

Statement by Henry Morgenthau Jr (Washington, 7 March 1945)

Caption: On 7 March 1945, Henry Morgenthau Jr, US Secretary of the Treasury, outlines the economic and political importance of the Bretton Woods Agreements in an address to the Committee on Banking and Currency of the House of Representatives in Washington.

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Statement of Secretary Morgenthau before the Committee on Banking and Currency of the House of Representatives (Washington, 7 March 1945)

The Bretton Woods Agreements

The legislation which you have been good enough to ask me to discuss with you today is perhaps the most important measure for postwar international cooperation yet to come before Congress.

Right at the outset, therefore, I would like you to know that I have examined it just as carefully as I know how, and I am convinced of one fundamental fact. The Bretton Woods agreements are good for every American citizen.

I have been in close contact with every step of their development. I have watched the many months of arduous preliminary work. I have taken part in the deliberations of the conference at Bretton Woods, New Hampshire. I have studied the discussion that has taken place in the seven months since then. And I can assure you that the program we are advocating is definitely good business for the United States.

The Bretton Woods agreements, it is true, deal with the rather technical questions of national currencies and international credits. But they present a very simple issue – stability and order instead of insecurity and chaos.

Furthermore, these agreements can be translated into the basic necessities of life for the American people. They involve jobs and profits. They help determine the fate of both new and old enterprises. They govern the amount of food on the family table, the money for a new radio, school books for the children. Our country has as much to gain, perhaps more than any other, from passage of the legislation now before you.

The Bretton Woods agreements are a firm step toward the solution of two problems which concern the American people more than anything except only the progress of our fighting men overseas. These problems are the organization of world security and the development of the world's resources for the benefit of all its people. Of course, the two objectives are as interdependent as the blades of a pair of scissors. One will not work very well without the other.

Legislation to carry out the Bretton Woods program is the first practical test of our willingness to cooperate in the work of world reconstruction and stabilization. It is also one very important step toward the orderly, expanding foreign trade upon which the future prosperity of our agriculture and our industry depends.

At Bretton Woods, the representatives of 44 United Nations agreed upon the creation of an International Monetary Fund and an International Bank for Reconstruction and Development. The members of Congress, who were part of our delegation and contributed much to the success of the conference know that there was no trace of partisan politics in our deliberations. Nor has partisanship intruded itself into the issue since then.

We were seeking a solution to one of the world's knottiest problems. Only the good will, good sense and sincerity of all the 44 nations could have found it. And I am confident that we did find it.

The Monetary Fund provides machinery for preventing or if need be repairing the dislocation of international exchange rates. Stability in these rates means that all the nations can enter into world commerce without resorting to cut-throat competition. In world trade, such throat-cutting in the 1930's took the form of currency depreciation, blocked funds, import quotas, multiple currencies and trade preferences. Desperate nations tried to save themselves at the expense of their neighbors. The result was injury to both. The trade of the United States suffered heavily from discriminatory practices of this kind. Our foreign commerce, which had fallen off sharply during the depression, made substantial gains where trade was free, but failed to recover and even lost ground in trade with those countries which, had set up monetary barriers against us.

One of the chief contributions to peace that the Bretton Woods program offers is that it will free the small

and even the middle-sized nations from the danger of economic aggression by more powerful neighbors. The lesser nation will no longer be obliged to look to a single powerful country for monetary support or capital for development, and have to make dangerous political and economic concessions in the process. Political independence in the past has often proved to be a sham when economic independence did not go with it.

Under the Bretton Woods agreements, both will be strengthened. The smaller countries can come to the International Fund for monetary aid and to the world bank for reconstruction and development funds. Loans will be made without political strings and without forcing the borrower into unnatural or undesirable trade relationships.

Therefore, in considering the legislation to carry out the Bretton Woods program, the choice before us is the fundamental one of economic isolationism versus United States cooperation in the rebuilding of a peaceful world. We know that economic security in the midst of political chaos is impossible. But political security in the midst of economic chaos is equally impossible. The Bretton Woods agreements are a part of the overfall program to achieve both political and economic security.

Power politics, in the sense of the bullying of small nations by big ones and of weak nations by powerful ones, has become a term of reproach in the world. The United Nations hope to abolish it from the earth. But power economics may be just as dangerous, for if it is not the root of all evil in international affairs it is at the very least a frequent cause of conflict. The legislation before this committee offers what I am convinced is our best hope of banishing that, too.

Of course, no program that the wisdom of men could devise can possibly prevent a repetition of the tragedies of the Thirties unless there is a will to carry it out. Obviously, governments first of all must want to achieve monetary stability. The fact that 44 delegations approved the Monetary Fund was the substantial evidence of their desire for stabilization. The legislation before your committee is simply the machinery through which that will can be expressed.

The International Bank for Reconstruction and Development is designed to stimulate the reconstruction of war-torn countries and the necessary development in all countries. It is strictly confined to loans for thoroughly productive purposes. It is hedged about with safeguards to insure sound practices. Its functions have been formulated so that private finance will be rather helped than hindered by its operation.

