

What International Monetary Stabilization Means to Canada

By "HERMES"

THE United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, in July, 1944, was attended by delegates, advisers, and technical experts representing forty-four countries. The meeting had been preceded by a considerable amount of discussion on an international level. Early in 1943 attention was focussed on two international currency plans, one prepared by Lord Keynes for the British Government (bancor) and the other by Mr. Harry White, published by the United States Treasury (unitas). The culmination of discussions was the signing by all representatives of a document embodying the principles agreed upon by monetary experts. If the Agreements are acceptable to the governments concerned, they will serve as an instrument by which the United Nations will exercise supervision over the processes bearing on international trade.

The conference, in fact, produced two Agreements for submission to the governments represented: one providing for the establishment of an International Monetary Fund and the other for an International Bank for Reconstruction and Development. There were also Agreements on several other matters such as the restoration of property "looted" by the enemy, and recommendations on ways and means of harmonizing national policies in order to promote high levels of employment and rising standards of living. The Articles of Agreement are in draft form and no government is bound until they have been ratified officially after legislative approval.

The proposals were placed before the American Congress in February of this year by the late President Roosevelt who urged that they be implemented in

their entirety by the United States. Shortly after his inauguration President Truman also expressed himself in favour of their adoption. A considerable amount of opposition, however, has developed in that country, mainly with respect to the projected Fund and hearings before a Senate Committee presently are in progress. So far no nation has formally ratified the Agreements and it is apparent that the attitude of other countries is to wait and see how they are dealt with by the United States Congress before taking action.

The Objectives of Bretton Woods

At the end of the war many countries will require goods and services. For some time following cessation of hostilities certain countries could show a large excess of imports over exports. The foreign resources of these countries may be small and their financial institutions may not be able to borrow abroad on their own credit standing.

A prime purpose of "Bretton Woods" was to establish an organization with sufficient assets to meet at least the initial foreign exchange requirements of its members — particularly war-exhausted nations.

The International Monetary Fund was proposed in order to make possible foreign exchange loans—limited in amounts—for *current* or *short term* transactions. "It is to enable each member country (within set limits) to cover temporary shortages of a needed currency arising from an adverse balance of trade between it and some other member."

A second concomitant purpose of "Bretton Woods" was to assist nations which otherwise would not have access to capital markets to obtain long term capital for specific purposes. The International Bank for Reconstruction and

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Development was proposed for this purpose.

The Monetary Fund

The purposes of the International Monetary Fund are:

- (a) To promote international monetary co-operation through a permanent institution which provides the machinery for consultation on international monetary problems.
- (b) To facilitate the expansion and balanced growth of international trade and to contribute in this way to the maintenance of a high level of employment and real income.
- (c) To give confidence to member countries by making the Fund's resources available to them under adequate safeguards, thus giving members time to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
- (d) To promote exchange stability, to maintain orderly exchange arrangements among member countries, and to avoid competitive exchange depreciation.
- (e) To assist in the establishment of multilateral payments facilities on current transactions among member countries and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- (f) To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

Essentially, the plan is a co-operative arrangement under which each country agrees to make available to the other members an amount of its own currency and gold equivalent to a given amount of American dollars at their present gold exchange value, an amount which is called that country's "quota." The quotas of the nations represented at

Bretton Woods total 8.8 billion dollars. The amount of gold to be contributed by each country is 25 per cent of the amount of its quota, or 10 per cent of its official holdings of gold or American dollars, whichever is less. In return, each country receives a right to borrow the currencies of other countries held by the Fund up to the amount of its quota, subject to the condition that the money borrowed is for the purposes of the Fund, with the proviso that no country shall have the right to borrow more than 25 per cent of its quota in any one year. When a country borrows, it is required to pay a small initial fee and, after a certain length of time, must pay interest on its borrowings at a rate which increases progressively with the percentage of its quota borrowed and with the length of time the loan is outstanding.

