industrialization and high standards of living, which just as naturally desire to maintain and if possible raise both. Unless some framework which will make the desires of both sets of countries mutually compatible is established, economic and monetary conflicts between the less and more developed countries will almost certainly ensue. Nothing would be more menacing to world security than to have the less developed countries, comprising more than half the population of the world, ranged in economic battle against the less populous but industrially more advanced nations of the west.

The Bretton Woods approach is based on the realization that it is to the economic and political advantage of countries such as India and China, and also of countries such as England and the United States, that the industrialization and betterment of living conditions in the former be achieved with the aid and encouragement of the latter. For the process of industrialization, without which improvement of living standards is unattainable, can be most efficiently accomplished by an increasing volume of imports of machinery and equipment. And what could be more natural than for India and China to import such goods from England and the United States with their vastly expanded capacity for producing such goods? The harmony of economic interests in international trade between the more and less developed countries is a doctrine which has long been preached by economists, but it is a doctrine which has often not been honored in observance. The United Nations Monetary and Financial Conference made a big advance toward translating this theoretically sound maxim into practice.

Again, there is a clear line of demarcation between those countries ravaged by war and the countries fortunate enough because of their geographic situation to have escaped invasion, bombing and looting by the enemy. Nowhere was what I should like to call the Bretton Woods spirit more clearly manifest than in the Conference's determinations to give special attention and consideration to the problems of countries in the first category. It was shared no less by the countries whose territories had not been damaged by Axis operations than by the immediate victims of totalitarian aggression. The reconstruction of the devastated countries of Europe and Asia is essential if normal international trade relations are to be resumed promptly. These countries are vitally important to the export and import trade of the western hemisphere. That is why all the American Republics gave whole-hearted support to the provision that the Bank is to facilitate economic reconstruction. I should like to single out for special mention Russia's splendid demonstration of the sincerity of her intentions to participate in world economic reconstruction by raising her subscription to the Bank from 9 million dollars to 1.2 billion dollars on the last day of the Conference.

Finally, countries with widely divergent economic systems participated in preparing the Agreements for the Fund and the Bank. The United States is as indubitably a capitalist country as Russia is a socialist one. Yet both agree not only on the desirability of promoting monetary stability and international investment but on the means required to realize these ends. And this for a very simple and satisfactory reason — it is to the advantage of each to do so. As an impenitent adherent of the capitalist system, which in the crucible of war has once again shown its ability to deliver the goods, I am firmly convinced that capitalist and socialist societies can coexist, as long as neither resorts to destructive practices and as long as both abide by the rules of international economic fair play. Perhaps it is not too much to claim for the International Monetary Fund that it prescribes the standards in the field of monetary policy which it is hoped all countries, whatever their political and economic systems, will follow.

Despite these difficulties, the Bretton Woods Conference had to succeed because there is no other method of dealing with international monetary and financial problems than through international coöperation. There is no satisfactory alternative. There has been a suggestion that these were questions that could

be solved by the United States and England, perhaps with the aid in later years of a few so-called key countries. But this approach takes no account of the realities of the postwar situation. The establishment of an exclusive Anglo-American condominium would not be the appropriate means of dealing with international monetary problems. In the absence of effective international action, unstable exchange rates are much more likely to occur in other countries than in Britain. In fact, unless there is a *general* environment of stable and orderly exchange rates with expanding trade and adequate investment, the adjustment of the British balance of payments after the war will be immeasurably more difficult. The problem of exchange stability is a general problem. Our own exporters of agricultural and industrial goods need more assurance than the stability of the dollar-sterling rate of exchange provides. They want to know that the price and quantity of their exports will not be suddenly reduced by depreciation in the countries to which they export or in the countries with whose exports they compete.