The practical benefits of the program are so great and so obvious that I should like to summarize them briefly. But it must be understood that the success of the Bretton Woods agreements, and the success of any other international agreements or national policies, depend upon other, progressive and intelligent measures to insure the economic health of the world.

As an important part of the machinery for establishing peace and promoting a profitable and Useful commerce after the war, the Bretton Woods agreements will do or contribute to the doing of these things:

They will offer a medium for stabilizing exchange rates through which the foreign business of American firms can be carried out in an orderly manner and on an expanding scale. Anyone who had to grope his business way through the maze of fluctuating foreign currencies between the two world wars will appreciate the value of this.

The agreements will be an equal benefit to American companies with branches abroad. In all too many cases in the past, the profits of those branches were frozen. The Bretton Woods program will facilitate the payment of the legitimate profits of American branches abroad by any member nation.

Because it offers a method for stabilizing currencies, the Monetary Fund is a long step toward eliminating some of the most dangerous restrictions on foreign trade. It removes the excuse for the tangle of import quotas, discriminatory tariffs and other desperate measures which added so many difficulties to the friendly economic relations between nations in the Thirties.

The operation of the Bank will offer the best protection the American investor has ever enjoyed in the field of foreign finance. The facilities of the Bank are to be such that the private American purchaser of foreign bonds will know that impartial experts have considered the purpose of the loan sound. If the Bank's own money goes into floating the issue, the loan will also be guaranteed by the borrowing country and by all the resources of the Bank as derived from 44 member nations. People who bought certain foreign bonds during the Twenties will realize how great a boon this can be.

In effect, the Bank discourages the borrowing country from seeking money that it cannot use productively and repay in full. It protects the lender from putting his money into investments that are not sound either because the borrower is over-extended or because the purpose of the loan is not genuinely useful.

In the post-war world there will be many demands for reconstruction and new development which will not offer an attractive return to private finance. Or perhaps they will seem too risky to the private financier. These loans the Bank would be prepared to make itself at low rates of interest or to guarantee for the private financing group. The obvious result will be speedier rebuilding of the nations which are America's customers and the development of new resources and new sources of wealth in countries which will be better customers than before.

In short, the whole program becomes the foundation for protection of Investors, a program which will encourage productive investments abroad. It becomes the basis for stabilizing foreign trade, which is essential to full production and full employment in the United States.

Of course, that foundation must be built upon. The walls and roof are quite as important. But let us do first things first. The walls will totter and the roof fall in on us unless we have the firm foundation. That is, provided in the Bretton Woods agreements and in the legislation for putting them into effect.

I should like to enter a plea here to avoid delay in building our foundation. Time is the most valuable commodity we have. I do not urge haste in the deliberations of this Committee or the Congress. I am sure that the more you study the facts, the more you will approve of the Bretton Woods proposals. As I have tried to indicate, these are essentially the establishment of stable exchange arrangements for the world's commerce. In my own experience as an advocate of Bretton Woods in these last few months, I have found that an open mind and understanding of the principles of the agreements is followed by approval.

The delay I would wish to avoid is not the delay, of full and frank discussion. It is the delay that would be caused by attempting to convene another conference if these agreements should be rejected. At Bretton Woods we had our chance to begin building post-war monetary stability. We made the most of it. But it is unlikely that this opportunity will come again to our generation.

There is another point even more important, if that is possible. The fate of more than the Bretton Woods agreements hangs upon the action of Congress at this time. Favorable action on the bills before you will provide the most heartening evidence you can give that we in the United States are thoroughly sincere in our devotion to the principles of international cooperation. You will have added deeds to the words of hope which linked the United Nations in a great alliance for peace.

The world security organization which was outlined at Dumbarton Oaks and will be completed, we all hope, at San Francisco needs the Bretton Woods agreements.

We cannot say that we will join the other nations in an organization to maintain peace, but will not help to remove one of the most dangerous causes of war – economic dislocations. We cannot say we believe in cooperation to beat Fascism, but will not cooperate in the removal of one of Fascism's chief weapons – economic aggression. We cannot say we want equality of all nations and leave some of them at the financial mercy of others.

We are committed by all that we have said and done in these last four years to a community of power in the

world, not to the irresponsible, unilateral wielding of power. The Bretton Woods agreements offer us the machinery for bringing the strength of 44 nations to the task of stabilizing the media by which peoples exchange their goods, conduct business with each other, and provide for a mutual rise in standards of living.

The men who will follow me in putting this case before you will amplify these arguments. They will give you the whole record, and for my part I am eager that the record speak for us. The facts, all the facts and nothing but the facts are what this Committee and both Houses of the Congress will want. Perhaps the most important fact of all is that we are facing one of those critical moments in history to which future generations will look back and say:

"There the world was at a turning point."

The stupendous task for us – for you in the Congress and us in the executive departments of government is to act now so that those future generations also will say:

"Thank God, they took the right turning."