As an example of the manner in which the Fund is expected to operate, suppose some country to have been buying heavily in Canada but selling only a small amount of goods here. As a result it would have a deficit in its trade balance with Canada. Ordinarily this would be settled either with foreign exchange that the other country might hold or with gold. Lacking these, the free flow of trade would be interrupted. Under the proposed scheme, however, it would be possible for that country to go to the Fund and buy Canadian dollars, using its own currency to finance the transaction until the situation is rectified, without bidding up the price of Canadian dollars or, to put it another way, being forced into depreciating its own exchange.

Exchange rates and members' obligations in respect to them are a central feature of the Fund Agreement. In substance, after the par value of a member's currency has been established, in accordance with an agreed procedure, the member undertakes to maintain such established rate of exchange between its currency and foreign currencies, except as methods for orderly and necessary changes are provided by the Agreement. Exchange stability, however, is viewed not as an end in itself but as a means of

promoting trade, and it is recognized that changes in rates may at times be necessary. Accordingly a member country may, in order to correct a fundamental disequilibrium, alter the par value of its currency by ten per cent from that initially established. For any proposed changes beyond ten per cent the Fund has a right to object or concur.

Dealings between the Fund and member countries are to take place only through the central banks or similar fiscal agencies of member countries. Ordinary transactions in exchange by nationals of member countries will continue to be effected through the usual channels. Only when a shortage of foreign currencies develops will the market in a country go to that country's central authorities, which in turn will apply to the Fund.

The limitations on the power of the Fund arise from the fact that it cannot bring about an equality of production costs, living standards and value conditions from country to country. It cannot directly do more than provide a breathing space for countries with unfavourable trade balances. As the Fund authorities are not authorized to enter the money markets directly for the purpose of enforcing stability, they must rely on the co-operation of members to maintain par values. The Fund cannot prevent the withdrawal of members and cannot force any country to join and therefore must rely on the benefits of co-operation to maintain adherence. Further, it is generally recognized that the policies adopted by the United States will be a dominating factor. The view is widely held that a persistently large favourable balance of payments for that country might in due course reduce the supply of United States dollars in international trade to the extent that the Fund would find it difficult, if not impossible, to continue to operate.

The Bank

The purposes of the Bank are:

- (a) To assist in the reconstruction and development of territories of

members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peace-time needs, and the encouragement of the development of productive facilities and resources in less developed countries.

- (b) To promote private foreign investment by means of guarantees or participation in loans and to supplement private investment when private capital is not available on reasonable terms.
- (c) To promote the long-range balanced growth of international trade and encourage international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living, and conditions of labour in their territories.
- (d) To arrange loans (made by the Bank or guaranteed by the Bank) so that the more useful and urgent projects, large and small alike, will be dealt with first.
- (e) To conduct its operations so as to bring about a smooth transition from a war-time to peace-time economy.

Loans and guarantees shall not exceed one hundred per cent of the unimpaired subscribed capital, reserves, and surplus of the Bank. Three broad ways in which the Bank may make or facilitate loans are:

- (a) By making or participating in direct loans out of its own funds;
- (b) By making or participating in direct loans out of funds raised in the market of a member or otherwise borrowed by the Bank;
- (c) By guaranteeing in whole or in part loans made by private investors through the usual investment channels.

The latter activity is to constitute the major operation of the Bank, accounting for eighty per cent of its resources. Twenty per cent, or 2,000 million dollars, plus earned surpluses, is to be the extent of direct loans by the Bank.

The Bank may guarantee, participate in, or make loans to any member or any political subdivision thereof, and any business, industrial or agricultural enterprise in the territory of a member, subject to certain conditions. One of these conditions is that the Bank must be satisfied that in the prevailing market conditions, the borrower would be unable otherwise to obtain the loan under reasonable terms. Loans made or guaranteed by the Bank shall, *except in special circumstances*,¹ be for the purpose of specific projects of reconstruction or development. Due regard must also be paid to the prospect that the borrower or the guarantor will be in a position to meet its obligation.