I doubt that the 42 other United and Associated Nations, who have been fighting and working with us during the war, would take kindly to what might be regarded as dictatorship of the world's finances by two countries. There is a vague promise in this alternative that other countries might in time be added to the select group whose coöperation was regarded as desirable. But even these countries would be expected to coöperate by attaching themselves to a dollar bloc or a sterling bloc. If we should exclude the greater part of the world from coöperation on these problems and postpone for ten years agreement on stability and order in exchange rates, we should find that the world had become irrevocably committed to fluctuating exchange rates, exchange controls and bilateral clearing arrangements. Once firmly established, it would not be possible to obtain the general abandonment of these restrictive and discriminatory measures. Beyond that, there would seem to be considerable danger — political as well as economic — in setting up a world divided into two blocs. Such a division of the world would not only deprive us of the general advantages of multilateral trade but would inevitably lead to conflict between the two groups. The fact is that the problems considered at Bretton Woods are international problems, common to all countries, that can be dealt with only through broad international coöperation.

The above are only the most striking examples of the range of

issues before the Conference. Each country has its own peculiar position in the world economy which no other country duplicates. Naturally each country wants to safeguard and, if possible, strengthen this position. The representatives of all countries always had this consideration in mind in weighing the merits of the proposals for the Fund and the Bank. Yet the very fact that so broad an agreement was reached is the best proof that the United Nations have all learned that we are one world community in which the prosperity of each is bound up with the prosperity of all. Because this is a point on which I feel so deeply, I should like to quote from my speech to the final session of the Conference on July 22:

There is a curious notion that the protection of national interest and the development of international coöperation are conflicting philosophies — that somehow or other men of different nations cannot work together without sacrificing the interests of their particular nation. There has been talk of this sort — and from people who ought to know better — concerning the international coöperative nature of the undertaking just completed at Bretton Woods.

I am perfectly certain that no delegation to this Conference has lost sight for a moment of the particular national interest it was sent here to represent. The American delegation, which I have the honor of leading, has been, at all times, conscious of its primary obligation — the protection of American interests. And the other representatives here have been no less loyal or devoted to the welfare of their own people.

Yet none of us has found any incompatibility between devotion to our own country and joint action. Indeed, we have found on the contrary that the only genuine safeguard for our national interests lies in international coöperation.

VI

Attention should also be called to two resolutions of special significance passed by the Conference. The first recommends the earliest possible liquidation of the Bank for International Settlements. Whether rightly or wrongly, this institution has become inextricably identified with appeasement and collaboration. It is fitting that a United Nations Monetary and Financial Conference should record its unqualified stand on an existing financial organization which, to say the least, did not promote the ends we are seeking. Further, the Conference did not wish considerations of power politics to enter into the functioning of the instruments it fashioned. It is specifically stated that the Fund and the Bank should not be affected by political factors in their operations or in their recommendations to member countries. The Conference wanted to avoid linking the Fund and the Bank in any way with the Bank for International Settlements. It might be said

that the best way to deal with the problem was to ignore it. But that was not the feeling of the countries that have suffered from enemy occupation. Such a passive attitude would in itself have constituted appeasement of the Axis, and the root-and-branch recommendation is in much better accord with the determination of the United Nations to tolerate no institution that does not serve in the struggle for freedom and democracy.

The second resolution was designed to ensure the restoration to their rightful owners of property looted by Germany, Japan and their satellites. It supports the steps already taken by the United Nations and calls on the governments of neutral countries to facilitate the process of restoration. It is part of the United Nations program that the Axis and its Allies and agents should not be allowed to get away with any loot this time. This resolution implements that program and contributes to the strengthening of international law concerning international theft and banditry.

If I have dwelt at some length on the significance of the Bretton Woods program for international coöperation, it is because the subject has received less than its due attention and merit in the press, which has confined its discussions to the more purely monetary and financial aspects of the Conference. Its long-run political implications may be no less far-reaching than its economic achievements. For it is in our power to transform the Bretton Woods Agreements into an epoch-making precedent, a beacon of world progress.