

## THE AMERICAN LOAN, THE BRETTON WOODS AGREEMENTS AND THE FUTURE OF WORLD TRADE

BEFORE RISING for the Christmas recess Parliament approved the terms of the American loan with the concomitant agreement between the Governments of the United Kingdom and the United States to seek the discussion by other countries and the implementation of the American "Proposals for consideration by an International Conference on Trade and Employment." At the same time Parliament approved of, and passed an Act for the purpose of enabling the Government to give effect to, the Bretton Woods Agreements for the setting up of an International Monetary Fund and an International Bank for Reconstruction and Development.

These events constitute an important chapter in a story which began with the passing by Congress on March 11, 1941, of the Lend-Lease Act. In August of that year the Prime Minister (Mr. Churchill) and the President (Mr. Roosevelt) met and issued the "Atlantic Charter," pledging both countries to "endeavour, with due respect for their existing obligations, to further the enjoyment by all States, great or small, victor or vanquished, of access on equal terms to the trade and to the raw materials of the world which are needed for their economic prosperity."

### Mutual Aid Agreement

At the end of the year the United States came into the war as an active belligerent, and on February 23, 1942, the two countries entered into the Mutual Aid agreement. It declared that in the final determination of the recompense to be made for Lend-Lease aid "the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world trade economic relations. To that end they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers."

The Financial Agreement (Cmd. 6708) provides for the extension to this country of a line of credit up to 3,750 million dollars available until December 31, 1951. Interest is to be reckoned at 2 per cent. as from the end of 1951, and repayment of principle and interest to be by 50 equal annual instalments.

In accordance with the Mutual Aid agreement it is specified that the purpose of the credit is *inter alia* to assist the U.K. "to meet transitional post-war deficits in its current balance of payments" and to enable it "to assume the obligations of multilateral trade." It also provides that the U.K. will not impose exchange controls so as to restrict current transactions between the two countries, and that if either country imposes quantitative import restrictions it will not discriminate against imports from the other country.

A joint statement appended to the Financial Agreement deals with the settlement of Lend-Lease and fixes the net sum due from the U.K. to the U.S.A. at 650 million dollars, including U.S. surplus property and its interest installations located in the U.K. This sum is added to the credit and repayable accordingly. The total is, under both heads, 4,400 million dollars or about £1,100 million. Thus is brought to an end what Mr. Churchill has described as "that most unsordid act in the history of nations."

### Bretton Woods Agreements

The United Nations Monetary and Financial Conference at Bretton Woods in July, 1944, resulted in the adoption of three reports. Two of these deal with and lay down the constitutions of the International Monetary Fund and the International Bank for Reconstruction and Development. The third, which is usually overlooked, recommended the United Nations to seek agreement on means whereby they may best reduce obstacles

to international trade; bring about orderly marketing of staple commodities; deal with the problems of cessation of war production, and harmonise national policies designed to promote high levels of employment.

The purposes of the International Monetary Fund are to promote international monetary co-operation; facilitate the expansion and balanced growth of international trade; promote exchange stability, and assist in the establishment of a multilateral system of payments and the elimination of foreign exchange restrictions.

The means of achieving these ends include the expression of the par value of the currencies of each member in terms of gold (or what is the same, of U.S. dollars of the weight and fineness in force on July 1, 1944). The members undertake not to buy or sell gold at prices varying from the par value by more than a certain margin. In like manner they undertake that spot exchange transactions shall not take place at rates differing by more than one per cent. from parity, and forward transactions within margins determined by the Fund. Each member undertakes to permit within its territories exchange transactions only within the limits prescribed, and this obligation is deemed to be fulfilled by any member whose monetary authorities freely buy and sell gold within the margin.