The rates of interest and commissions on direct loans of the Bank's own capital funds are to be determined by the Bank. Rates of commission on loans financed by sale of the Bank's own obligations or by its guarantees during the first ten years of the Bank's operations, shall not be less than one per cent nor more than one and one-half per cent per annum and shall be charged on the outstanding portion of such loan.

The Bank does not require that the proceeds of a loan, whether direct or guaranteed, shall be spent in the territories of any particular member or members. Proceeds will be credited to the borrower in the currency borrowed and may be drawn against only to meet expenses in connection with the project for which the loan was granted as these are actually incurred.

Examples of Operation

Many examples may be suggested to illustrate the manner in which the Agree-

ments would work. Two examples will serve:

(1) *Suppose that Canada wishes to purchase a commodity from Australia:*

The Canadian buyer might have received an offer from the Australian supplier with the price expressed in Australian pounds, in sterling, in Canadian dollars, or perhaps, under peace-time conditions, in United States dollars. The transaction in the first instance would be financed through a bank in Australia and a bank in Canada, but regardless of the currency in which the price was expressed, the Australian would receive Australian pounds while the Canadian would provide Canadian dollars. As the principal market for Australian pounds is in London, settlement between the Canadian and Australian banks would eventually be made there. If the Canadian buyer made a request to his bank for Australian pounds, the Canadian bank would attempt to buy them in London, proposing to pay for them in sterling which they would acquire from the Foreign Exchange Control Board who would provide it out of their accumulated sterling balances. The Australian bank receiving the London exchange in London would account for it to the Australian Exchange Board. The funds provided, therefore, by Canada would be available for a reverse transaction or be available for other trade handled by Canada or Australia on a multilateral basis, such as Canada making a shipment to the United Kingdom and Australia buying in that market.

Under strained exchange conditions the purchase by Canada of a commodity from Australia might be handicapped or even made impossible through Canada being short of sterling or Australia having too much. With the International Monetary Fund in effect this is unlikely to happen to the extent that trade cannot be done since, through the statistics which the Fund is to obtain, it would be aware of trends before they became prohibitive and be able to suggest some corrective steps. These corrective steps might be the temporary borrowing of foreign cur-

1. Interpreted to mean that the Bank can make stabilization loans to countries which, because of internal problems, cannot satisfy their demands for exchange by drawing on the Fund or have exhausted their credit with the United States.

rency against a deposit of local currency within the provisions of the Fund, a recommendation that certain types of trade or capital transfers be delayed, or even that application for a long-term loan be made to the International Bank for Reconstruction and Development. In the meantime, through the requirements of the Fund, rates of exchange between Canada and Australia would have remained relatively steady and the buyer and producer would not have had the worries of daily fluctuating rates or of imposition of restrictions which might have prevented settlement of the transaction which is distinctly one coming under the description of current account.

(2) *Suppose that China wishes to buy a commodity from Canada:*

It is unlikely that a Canadian producer would offer goods to a buyer in China in prices expressed in Chinese dollars. Present conditions require an exporter of goods from Canada to China to obtain United States dollars or a currency which is freely convertible into those funds in the United States market. It is most likely that a Canadian producer shipping to China would ask for a United States dollar letter of credit issued by a bank established in China, entitling the Canadian shipper to receive United States dollars without recourse. The Canadian seller would then, under the terms of the credit, draw on New York and the Chinese purchaser would pay Chinese dollars into his bank in China. That bank would then have to acquire United States dollars and his bank would be subject to whatever exchange regulations were effective in China. Without any international arrangements, the United States dollars might be difficult to obtain and the Canadian might have to find another market for his goods.

With the International Monetary Fund and the International Bank for Reconstruction and Development, a certain supply of United States dollars would be available at relatively stable rates and China would have committed itself to settle this current account transaction.

