

HEARINGS ON BRETTON WOODS ENABLING LEGISLATION

BEFORE HOUSE BANKING AND CURRENCY COMMITTEE

April 20, 1945 -- 2:00 P.M.

(Sixteenth day of hearings)

Mr. Albert M. Creighton, Chairman of the Board of the Federal Reserve Bank of Boston, presented a prepared statement in support of the Bretton Woods Agreements. He stated that it was vital for the United States to prevent the recurrence of monetary chaos such as prevailed after the last war. From his personal experience he was aware of the harm done to American exporters by the multiple currency practices and the barter deals of Germany in the 'thirties and he believed that the Bretton Woods Agreements would eliminate such practices. Stressing the leading role taken by the United States in negotiation of these agreements, he feared we might forfeit our right to leadership if we failed to follow through. He believed that the Fund and the Bank supplemented each other and that, under good management such as the plans are designed to promote, both would be successful. Mr. Creighton told of personal conversations with German officials in charge of that nation's barter deals and explained how the Germans had encouraged Turkey to increase its production of cotton and tobacco to be exchanged for German exports. Mr. Creighton was unable to remain for questioning and was excused following presentation of his prepared remarks.

Mr. Carl N. Wynne, in his capacity as President of the Chicago Export Managers Club, testified in favor of the Agreements. He believed the prime argument in favor of the Bretton Woods program was that it would help our own country. In the absence of international agreement, he suggested, the United Kingdom might devalue the pound and carry the sterling bloc with her. United States exporters would be placed at a disadvantage, surpluses would accumulate, and depression would threaten. We would be powerless to protect ourselves save by devaluation which would set off a new round of competitive depreciation and result in chaotic conditions. Mr. Wynne declared that the chief opposition consisted of political isolationists and a small group of powerful bankers whose power and profit positions were threatened. Mr. Wynne listed and replied to five of the bankers' objections. He said the "automatic credit" objection was groundless since all loans were completely covered by collateral in the form of gold or national currencies. The provisions permitting changes in exchange rates under certain conditions were necessary in order to make the Fund plan acceptable to other nations. The provisions did not necessarily constitute a defect (although, he said, the Treasury would have preferred their omission) but might add strength to the program by permitting some flexibility. The provisions permitting exchange controls and exchange blocking for a five-year period were necessary in view of the difficult situation of the United Kingdom. The bankers claimed the Fund would be inflationary; he preferred to consider it "stimulating to business" and felt that this would be desirable in the post-war period. The bankers spoke of increased "regimentation"; as an exporter he had been subject to various forms of regimentation and restriction imposed by foreign governments and the bankers had been able to do nothing to ameliorate those conditions. If there was regimentation under the Fund it would at least be uniform and intelligent. Mr. Wynne suggested that if the Fund proved successful the need for forward exchange controls would be lessened and perhaps eliminated with consequent savings for foreign traders.

Representative Wolcott (R. Mich.) suggested that the bankers had expressed themselves as in accord with the objectives of the Bretton Woods program and had objected principally to the methods to be followed. He did not think the sincerity of the bankers should be questioned any more than that of the witness. Mr. Wynne agreed that the majority of bankers favored stabilization but contended that this

was not true of a small group dominating the foreign exchange market. He declined to identify this group. Mr. Wolcott asked whether certain changes might not be in order. The witness replied that he did not believe Congress to be best qualified to make changes in a highly technical agreement which had been worked out by the leading experts of many nations. Mr. Wolcott stated his belief that suggestions for worthwhile changes had been made in the report of the A.B.A. and the C.E.D. and that certain changes proposed for ensuring closer cooperation between the Bank and the Fund and closer supervision by Congress would also be of value. He thought that other nations would be glad to go along with the United States even if major changes were made; if, for example, a stabilization department were to be established in the Bank to accomplish the purposes of the Fund.

Mr. Wolcott asked why such a large Fund should be required solely for purposes of stabilization and asked if it were not true that the amount chosen was predicted on considerable use of the resources for purposes of reconstruction and rehabilitation. He named Russia, France, and China as nations which would seek to use the Fund for such purposes. The witness replied that many countries would have reserves outside the Fund to be used for reconstruction and that separate loans would be required for reconstruction and rehabilitation.

Representative Patman (D. Tex.) drew from the witness the opinion that 90 per cent of the opposition to Bretton Woods stemmed from banker interests which had a financial stake in foreign exchange dealings. Mr. Wynne suggested the possibility of manipulation of the foreign exchange market but admitted (in reply to Mr. Wolcott) that this was not a common practice of the large banks which were normally in a completely covered position. He believed, however, that the cost of forward exchange coverage would be reduced and that forward exchange contracts might not be necessary for dealing with many markets.

Representative Sumner (R. Ill.) pointed out that in case the British Empire and the United States should disagree on policy questions arising within the Fund management the balance of power might be held by Russia. Mr. Wynne thought that Russia's interests would probably coincide with ours for a number of years since that country would require aid from the United States. Miss Sumner suggested that the Fund was really a method of subsidizing exporters but Mr. Wynne disagreed strongly, contending that the Fund would charge for all its services and might show a profit. To the Congresswoman's suggestion that the gold standard might be restored, Mr. Wynne replied that he did not believe this would be possible in the near future. In reply to Miss Sumner's question as to the failure of the Treasury to consult the leading bankers groups before announcing the original plan, Mr. Wynne stated that the Treasury had intended to consult these groups but had been forced to rush publication because inaccurate and partial reports had leaked out in London.

Representative Folger (D. N.C.) supported the position of the witness that Congress should exercise great care in proposing changes to the Bretton Woods proposals. In reference to the remarks of Mr. Wolcott regarding use of the Fund for reconstruction purposes, Mr. Folger read the various provisions limiting the freedom of any country to use the Fund for purposes contrary to the Agreement.

Representative Smith (R. Ohio) questioned the accuracy of the witness' contention that the Treasury had planned to consult the bankers prior to publication of the Fund proposals. He stated further that the witness had given the impression that a 10 per cent depreciation was all that the Fund would permit. Mr. Smith believed there was no effective limit to the depreciation which might be approved because of the phrase that the Fund should not object to a proposed change because of the domestic social or political policies of the member seeking it. Mr. Smith objected to the statement that opponents of the plans could be classed as isolationists or as under the influence of the bankers; he himself was definitely in neither group.