### Exchange Stability

Changes in the par value of a member's currency are not to be made "except to correct a fundamental disequilibrium" in its international balance of payments and only after consultation with the Fund. Although the member is then free to make a ten per cent. change, the provision will presumably deter members from such changes. Further changes may be made subject to certain conditions. The resources placed at the disposal of the Fund in the quotas of gold, dollars and member's currencies provide a means of relieving members from temporary pressure which might induce them to de-value. They can purchase from the Fund the currency of other members either for gold or for their own national currencies up to limits related to the quota which they subscribed; and they are obliged, if they desire to purchase the currency of another member for gold and can do so with equal advantage, to acquire it by sale of gold to the Fund. Members of the Fund undertake not, without the approval of the Fund, to impose restrictions on the making of payments and transfers for current international transactions, and not to engage in discriminatory currency arrangements or multiple currency practices.

The agreement contains many detailed provisions for the management of the Fund and the conduct of its operations, but it may be described broadly as an international money-changing office whose function is to supplement but not to supplant the ordinary means of conducting foreign exchange transactions and which can by its strength help its members over periods of temporary difficulty, and by these and other means discourage them from resorting to the restrictive practices which so impeded trade in the period between the two wars.

### An International Trade Organisation

Lastly we come to the "Proposals for Consideration by an International Conference on Trade and Employment" (Cmd. 6709). These purport to be prepared by the American Secretary of State, but we may assume not without collaboration with the British Government, which states itself to be "in full agreement on all important points in these proposals and accepts them as a basis for international discussion."

They state that "in order to reach the objectives of the Atlantic Charter and Article VII of the Mutual Aid agreements, it is essential that the co-operative economic measures already taken or recommended be supplemented by further measures dealing directly with trade barriers and discriminations which stand in the way of an expansion of multilateral trade and by an undertaking on the part of the nations to seek full employment."

Among the governing principles it is laid down that

"domestic programmes to expand employment should be consistent with realisation of the purposes of liberal international agreements and compatible with the economic well-being of other nations."

### Purposes of the Organisation

The purposes of the International Trade Organisation should be (1) to promote international commercial co-operation, (2) to enable members to avoid recourse to measures destructive of world commerce, (3) to facilitate access by all members, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity, (4) in general to promote national and international action for the expansion of the production, exchange and consumption of goods, for the reduction of tariffs and other trade barriers, and for the elimination of all forms of discriminatory treatment in international commerce.

Among the provisions to these ends the following may be noted:

"Members should undertake to treat imported goods no less favourably than domestic goods in matters of taxation and regulation; to facilitate the transit of goods through their territories by exempting them from customs and transit charges; to establish uniform and simplified customs formalities so that no indirect protection is afforded to domestic goods.

### Tariffs and Preferences

"Members should enter into arrangements for the substantial reduction of tariffs and for the elimination of tariff preferences." Action for reduction of preferences would be taken in conjunction with measures for substantial reduction of barriers to world trade, but "existing international commitments will not be permitted to stand in the way of action agreed upon with respect to tariff preferences." Margins of preference should not be increased and no new preferences introduced, while all negotiated reductions of most-favoured nation tariffs should automatically reduce margins of preference. It is in this way that the reservation "with due respect to their existing obligations" in the Atlantic Charter would be interpreted.

"Members should undertake not to maintain any quotas, embargoes, or other quantitative restrictions on their export or import trade with other members," subject to some exceptions of a temporary character.

### No Discrimination

Measures are proposed for curtailing subsidies, and particularly subsidies on exports. Members engaging in State trading "should undertake that the foreign purchases and sales of their State-trading enterprises shall be influenced solely by commercial considerations, such as price, quality, marketability, transportation and terms of purchase or sale."

As foreign exchange controls can also impede trade, it is proposed that members should abide by the principles contained in the agreement on the International Monetary Fund and should be members of that organisation.

Members should make individual and concerted efforts to curb "restrictive business practices in international trade (such as combinations or agreements to fix prices and terms of sale, divide markets or territories, limit production or exports, suppress technology or invention, exclude enterprises from particular fields, or boycott or discriminate against particular firms)."