In part these United States dollars might have arisen from an export of goods from China to the United States or to some other country as no firm in China would be allowed, under the terms of the Fund, to retain the United States dollars which such a shipment might have produced. If China had already used all the United States dollars which it was entitled to receive from the Fund against its first deposit of Chinese dollars or gold and none were immediately available from exports, it could obtain limited additional supplies by the deposit of further Chinese dollars or make an application to the Bank for a loan. All the Chinese dollars deposited with the Fund are available to the other members with which to pay for Chinese goods and if not so used, trade could not continue. Here again the trend in that direction would be known to the Fund and discussions would take place at an international level leading to a solution of the difficulties which pointed to that inevitable result.

The Interest of Canada in "Bretton Woods"

There are few nations which have as vital a concern as has Canada in the "Bretton Woods" objectives of the orderly adjustment of monetary relations between countries and the development of an expanded world trade. The connection between Canada's external trade and the level of domestic income and employment is well known and requires no elaboration here. Furthermore, we are particularly dependent on multi-lateral trade. Without undue simplification it may be said that normally a large proportion of Canada's exports of food-stuffs and primary products are sold to Great Britain or other countries in the Sterling Area while the greater part of her external obligations are owed to the United States. In consequence, Canada must be able to exchange an appreciable part of the sterling received from exports in order to cover dollar requirements in New York. This, of course, has not been possible during the war, with results in

the form of import and travel restrictions with which all are familiar.

The matter of Canada's interest in the Agreements is dealt with in the White Paper on Employment and Income presented to Parliament by the Minister of Reconstruction in April of this year, in part as follows:

The Monetary Fund plan would assure comparative stability of exchange rates and, where change was desirable, would substitute for competitive depreciation of exchanges an orderly process of change following international consultation. It would outlaw the discriminatory currency practices which turned trade into economic warfare. When it was fully in operation, it would assure the convertibility of the proceeds of our sales abroad into whatever currencies we required for our current needs. It would give to each member country for the purposes of its current balance of payments an assured, though limited, line of credit to serve as a buttress to policies directed to the expansion of employment.

The regular transfer of capital from surplus to deficit countries for purposes of reconstruction and development is essential to the expansion and stability of international trade.

The Bank of Reconstruction and Development would provide, through an international institution, for a needed revival of international investment.

In the interest of Canadian and world prosperity and of peaceful collaboration among nations, the Government endorses these plans and hopes that Parliament will in due course approve the draft Agreements. In reaching this view, the Government is mindful of the possibility that Canada might, as a member of both institutions, occupy the position of a "creditor" nation.

It is generally recognized that the institutions agreed upon at Bretton Woods do not and could not aspire to provide all the elements necessary for the re-establishment of sustained trade and prosperity. In particular they could take the place neither of rational commercial policies in international trade nor of sound domestic policies. Much will have to be done both to rehabilitate devastated areas and to eliminate disruptive tendencies which were operative in the pre-war period. Nevertheless, the Bretton Woods Agreements if ratified will represent a worthwhile forward step in world co-operation.

Have We a Canadian Nation?

By GEORGE GRANT

I.

WHAT is it that makes a nation? How is it formed? From what elements does it get its peculiar character? In any attempt at analysis, one inevitably finds that a nation is compounded out of so many parts, woven together in so many strands, existent because of so many interdependent factors, that it is impossible to determine exactly what gives it its cohesive strength. Race (if there is such a thing), language certainly, geographical area, long remembrance of life under a distinctive form of government (this is not always there), love of common traditions and beliefs, a solid core of common religious ideals and many other factors are

blended together. Some of these factors are basic, some merely incidental. And all these elements have, like a complicated chemical compound, ceased to be merely a mixture of separate differing substances, but have fused into a distinctive entity.

It is impossible to analyse its substance intellectually and so it becomes a mystery, and the nation a mystic symbol, deeply important in itself. We see this in French or Polish nationalism, in Russian (more powerful to-day than ever before) or Greek. We see it in that unpretentious variety that is so sure of itself that it need not be talked of—the English. And we see the nationalism of Germany—once in part fine, but now dominated by the half-farcical, half-tragic legend of the master race. Yes, nationalism is a great thing. When embodied in a

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