The extracts given will serve to indicate the very wide scope of the proposed International Trade Organisation. Limitation of space compels the omission of even such important matters as the proposals relating to international commodity agreements.

### What Will be Achieved

If these proposals are adopted by a large number of countries, and if they are implemented faithfully in the spirit in which they are conceived, there is a prospect of reversal of the trend for obstructing international trade by tariffs, quotas, foreign exchange controls, and other discriminatory and burdensome practices. Thus would be removed not only a cause of economic impoverishment, but one of the sources of hatred and conflict which lead to war.

This is a constructive attempt to give effect to the Atlantic

Charter ideal of "access on equal terms to the trade and raw materials of the world," so far in the case of raw materials as access to them is obtained by means of international trade.

### What Remains to be Done

There remains still untouched the most important condition of access to land as the source of raw materials. Where land is not freely open to those who would make use of it, the production of raw materials is stifled at the start. This problem has evidently not engaged the attention of those who drafted these proposals. None the less, its solution is essential to their completeness. The solution is, moreover, co-related with the reduction of tariffs, for the revenue lost through the abolition of reduction of tariffs could most wisely and suitably be regained by the imposition of taxes on the value of land which would prevent the holding of land out of use and ensure to all equal access to land and equal opportunity to produce.

Both the Bretton Woods Conference and the Proposals for Consideration look toward the establishment of full employment or of a high and stable level of employment, as a main condition for the attainment of satisfactory levels of living. This condition is essential. Men can easily be found employment if no regard is paid to the value of what they produce. But if their employment is to be fully productive they must either use more land or use land more intensively. Land is as much a factor in the production of wealth as is labour. Labour cannot be employed without land. Equal and unfettered access to land is, therefore, the foundation of full employment and of full production, and so of the economic prosperity, the improved labour standards, economic advancement and social security to which the Atlantic Charter looked forward. This part of the task is still to be completed.

### Necessity of Free Trade

Nothing in any of these arrangements prevents any country from pursuing on its own account a more liberal trade policy. This point deserves special emphasis because the parliamentary discussion was calculated to convey the impression that greater freedom of trade was entirely conditional upon other countries agreeing to a like policy. If no other country were to reduce its tariffs, it would still be to the advantage of this country to revert to complete freedom of trade. The arguments in favour of this are so well known and so indisputable as to require no restatement here. Protection is in its nature, and must inevitably be, a device for restricting the total volume of wealth available to any community which practises it. Consequently it must result in over-all impoverishment. If, in fact, it has the result, as it usually has, of enriching some small privileged class, it must thereby inflict a double injury upon the rest of the community. The interests of our people, therefore, require that the Government should in any event abolish the tariffs and other restrictions which interfere with trade. The need for so doing is not diminished but is rendered even more imperative by the straitened condition in which the war has left us. The American loan is at best a device for mitigating a severe temporary stringency, but permanent alleviation depends upon throwing our own land open for all purposes of production and trade and removing all the barriers which the policy of past Governments has raised against the exchange of wealth produced for the production of other countries.

"BRETTON WOODS." To those who are looking for a simple and popular description of the International Monetary Fund and of the International Bank for Reconstruction and Development, and explanation of their functions, we can cordially recommend the sixpenny booklet (7d. by post) *Bretton Woods*, obtainable from the United Nations Information Organisation, 38 Russell Square, London, W.C.1.

\* \* \*

Professor Salvador de Madariaga addressed Foyle's (London) literary luncheon on December 14. Speaking "as the Liberal that I am," Professor de Madariaga warned Liberals against the "sin" of selling their birthright "not for a mess of pottage but for a pot of Beveridge." The duty of Liberals was to give predominance to the idea of liberty "at every moment of collective life" and to say "How about liberty?" before asking "How about security?" or "How many pounds a week?"—*Manchester Guardian* report.